

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
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2:30 p.m.
Room 112

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Resources—Environmental Protection—Energy

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Overview

1. LAO: Resources and Environmental Protection Budget Overview

- Overview of Resources and Environmental Protection Expenditures in Context of Overall Budget (10 min)

2. Secretary for Resources – Mike Chrisman

- Overview of Resources Agency Budget (15 min)

0540 Secretary for Resources

Governor's Budget. The Governor's Budget proposes \$57 million to support the Secretary for Resources in 2007-08. This is nearly 63 percent less than estimated expenditures in the current year due mainly to a reduction in the Proposition 50 local assistance bond funds available for appropriation.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Administration	\$ 165,272	\$ 73,253	-\$92,019	-55.7
Total	\$ 165,272	\$ 73,253	-\$92,019	-55.7
Funding Source				
General Fund	\$ 5,909	\$ 6,005	\$ 96	1.6
Special Funds	3,478	3,316	-162	-4.7
Bond Funds	148,323	47,714	-100,609	-67.8
<i>Budget Act Total</i>	<i>157,710</i>	<i>57,035</i>	<i>-100,675</i>	<i>-63.8</i>
Federal Trust Fund	5,004	199	-4,805	-96.0
Reimbursements	2,558	16,019	13,461	526.2
Total	\$ 165,272	\$ 73,253	-\$92,019	-55.7

Vote-Only Items

1. California River Parkways

Background. Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002) provided \$100 million for river parkway projects. The local assistance grant program was established with publicly developed grant guidelines. These grant funds are awarded for the acquisition of land for river parkways or for the restoration, protection, and development of river parkways. River parkways provide passive recreational opportunities, such as trails for walking or bicycling, along rivers and streams. This request is for the fourth year of the grant program.

Governor's Budget. The Governor's Budget proposes \$20.5 million for local assistance grants and \$54,000 for one position, all from Proposition 50 bond funds.

The Governor's Budget also proposes the following budget bill language:

- 1) The funds appropriated in this item for purposes of Section 79541 of the Water Code shall be available for encumbrance until June 30, 2010, for purposes of support, local assistance, or capital outlay.
- 2) The funds received by other state agencies from this item in accordance with Section 79541 of the Water Code are exempt from the reporting requirements of Section 28.50.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Reappropriation: Local Assistance Bond Funds

Background. The Resources Agency administers local assistance grants from several bond-funded programs. This request deals with the following programs:

- Proposition 12 – Sierra Nevada Cascade, Los Angeles River Parkways, San Gabriel and Lower Los Angeles River Grants and specified grants.
- Proposition 13 – River Protection and River Parkways.
- Proposition 40 – River Parkways and Sierra Nevada Cascade.

The grant recipients were unable to liquidate the bond funds during the allowed time-frame due to a variety of factors including: time to complete environmental documentation, inclement weather delaying construction, difficulty securing project site, and complex negotiations for acquisition.

The unexpended bond funds are:

- Proposition 12: \$18,961,807 out of \$43 million
- Proposition 13: \$4,537,551 out of \$30 million
- Proposition 40: \$28,226,290 out of \$46 million

Governor's Budget. The Governor's Budget proposes \$108,000 in FY 2007/08 and \$200,000 in FY 2008/09 for staffing, and reappropriation of the following budget items:

Item 0540-101-0005, Budget Act of 2000 (Chapter 52, Statutes of 2000)

Item 0540-101-6015, Budget Act of 2002 (Chapter 379, Statutes of 2002)

Item 0540-101-6029, Budget Act of 2002 (Chapter 379, Statutes of 2002)

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Items for Discussion

3. State Conservation Easement Database

Background. An easement is a change to a land title to restrict the use of that land to a specified purpose, even if the owner of the land changes. Examples of easements include agricultural easements that require land be used only for farming, or oak woodlands easements that require land be left as untouched oak woodlands. The easement is protected by the California State constitution, and cannot be removed even if the land is sold to a new owner. The state has paid landowners of strategically important habitat, grazing, or agricultural land to place easements on their land, but these easements have been tracked in a single database.

SB 1360 (Chapter 351, Statutes of 2006) requires the Resources Agency to establish an Internet-accessible central public registry of all conservation easements held or acquired by the state, or purchased with state grant funds provided by any agency, department, or division of the state on or after January 1, 2006. Many county recorders are currently not providing access to the conservation easement indices in their counties. The Resources Agency does not currently know the number of conservation easements in the state. The Resources Agency is proposing to use staff already under contract through an interagency agreement with the UC Davis, CalSpace program to complete the work.

Resources Agency estimates that the maintenance cost for this web-based system will be very low since local agencies will input their own easement purchases. The Resources Agency provided staff with the cost estimate of \$1,000 annual maintenance cost.

Currently, the Department of Conservation and the Wildlife Conservation Board track the easements they purchase. The Department of Conservation has an extensive database of easements they purchased with GIS mapping capability.

Governor's Budget. The Governor's Budget proposes \$50,000 in Proposition 40 (California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Fund) and Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002) bond funds for the development of a conservation easement database.

Questions.

1. Will this database be able to draw data from the already existing Department of Conservation easement database?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal with the following budget bill language:

The funds in this item are for a state conservation easement database. The Resources Agency will develop the system using software that can communicate with the Department of Conservation easement database software.

4. San Joaquin River Restoration

Background. In 1988, the Natural Resources Defense Council (NRDC) sued the Bureau of Reclamation and the Friant Water Users Authority (FWUA) over the fish population levels in the river. In August of 2006, NRDC and FWUA entered into a settlement agreement, the goal of which is to “restore and maintain fish populations” in the San Joaquin River below the Friant Dam. The settlement specifies actions that will be taken over the next 20 years to restore the San Joaquin River. The intent is to restore approximately 150 miles of river from the Friant Dam to the confluence with the Merced River.

Under the agreement, the federal government will provide funds to restore the river, while FWUA agreed to actions that will increase flows in the river. The Resources Agency estimates that costs for restoring the San Joaquin River will range from \$350 to \$800 million over 20 years. While the state is not a party to the lawsuit, The Department of Water Resources, the Resources Agency, and the California Environmental Protection Agency have entered into a memorandum of understanding with the settling parties regarding the state’s role in the restoration.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) provides \$100 million to the Resources Agency for San Joaquin River restoration.

Governor’s Budget. The Governor’s Budget proposes \$13,869,000 in Proposition 84 bond funds for San Joaquin River restoration.

LAO Analysis. The LAO points out that the Legislature has never been given an opportunity to evaluate the state’s appropriate role in the restoration. The restoration effort is likely to require significant state contributions over the next several decades. The LAO thinks that if the administration wishes to move forward with restoration activities, it should sponsor a policy bill to ratify the memorandum of understanding. This would allow the Legislature to fully evaluate the commitment the administration is proposing, as well as allowing the Legislature to determine the overall parameters of state involvement in the restoration.

In addition, the LAO notes that the state is not directly responsible for the condition of the San Joaquin River that led to the lawsuit. Under the “polluter pays” principle, the responsible parties – in this case the federal government and the water users – should bear the primary responsibility for the restoration of the river. Currently, the funding contribution of the responsible parties is subject to significant uncertainty. The settlement agreement, for example, provides that any party to the lawsuit can void the

settlement if federal legislation to implement the settlement is not enacted by December 31, 2006. Such legislation has not yet been passed. The LAO advises against the state taking actions that potentially diminish the legal obligations of the responsible parties to restore the damage they have caused.

Questions.

1. Why should the state place funds into this project prior to the federal government providing funds for restoration?
2. If the state begins restoration efforts without financial contribution from other parties, is it possible that the state will be the sole contributor of funds to the restoration effort?

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

5. Proposition 84 Statewide Bond Costs

Background. California voters in November 2006 passed Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006, which provides \$5.388 billion in general obligation bonds for environmental and resource purposes.

Management of general obligation bonds requires interim financing, funds for the sale of bonds, and other expenditures associated with the management of bonds. Through management of past general obligation bonds, the Resources Agency has determined that 3.5 percent is the proper amount to set aside for bond management purposes. This amount is on top of the 5 percent for project administration.

Governor's Budget. The Governor's Budget proposes \$1,141,000 in Proposition 84 bond funds for 8.4 positions. The Governor's Budget proposes these funds and positions to be on-going.

Staff Comments. These positions are intended to manage the Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) general obligation bond sales on behalf of the Resources Agency.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

6. Bond Oversight – Informational Issue

Background. In November 2006 the voters passed Proposition 1E and Proposition 84, which provide a significant amount in general obligation bond funds for resources related uses, such as flood protection, water quality, and parks. The Legislature may wish to examine how the Secretary for Resources is coordinating bond fund projects and the oversight of bond funds use.

Oversight of Bonds. Secretary for Resources will provide an update of what the Resources Agency is doing to increase transparency of bond funds spent.

Questions.

- What is the Secretary for Resources doing to increase transparency of bond expenditures?
- What is the Secretary for Resources doing to coordinate the bond funded projects of the various departments?
- Why is the website for the bond tracking paid for out of the 3.5% for bond financing costs rather than the 5% for program administration?

7. Overdue Reports – Informational Issue

Background. The Legislature, as part of the budget process or in legislation, at times will request a specific report from a department in order to gain information to make sound funding decisions on programs. The various departments within the Resources Agency currently have 14 outstanding reports that were due to the Legislature on January 10, 2007 or earlier.

Staff Recommendation. Staff recommends the Subcommittee not fund projects that have an overdue report, until that report is submitted to the Legislature.

CALFED Oversight

Background on CALFED

What is the Bay-Delta? The San Francisco Bay/Sacramento-San Joaquin Delta system consists of numerous tributaries, sloughs, islands, and an estuary located in the San Francisco Bay region. The Bay-Delta system covers over 738,000 acres in five counties. The region supports over 750 plant and animal species. The Bay-Delta supplies the drinking water to two-thirds of Californians and the irrigation water for over 7 million acres of highly productive agricultural land.

CALFED History. Pursuant to a federal-state accord signed in 1994, CALFED was an administratively created consortium of 25 state and federal agencies that have regulatory authority over water and resource management in the Bay-Delta region. The CALFED was established to resolve ecosystem quality, water quality, water supply reliability, and levee and channel integrity of the Bay-Delta system. This joint state and federal effort intends to enact comprehensive, consensus-based programs and facilities to mutually address long-standing Bay-Delta water management problems. The program is designed to ensure the state's water is prudently managed to protect its natural resources, municipalities and industries, agriculture, and overall economy.

For five years, CALFED planned direction and implementation strategies. These plans came to be known as the 2000 Record of Decision (ROD). The ROD represents the approval of the lead CALFED agencies of the final environmental review documents for the CALFED plan. Among other things, the ROD lays out the roles and responsibilities of each participating agency; sets goals for the program and types of projects to be pursued; and includes an estimate of the program's costs for its first seven years. The CALFED program implementation was anticipated to last 30 years.

Chapter 812, Statutes of 2002 (SB 1653, Costa), created a new state agency in the Resources Agency – the California Bay-Delta Authority (CBDA) – to oversee the overall CALFED program, as well as to directly implement the CALFED science program. Chapter 812 assigned responsibility for implementing the program's other elements (such as water quality, ecosystem restoration, and water storage) among a number of other state agencies. While the CBDA reviewed and approved the annual work plans and expenditure plans of the implementing agencies, Chapter 812 explicitly provided that nothing in the legislation “limits or interferes with the final decision making authority of the implementing agencies”.

Independent Reviews Critical of CALFED. During 2005 and 2006 four independent reviews were conducted of CALFED. These reviews found common agreement that the CALFED governance structure was not working well, state priorities for CALFED were not clear, and meaningful performance measures for the program were lacking. These independent reviews were:

- Little Hoover Commission – Review of CALFED governance.

- Department of Finance, Office of State Audits and Evaluations – Fiscal review of CALFED expenditures since inception and CALFED’s expenditure tracking mechanisms.
- Department of Finance, Performance Review Unit – Program review of the implementation status of CALFED programs.
- The KPMG (a private consultancy firm) – Interview and survey of CALFED stakeholders.

All of these independent reviews found that:

- The CALFED governance structure was not working well and was impeding the program’s effectiveness. Responsibilities among CALFED implementing agencies were not clear and no one was in charge.
- The state’s priorities for CALFED were not clear.
- Meaningful performance measures to track the program’s progress and hold the program accountable for outcomes were lacking.

CALFED Financing. The Record of Decision (ROD) envisioned that CALFED would be financed over time by roughly equal contributions of federal, state, and local funding. However, the state has consistently been the major funding source for the program during its first seven years, providing about \$2.3 billion, or 50 percent, of funding. The majority of state funds for CALFED have been taxpayer supported “general purpose” funds, namely monies from the General Fund and bond funds that must ultimately be repaid with General Fund.

The ROD also endorsed the concept of beneficiary pays. However, no user fees have supported the CALFED program. In January 2005, CALFED submitted to the Legislature a long-term financing plan that included funding from user fees, but no specific proposals for these new fees or how they would actually be implemented. The 2005 long-term financing plan was not considered viable or complete by the Legislature since it included assumptions of high levels of federal funding that had never previously been achieved and unspecified sources of new state funds.

Currently, CALFED does not have a long term financing plan. In spite of Legislative direction, CALFED has made no progress in implementing the “beneficiary pays” principle in funding its programs. Without having the beneficiaries of a program paying for the work conducted, there is little guarantee that the beneficiaries will insist on cost-effective and, in the long run, beneficial work.

CALFED Expenditures - State Funds Only*(in millions)*

Expenditures by Program Element	2005-06	2006-07	2007-08
Ecosystem Restoration	\$162.1	\$124.6	\$127.0
Environmental Water Account	9.0	74.6	2.8
Water Use Efficiency	28.6	59.4	52.1
Delta Vision	-	1.4	1.9
Watershed Management	11.8	17.7	2.4
Drinking Water Quality	1.0	20.8	122.6
Levees	19.2	18.9	64.0
Water Storage	8.8	10.3	9.8
Water Conveyance	34.4	91.1	58.7
Science	34.7	39.3	24.1
Water Supply Reliability	6.9	9.4	-
CALFED Program Management	7.5	8.1	8.2
Total	\$324.0	\$475.6	\$473.6

Expenditures by Department	2005-06	2006-07	2007-08
Water Resources	\$125.0	\$338.1	\$257.4
State Water Resources Control Board	1.6	10.8	0.7
Secretary for Resources	-	35.8	14.2
Fish and Game	67.2	84.4	109.6
Conservation	3.3	0.3	1.5
Forestry and Fire Protection	0.2	1.7	1.6
San Francisco Bay Conservation	0.1	0.1	0.1
Health Services (Public Health)	0.1	4.4	88.7
California Bay-Delta Authority	126.5	-	-
Totals	\$324.0	\$475.6	\$473.8

Expenditures by Fund Source	2005-06	2006-07	2007-08
Proposition 50	\$232.7	\$276.5	\$222.6
Proposition 84	-	-	148.3
Proposition 13	18.9	107.1	32.5
Proposition 204	29.0	18.3	1.7
General Fund	11.5	26.7	16.6
State Water Project Funds	29.7	43.9	49.6
Other State Funds	2.2	3.1	2.3
Totals	\$324.0	\$475.6	\$473.6

1. LAO: Overview of CALFED Reorganization and Budget

- Mark Newton from the Legislative Analyst's Office (15 min)

2. CALFED: Overview of Actions since Reorganization

- Director Joe Grindstaff from CALFED (10 min)
 - 100-Year Delta Vision
 - Stage II Strategic Plan

Questions.

- How is planning coordinated differently now from before the reorganization?
- How are these plans getting the state closer to a beneficiary pays financing?
- How are CALFED programs prioritized differently now from before the reorganization?

1. CALFED Planning Positions

CALFED Reorganization. In 2006, the Legislature took action to address problems with CALFED's governance structure as identified in the various independent reviews. The Legislature approved a budget trailer bill and made number of adjustments to the CALFED budget. The main components of the reorganization are as follows:

- **California Bay-Delta Authority Defunded** – All CBDA positions (71 total) were transferred to the Secretary for Resources and five other CALFED implementing agencies, and CBDA was defunded. The board of CBDA continues to exist and staff support is provided through the Secretary for Resources.
- **Secretary for Resources in Charge and Accountable for Program Performance** – The Secretary for Resources became the main “point of accountability” for CALFED in overall program planning, performance, and tracking.
- **Forestry Department Services Administrative Support Function** – The California Department of Forestry and Fire Protection received the CALFED administrative support functions such as human resources, contracting, information technology, and accounting.
- **Implementing Agencies Do the Implementation** – Positions were transferred from the CBDA to the CALFED implementing agencies.

Planning Objectives. In April 2006 the Governor directed CALFED to work on:

- **100-Year Delta Vision.** The creation of this plan includes convening a panel of scientists to evaluate the latest information relative to the Delta. This information will be used to inform a larger public process to determine the 100-year vision for the Delta, including land use and transportation.
- **Voluntary Planning Agreement and Conservation Plan.** This proposal includes development Habitat Conservation Plans and Natural Communities Conservation Plans to address endangered species issues in the Delta. The Governor proposes first negotiating a voluntary planning agreement to identify which water users are interested in security coverage and which activities they want covered. This agreement is targeted for completion in 2007.

CALFED Strategic Vision Under Development. CALFED's Stage I will end December 2007 and CALFED is beginning planning preparations for Stage II. CALFED's planning effort for Stage II includes the 100-Year Delta Vision. The new strategic plan is expected to outline a revised strategy for implementing CALFED objectives. The Legislature should have a strong voice on whether or not the strategy laid out in the 100-Year Delta Vision is the direction California should move toward. Once progress reports and new plans have been received, the Legislature can better evaluate the effectiveness of the CALFED governance structure.

Cabinet Secretary Managing Programs. Historically, the office of a cabinet secretary has not played a large role in managing programs. The cabinet secretary job more typically involves providing leadership and directing long-term strategic planning and initiatives. The restructuring of CALFED in 2006 required the Secretary for Resources to take on significant program management responsibilities. The Legislature should evaluate the success of having a program of this magnitude under the direct management of the Secretary.

Delta Ecosystem in Continual Decline. The actions taken by CALFED toward the 2000 Record of Decision (ROD) goals have been called into question since the Bay-Delta ecosystem has continued to decline. Since the primary purpose of CALFED is to increase the health of the Bay-Delta ecosystem, the continual decline is problematic. In light of the declining health of the Bay-Delta, it is even more important that the programmatic goals and strategies for the next 10 years be effective, and that the Legislature have sufficient ability to review and comment upon those plans and program performance.

Legislative Oversight of the CALFED Program. In 2006, the Legislature moved the responsibilities for CALFED away from the Bay-Delta Authority to various Resource Agency departments. The Legislature may wish to follow up on the implementation of this oversight, planning, and program execution change. Specifically, the Legislature may wish to have CALFED report back on progress in the areas of governance, program and fiscal management, program priorities, implementation schedules, conservation plans, the 100-Year Delta Vision, and the near-term funding plan.

Staff Proposal. To ensure that the Legislature has proper oversight of the CALFED planning process and the proposed new direction for CALFED, staff recommends the Subcommittee make all CALFED planning positions in the Secretary for Resources office and the CALFED administrative positions in the California Department of Forestry and Fire Protection temporary two-year limited term positions. There are 36 CALFED positions in the Secretary for Resources office and 18 in the Department of Forestry and Fire Protection for a total of 54 positions. Making the planning positions temporary would encourage CALFED to complete plans on time. Since the Delta Vision will be completed December 2008, the Legislature will have 6 months to review those plans and reinstate positions as permanent if the Legislature approves of the CALFED plans.

Should the Legislature not approve of the CALFED plans for a proposed new direction for the Delta, the Legislature could create a new governance system to coordinate the state departments' work in the Delta.

Staff Recommendation. Staff recommends the Subcommittee direct staff to write trailer bill language denying authority for the 36 CALFED planning positions in the Secretary for Resources and for the 18 CALFED administrative positions in the California Department of Forestry and Fire Protection. Staff recommends the Subcommittee direct staff to write trailer bill language creating authority for two year limited term positions for 36 CALFED planning positions in the Secretary for Resources and for 18 CALFED administrative positions in the California Department of Forestry and Fire Protection.

CALFED Budget Proposals

1. CALFED Science Program Research Grants

Background. CALFED provides a science research grant for projects that provide scientific information related to water project operations, water quality, ecosystem restoration, and prevention and management of invasive species. The primary purpose of the CALFED Science Program is to implement programs and projects to articulate, test, refine, and improve the scientific understanding of all aspects of the Bay-Delta and its watershed areas. The Science Program aims to reduce the scientific uncertainties in the planning and implementation of CALFED Bay-Delta Program actions.

To date, the Science Program has awarded approximately \$16 million in research grants. The program will run out of eligible grant funds at the end of the 2006-07 Fiscal Year. The funding requested in this budget proposal would go toward science projects identified in the first year as necessary to achieving the CALFED Record of Decision goals.

To award the science grants, the CALFED Science Program and the CALFED Agencies first determine the critical scientific information needs to help guide management decisions. These needs are then used to develop the Proposal Solicitation Package. The proposals undergo a technical review by two separate committees. Once the grant has been approved, the Science Program staff works with the researcher and contract staff to develop a contract that includes information on the statement of work, schedules, deliverables, presentations, and final products.

Governor's Budget. The Governor's Budget proposes \$10,552,000 for Proposal Solicitation Package science research grants through the Secretary for Resources budget. The funds would come from two sources:

- \$8 million in Reimbursement Authority from the Department of Water Resources Proposition 84 bond funds.
- \$2.552 million from Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002) bond funds.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

2. CALFED Supplemental Programmatic Analysis

Background. CALFED has been focusing on through-Delta water conveyance for the last ten years. CALFED intends to utilize the requested resources to establish and

facilitate analysis of alternatives to through-Delta water conveyance, such as the peripheral canal.

Governor's Budget. The Governor's Budget proposes \$5,456,000 in reimbursements (\$456,000 on-going) from Department of Water Resources Proposition 84 bond funds to fund four limited-term positions and to conduct analysis and hydrologic modeling for alternatives to through-Delta water conveyance. The funds would be used for:

- \$5 million one time funding for contracts
- \$456,000 in on-going funding for four positions

The requested staff would manage and direct private consultants and coordinate with staff from various CALFED agencies in conducting analysis.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3. CDF CALFED Bay-Delta Program Component

Background. In 2006, the California Department of Forestry and Fire Protection entered into a three year interagency agreement with the Resources Agency to provide accounting, personnel transaction, and examination services for the CALFED Bay-Delta Program. The agreement is effective until June 30, 2009.

Governor's Budget. The Governor's Budget proposes \$182,823 in reimbursement authority and 3 positions for the California Department of Forestry and Fire Protection to provide accounting, personnel transaction, and examination services for the CALFED Bay-Delta Program. The reimbursement authority would be from General Fund through the Resources Agency. The funds would be appropriated for three years at \$183,000 a year.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal with two years of funding to be consistent with prior recommendation to make CALFED planning positions temporary two-year positions.

4. Laboratory Capacity Increase for Pelagic Organism Decline Investigations

Background. Pelagic organisms are fish that live in the water column. Four pelagic organisms, such as the Delta Smelt, are considered threatened in the Bay-Delta estuary. Currently, the Bay-Delta is experiencing rapid Pelagic Organism Decline (POD). The

Department of Fish and Game (DFG) is investigating the causes of POD in the Bay-Delta.

CALFED has created a POD Management Team to develop and understand the structure and functioning of the Bay-Delta ecosystem as it relates to the decline of four pelagic fish species. The POD Management Team, in a 2005 report, synthesized data into known and still needed categories and set about to create a work plan for filling information gaps. DFG is part of the POD Management Team.

To investigate the Bay-Delta POD, DFG is collecting a large number of samples for analysis. These samples include water analysis, fish gut content analysis, and zooplankton identification. Many of these sample tests are time consuming. The large number of water samples taken from the Bay-Delta has resulted in an estimated laboratory backlog of one year. Without timely analysis of samples scientific information needed to formulate policies to address POD will be delayed.

During the last four years, DFG has lost three full-time Senior Laboratory Assistant positions due to difficulty in filling vacant positions. DFG was unable to fill the vacant positions due to a hiring freeze and the infrequency of the laboratory assistant examinations offered by the state. Currently, DFG is offering approximately one laboratory assistant examination a year.

Governor's Budget. The Governor's Budget proposes \$185,000 in reimbursement authority and three new positions for the Department of Fish and Game to increase the capacity of DFG's laboratories for testing samples from the Bay-Delta.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. CALFED Ecosystem Restoration Program Implementation

Background. The CALFED Ecosystem Restoration Program (ERP) aims to:

- Maintain, improve, and increase aquatic and terrestrial habitats and improve ecological functions in the Bay-Delta to support sustainable populations of diverse and valuable plant and animal species.
- Achieve recovery of at-risk species dependent on the Delta and Suisun Bay, and support the recovery of at-risk species in San Francisco Bay, and in the watershed above the estuary.
- Restore ecological processes associated with stream flow, stream channels, watersheds, productivity, and floodplains.

Since 2001 the Department of Fish and Game has been working on the ERP goals. Over the last seven years the ERP has funded restoration projects ranging from planning and local watershed stewardship programs to research, education, and physical habitat restoration. As of June 2005, the ERP had granted funding to 460 projects for approximately \$540 million.

Governor's Budget. The Governor's Budget proposes \$115 million in Proposition 84 bond funds to be expended through 2012-13. The funds would be used for 40.5 existing positions and local assistance grants. The funds are requested through the Department of Fish and Game budget.

Staff Analysis. The CALFED Delta Vision will be completed in December 2008, and will set a new direction for the CALFED program and outline new program goals and strategies. However, the proposed program funding in this item would be for six years. The Legislature would have very limited input on funding the ERP in the new plan that would go into effect after December 2008. CALFED would have to send an updated plan to the Joint Legislative Budget Committee prior to expending funds after the release of the Delta Vision, but that updated plan would be reviewed by only several members of the Legislature. In order to ensure proper Legislative oversight, funding for the ERP should not be provided beyond the completion date for the Delta Vision.

In addition to the timing of a new CALFED strategic plan, the funds requested for the first year include \$5 million for the Franks Tract project implementation. However, the Environmental Impact Report (EIR) for the Franks Tract project is not yet complete, and the Department of Water Resources estimates that it will take approximately one year to complete the EIR.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

6. CALFED Ecosystem Restoration Program – Central Valley HCP/NCCP Development

Background. In 1991, the Legislature passed the Natural Community Conservation Planning Act. The Act provided for a regional planning process focused on protecting biological communities rather than single species. The Act instituted broad based planning to accommodate conflicting demands for wildlife conservation and urban development. The plans developed under the Act are known as Natural Community Conservation Plans (NCCP).

The NCCPs require preparers to go beyond State and federal requirements for mitigation of impacts by requiring contributions to the recovery of threatened and endangered

species and their habitat. Essentially, these plans are regulatory tools for complying with the Endangered Species Act.

Proposition 84, Chapter 5, Section 75050 (a) provides up to \$20 million for creation of a CALFED Bay-Delta Program NCCP. The 3.5 percent that the Secretary for Resources is requesting across the entire Proposition 84 bond is not subtracted from this request.

Governor's Budget. The Governor's Budget proposes \$20 million in Proposition 84 bond funds for the Department of Fish and Game for program delivery, projects, and bond costs, as well as 16 existing positions. The funds would be expended over six years with \$1,731,000 planned for 2007-08.

Questions.

1. If the contract with Department of Water Resources runs through December 2007, why should the positions be fully funded for year one through Department of Fish and Game?
2. How will these NCCPs be linked to the 100-Year Delta Vision?

LAO Recommendation. The LAO finds that the NCCP studies benefit Delta water exporters, but that the studies are paid for by state taxes. The LAO finds that the development and implementation of an NCCP allows project proponents (in this case, Delta water exporters relying on Delta pumps for water deliveries) to "take" (incidentally harm) endangered species, provided that the overall health of the ecosystem is protected. During the 2006-07 budget hearings, the administration indicated that water users would pay for a Delta NCCP. The LAO recommends the Legislature deny the budget request since water user contributions are a more appropriate funding source.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

7. Delta Water Quality Program

Background. The San Joaquin River and the Sacramento River are the primary sources of fresh-water flows in the Delta. Since the 1940s, salt and boron levels in the Lower San Joaquin River have increased significantly. This water quality impairment has occurred mostly because of large-scale water development projects for beneficial uses on the San Joaquin River and its tributaries. Construction and operation of dams on the San Joaquin River has severely diminished flows in the San Joaquin River. Water quality in the San Joaquin River and Delta has been identified as a severe problem since the 1990s.

The objective of the Delta Water Quality Program is to reduce salt loads, dissolved organic carbon, pesticides, pathogens, harmful trace elements and other pollutants in the Delta water. The Department of Water Resources intends to improve Delta water quality by administering grants for projects that are cost-shared by local agencies that:

- Significantly reduce or eliminate discharges of agricultural surface and subsurface drainage water from the west side of the San Joaquin Valley in order to reduce pollutants to the San Joaquin River and the Delta.
- Eliminate discharges of bromide, dissolved organic carbon, salt, pesticides, and pathogens from discharges to the Sacramento River.
- Reduce salinity or other pollutants at agricultural and drinking water intakes by implementing projects at Franks Tract or other locations in the Delta.
- Implement project identified in the June 2005 Delta Region Drinking Water Quality Management Plan.

Proposition 84, Chapter 2, Section 75029, provides \$130 million for grants to implement Delta water quality improvement projects that protect drinking water supplies.

Governor's Budget. The Governor's Budget proposes \$125,450,000, over 5 years, (\$25,086,000 in 2007-08) for 6.8 positions and three limited-term positions to administer and fund projects to improve water quality in the San Joaquin River and Sacramento River Delta. These funds are requested through the Department of Water Resources.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

8. CALFED Surface Storage Program

Background. The CALFED Record of Decision (ROD) identifies surface storage as an objective and specifies five potential surface storage projects. These projects are North-of-the-Delta Offstream Storage, Los Vaqueros Reservoir Expansion, Upper San Joaquin River Basin Storage Investigation, Shasta Lake Enlargement, and In-Delta Storage. The CALFED Storage Program is intended to improve water supply reliability by capturing water during wet years and releasing it into the rivers in dry years.

To date, CALFED has spent about \$118 million from bond funds and General Fund for surface water storage studies. Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002) provided \$50 million in general obligation bond funds for surface water storage planning and feasibility studies. Approximately \$46 million of the available Proposition 50 bond funds has been expended so far. In addition to the bond fund expenditures, since 2000-01 the Legislature has appropriated General Fund for the Integrated Storage Investigation Program.

The current schedule for completing the feasibility studies and environmental documentation for the Los Vaqueros Reservoir Expansion, the Upper San Joaquin River Storage, and North-of-the-Delta Offstream Storage is between Fall 2008 and Summer 2009, if continued funding is received.

Once the proposed feasibility studies are complete, the program will lead to capital outlay projects already included in the Department of Water Resources 5-Year Capital Outlay Plan. If a capital outlay project proceeds to final design and construction, the local water agencies will cost share in the project's capital outlay costs.

Governor's Budget. The Governor's Budget proposes \$3.76 million in Proposition 50 bond funds to support 20.7 existing personnel years to continue feasibility studies and environmental documentation for three potential surface storage projects. The used of the funds would be as follows:

- \$492,000 for Common Assumptions – continue engineering feasibility studies and environmental studies and documentation.
- \$1,228,000 for North-of-the-Delta Offstream Storage – continue the feasibility study for the Sites Reservoir.
- \$1,000,000 for Los Vaqueros Reservoir Expansion – continue environmental review and engineering and economic feasibility studies.
- \$1,000,000 for Upper San Joaquin River Storage – enlarge Millerton Lake at Friant Dam.

This money is being requested through the Department of Water Resources. No new positions are being requested.

Questions.

1. Can CALFED complete these studies with existing funds? If not, why not?
2. Surface water storage studies have been funded since 2000-01 and already \$118 million has been spent on these studies. So far, what has been produced? What projects have been completed? How far along are these studies? When is the anticipated completion date?
3. The CALFED Integrated Storage Investigations were designed to investigate and implement surface and groundwater storage as a tool for improving water supply reliability. How much of the CALFED funds for water storage have been used to study groundwater storage? What have been the main findings of those studies?
4. What will be the anticipated cost of the projects promoted by these studies?
5. If the studies for the surface storage projects to be constructed are still being funded, why are these projects already in the Department of Water Resources 5-Year Capital Outlay Plan?

LAO Recommendation. The LAO finds that the CALFED surface storage program has reached a point where these feasibility studies cannot practically move forward unless non-state entities – parties who would benefit from the projects being studied – step up to the plate and share in the costs of studying and developing these projects. LAO recommends the Legislature deny the budget request for surface storage studies.

Staff Recommendation. Staff recommends the Subcommittee hold this item open so that the department can adequately address questions raised by the Subcommittee.

9. CALFED Ecosystem Restoration Program – Bay-Delta Conservation Planning Process

Background. The CALFED Ecosystem Restoration Program calls for the development of a Bay-Delta Conservation Plan (BDCP). The BDCP would support the implementation of near-term water supply, water quality, ecosystem, and levee actions. The BDCP restoration plans, conservation strategies, and recovery actions will focus on State and federally listed pelagic and anadromous species that are impacted by covered activities. The BDCP would strive to:

- Protect and conserve covered species on a regional scale
- Provide long-term assurances related to the operation of water and power-related projects and associated activities of the State Water Project and other utilities
- Create regulatory benefits for water users, define the proportional share of the State Water Project towards mitigation and conservation goals
- Provide implementation opportunities for the California Endangered Species Act and the federal Endangered Species Act.

In December 2005, negotiations on a Statement of Principles were completed by State and federal agencies, water users, power interests, Delta interests, and others. The Statement of Principles proposes to provide \$60 million in new and existing funds for the BDCP, and other large CALFED plans and studies.

Governor's Budget. The Governor's Budget proposes authority for two new positions to the Department of Water Resources to work on the Bay-Delta Conservation Plan. The positions would cost \$151,000 in salary, wages, and benefits. The funds used would be State Water Project funds, which are off budget.

These two new positions would allow a more condensed schedule for the Bay-Delta Conservation Plan. With the new positions, completion of the project would be anticipated for FY 2010-11.

Questions.

1. How does the Bay-Delta Conservation Plan interface with other plans?

Staff Recommendation. Staff recommends the Subcommittee hold the item open.

10. CALFED Fish Passage Improvement Program

Background. The CALFED August 2000 Record of Decision (ROD) outlines fish passage goals. The Fish Passage Improvement Program will continue to study and evaluate fish passage and fish screen issues with respect to the development and

implementation of the ERP regional restoration plans, Habitat Conservation Plans, and Natural Communities Conservation Plans.

Governor's Budget. The Governor's Budget proposes \$1.2 million in Proposition 50 bond funds for 7.6 existing positions to continue the management, administration, and implementation of the CALFED Fish Passage Improvement Program. This money is being requested through the Department of Water Resources.

Questions.

1. How many of the fish passage goals outlined in the CALFED 2000 Record of Decision has CALFED achieved so far?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

11. CALFED Conveyance and Water Quality Program Projects

Background. The goal of the CALFED Water Quality Program is to advance efforts to provide safe, reliable, and affordable drinking water to the millions of Californians who receive water from the Delta watershed. The program strives to improve source water quality, water management, and water treatment. The program and its initial activities are described in the CALFED Record of Decision. Currently, the California Bay-Delta Public Advisory Drinking Water Subcommittee guides implementation of the program.

The fish Collection, Handling, Transportation, and Release (CHTR) evaluation program is a multi-year study to evaluate the impacts to Delta smelt of the processes at the State Water Project and Central Valley Project pumping plants of collecting, handling, transporting, and releasing salvaged fish. These fish protection improvements may be realized, in part, through operational and capital outlay changes at the existing facilities. The CHTR study will develop alternatives that can meet engineering and operational requirements of the pumping plants with minimal impacts to the surrounding Delta environment.

The Department of Water Resources is still working on the Environmental Impact Report for the Franks Tract project. Preliminary feasibility studies suggest that modifications to the Franks Tract by restoring levees and installing tidal gates could reduce salinity in the central and south Delta.

Governor's Budget. The Governor's Budget proposes \$5,875,000 in Proposition 13 and Proposition 50 bond funds for one existing position and two new positions. There is also one off-budget State Water Project funded position. The request breaks down as follows:

- \$1,750,000 in Proposition 13 general obligation bond funds to support evaluation of fish facility improvement alternatives at intake facilities.
- \$4,125,000 in Proposition 50 general obligation bond funds for the Franks Tract Project.
- One new position costing \$107,000 with State Water Project Funds (off budget) for the Franks Tract Project.

This money is being requested through the Department of Water Resources.

Questions.

- How does CALFED measure water quality improvement?
- What progress has been made on water quality improvement in the last 10 years?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

12. South Delta Improvement Program

Background. The South Delta Improvement Program aims to regulate water levels in the San Joaquin River. The proposed project consists of permanent operable gates at the Middle River, Old River near Tracy, Grantline Canal, and Old River near the San Joaquin River. The program is designed to improve conditions for the San Joaquin salmon by reducing their movement into the south Delta via Old River, maintain adequate water levels and through water circulation, quality for agricultural diversions in the south Delta, and increase the SWP operational flexibility by raising the Delta export limit.

The National Marine Fisheries Service on January 11, 2007 denied the State of California permits for the four South Delta operable gates. The justification for denying the permits was that the state had not comprehensive plan for the Delta, and a piecemeal approach to ecosystem management would not be permitted. The loss of the South Delta adjustable dams permit means that in order to maintain water quality less water can be pumped out of the Delta. The Delta supplies water to approximately 23 million people.

The total project cost is estimated as \$50.25 million.

Governor's Budget. The Governor's Budget proposes \$31.4 million in bond funds for the working drawings and Phase I construction of water gates on the San Joaquin River. The funds would be:

- \$14,440,000 in Proposition 13 bond funds for working drawings.
- \$16,960,000 in Proposition 50 bond funds for Phase I construction.

LAO Recommendation. The LAO recommends the Legislature deny the budget request for three reasons:

1. **Missing Report** – The *2006-07 Budget Act* appropriated \$41.6 million in bond funds for the South Delta Improvement Program but included language prohibiting the expenditure of the funds until the Secretary of Resources submitted a specified report to the Legislature. The report was supposed to include actions that the Secretary will take, other than study, to stabilize the ecosystem in the Delta and to address an identified pelagic organism decline (POD). The intent of the language was to put on hold the development of the South Delta Improvement Program until the impacts of pumping from the Delta on POD could be addressed. The report has not yet been submitted.
2. **Lack of Cost-Sharing** – The cost-sharing agreements with the federal government and the State Water Project contractors who benefit directly from the program have not been secured. The budget documentation submitted to the Legislature states that such cost sharing is the “preferred” way to fund the program, and that it would be “unacceptable” for the state to be the sole funding entity. However, the department has not received funding commitments from either the federal government or State Water Project contractors.
3. **Denied Permit** – The federal Fish and Wildlife Service recently put on hold its permitting for the South Delta Improvement Project, citing problems with declines in fish populations in the South Delta area. This creates substantial uncertainty as to whether the project can proceed.

Staff Comments. The \$41.6 million appropriated in 2006-07 for the South Delta Improvement Project is unexpended at this point due to the tardiness of the required report. Since these funds will be available for expenditure once the report is submitted, the department has indicated that it will have sufficient funds to continue with the South Delta Improvement Project in 2007-08 even if the Legislature does not appropriate new funds for budget year.

Questions.

1. What is the department doing to secure a permit for the South Delta Improvement Project?
2. With \$41.6 million in unexpended funds, when will the department complete the preliminary plans for the project? Will the department have sufficient time to move on to construction during 2007-08?

Staff Recommendation. Staff recommends the Subcommittee reject the budget proposal.

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
Darrell Steinberg
Mark Wyland



Monday, March 12, 2007
10:00 a.m.
Room 112

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3110 Special Resources Programs

Background. The Special Resources Programs include the Tahoe Regional Planning Agency, the Yosemite Foundation Program, and the Sea Grant Program.

Governor's Budget. The Governor's budget proposes \$4.7 million for these three special resources programs. This is about nine percent less than the expenditure in the current year due to a General Fund reduction.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Tahoe Regional Planning Agency	\$4,344	\$3,808	-\$536	12.1
Yosemite Foundation Program	840	840	0	0
Sea Grant Program	201	248	47	23.3
Total	\$5,385	\$4,896	-\$489	-9.1
Funding Source				
General Fund	\$134	\$0	-\$134	-100
Yosemite Foundation Account	840	840	0	0
California Environmental License Plate Fund	4,287	3,932	-355	-8.2
<i>Budget Act Total</i>	<i>5,261</i>	<i>4,772</i>	<i>-489</i>	<i>-9.2</i>
Harbors and Watercraft Revolving Fund	124	124	0	0
Total	\$5,385	\$4,896	-\$489	-9.1

1. Yosemite Foundation Program

Background. This program funds restoration and preservation projects in Yosemite National Park. Funding for this program is provided from proceeds of personalized motor vehicle license plates sold by the Department of Motor Vehicles.

Staff Recommendation. No issues have been raised with this program. Staff recommends approval as budgeted.

2. Sea Grant Program

Background. This program encourages research and education in the fields of marine resources and technology. This state Sea Grant Program provides state assistance to the University of California and the University of Southern California that is used to match funds for selected projects under the federal Sea Grant Program.

Staff Recommendation. No issues have been raised with this program. Staff recommends approval as budgeted.

3. Tahoe Regional Planning Agency

Background. The Tahoe Regional Planning Agency (TRPA) was established by a congressionally approved compact between California and Nevada. The TRPA provides planning and enforceable regulations that preserve and enhance the environment and resources of the Lake Tahoe Basin. Funding for the agency is shared between Nevada (one-third) and California (two-thirds) according to the compact that established the agency.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

3340 California Conservation Corps

Background. The California Conservation Corps (CCC) assists federal, state and local agencies, and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women. The Corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects related to environmental conservation, fire protection, and emergency services. Some activities traditionally associated with the Corps are tree planting, stream clearance, and trail building. The Corps also develops and provides funding for 11 community conservation corps.

Governor's Budget. The Governor's Budget proposes \$65.4 million to support the California Conservation Corps in 2007-08. This is a 4 percent increase from estimated expenditure levels in the current year. General Fund support for the Corps is proposed to increase by about 13 percent in the budget year due to a proposal to increase the department's General Fund support and reduce the department's reliance on reimbursements.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Training and Work Program	\$ 62,231	\$ 61,678	-\$553	0.9
Capital Outlay	892	3,691	2,799	313.8
Administration	7,525	7,783	258	3.4
<i>Less distributed administration</i>	-\$7,525	-\$7,783	-258	3.4
Total	\$ 63,123	\$ 65,369	\$ 2,246	3.6
Funding Source				
General Fund	\$ 35,805	\$ 40,606	\$ 4,801	13.4
Collins-Dugan California Conservation Corps Reimbursement Account	23,857	23,852	-5	0
Other Special Funds	628	648	20	3.2
Bond Funds	2,833	263	-2,570	-90.7
Total	\$ 63,123	\$ 65,369	\$ 2,246	3.6

Vote-Only Items

1. Placer Center Municipal Sewer Connection and Water Tie-In

Background. The California Conservation Corps Placer Center is located near the City of Auburn, Placer County. This residential facility houses about 90 corpsmembers. When the facility was originally constructed in the early 1950s, it was at a remote location and was designed to be self-sufficient. However, today nearby development makes it possible for the facility to connect to municipal utility services.

The facility's current sewage treatment system consists of a 20,000 gallon concrete underground septic tank, four percolation ponds, and a spray irrigation field. The concrete tank is deteriorating and is not able to properly liquefy solids. During times of heavy rains, the percolation ponds have overflowed and workers have dumped sewage into a creek bed flowing into an existing stream.

The annual contract cost of staying connected to the Placer County municipal sewer system is estimated at \$12,000. The annual cost of contracting for water services is based on usage.

The department anticipates that preliminary plans will be completed in April 2007 and that working drawings will be completed in September 2007.

Governor's Budget. The Governor's Budget proposes \$3,507,000 General Fund to connect to the new public sewage treatment system and to contract with the local water district to tie into the public water source and purchase water from the district.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Greenwood Fire Alarm System

Background. The Greenwood Residential Facility is located in the town of Greenwood in El Dorado County. The California Conservation Corps has owned the facility since 1998. The facility has the capacity to house 60 corpsmembers and 15 staff. The facility is comprised of six buildings and one utility shed.

The CCC contracted with the Department of General Services to conduct an infrastructure study on the needs of all CCC facilities. The Greenwood Residential Facility was found to have inadequate pull stations and smoke detectors.

Preliminary plans for the project are underway and the department anticipates they will be completed in December 2007.

Governor's Budget. The Governor's Budget proposes \$184,000 General Fund for the construction phase of the installation of an automated fire alarm system that will identify a fire's location.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

3. Proposition 84 Funds

Background. The California Conservation Corps (CCC) works to improve public safety, improve and restore wetlands, reduce fuel load on public lands, and restore streams and rivers. The CCC provides grants to local conservation corps to work on the same kinds of projects at the local level.

Proposition 84, Chapter 5, Section 75050 (1) provides \$45 million for CCC and mandates that \$32,500,000 be granted to the local conservation corps for various purposes.

Governor's Budget. The Governor's Budget proposes \$45 million in Proposition 84 bond funds over six years for grants, projects, and administration. Of the total, \$263,000 would be appropriated for 2007-08. The total funds would be divided as follows:

- \$30,265,000 for local conservation corps
- \$11,640,000 for California Conservation Corps programs
- \$1.52 million for implementing, administering, and oversight of the bond funds

The 3.5 percent bond financing cost is subtracted from the \$45 million total.

Staff Analysis. The Department of Finance has informed staff that by approving the \$263,000 for 2007-08, the Legislature is considered having made a policy decision to approve the entire \$45 million Proposition 84 expenditure program. The Legislature may wish to consider inserting budget bill language to limit the funds to the staff appropriation of \$1.52 million only, so that the grant guidelines can be developed without interruption in staff but that the Legislature can review the actual grant appropriations each year.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3460 Colorado River Board of California

Background. The Colorado River Board (CRB) of California was established in 1937 by State statute to protect California's rights and interests in the resources provided by the Colorado River and to represent California in discussions and negotiations regarding the Colorado River and its management.

Governor's Budget. The Governor's budget proposes a small increase in funding for CRB. The CRB is funded entirely by reimbursements from local water districts.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
State Operations	\$1,481	\$1,519	\$38	2.5
Total	\$1,481	\$1,519	\$38	2.5
<i>Budget Act Total</i>	0	0	0	0
Reimbursements	1,481	1,519	38	2.5
Total	\$1,481	\$1,519	\$38	2.5

1. Position Re-establishment

Background. The CRB must manage the current and historic technical data and legal information generated by the CRB, its member agencies, other Colorado River Basin states, and federal agencies. This one-half time position was lost during position reductions required statewide in 2002-03. Since the one-half time position was eliminated, the CRB has fallen behind in cataloging and filing documents and books.

Governor's Budget. The Governor's Budget proposes \$34,000 to reestablish a 0.5 (half-time) Office Technician position and related operating expenses and equipment.

Staff Recommendation. Staff recommends that the Subcommittee approve this budget proposal.

3480 Department of Conservation

Background. The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support DOC in the budget year. This is an increase of \$216 million over the estimated expenditures in the current year. The majority of this increase is from the Beverage Container Recycling and Litter Reduction program due to recent legislation that increased the California Redemption Value (CRV) payments.

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Geologic Hazards and Mineral Resources Conservation	\$ 23,769	\$ 24,227	\$ 458	1.9
Oil, Gas, and Geothermal Resources	18,866	19,793	927	4.9
Land Resource Protection	25,738	36,250	10,512	40.8
Beverage Container Recycling and Litter Reduction	972,528	1,177,673	205,145	21.1
Office of Mine Reclamation	8,148	6,860	-1,288	-15.8
Administration	12,061	13,296	1,235	10.2
<i>less distributed administration</i>	-12,061	-13,296	-1,235	10.2
Total	\$ 1,049,049	\$ 1,264,803	\$ 215,754	20.6
Funding Source				
General Fund	\$ 4,587	\$ 4,668	\$ 81	1.8
Special Funds	1,010,328	1,215,647	205,319	20.3
Bond Funds	22,278	32,631	10,353	46.5
<i>Budget Act Total</i>	<i>\$ 1,037,193</i>	<i>\$ 1,252,946</i>	<i>\$ 215,753</i>	<i>20.8</i>
Federal Trust Fund	1,813	1,809	-\$4	-0.3
Bosco-Keene Renewable Resources Investment Fund	994	1,002	8	0.8
Reimbursements	9,050	9,046	-4.00	0
Total	\$ 1,049,050	\$ 1,264,803	\$215,753	20.6

Vote-Only Items

1. State Mining and Geology Board Staff Additions

Background. The State Mining and Geology Board acts as a regulatory, appeals, enforcement, and advisory body for statutory responsibilities including surface mining and reclamation, fault zone mapping, and seismic hazards mapping. The Board is the

policy-making body for the Surface Mining and Reclamation Act (SMARA). Under SMARA, the Board oversees approximately 1,200 mines, with new mines opening at a rate of five per year. The Board must review lead-agency general plans for resource management as well as California Environmental Quality Act (CEQA) documents for mines.

The increasingly complex environmental, water quality, engineering and seismic issues with mine operations has left some cities and counties unable to fulfill their lead-agency roles. When the local government is unable to act as the lead-agency, the Board must assume those duties. Currently, the Board is acting as the lead-agency in two counties (50 mines) and more lead-agencies are under review.

The Board currently has only two staff members serving the nine commissioners. The increasing number of mines combined with the increasing amount of review required for the lead-agencies overseeing those mines has increased the work load of the Board's staff.

Governor's Budget. The Governor's Budget proposes \$213,000 from the Mine Reclamation Account for two permanent positions to staff the State Mining and Geology Board. These new staff members are:

- Senior Engineering Geologist to prepare and review CEQA documents and conduct field work
- Office Technician for daily administrative and clerical needs

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. SMARA Lead Agency Compliance Review Program

Background. The Surface Mining and Reclamation Act (SMARA) regulates surface mining in California. SMARA is enforced by lead agencies, mainly counties and cities, which conduct inspections of the mines and review the adequacy of their financial assurances. The State Mining and Geology Board has expressed concern that lead agencies are not adequately enforcing SMARA provisions. In some cases lead agencies have been found not to conduct annual inspections and not having ensured that adequate financial assurances are in place. The Department of Conservation's Office of Mine Reclamation (OMR) provides technical assistance to lead agencies, but with current staffing OMR is not providing comprehensive oversight of SMARA lead agency activities.

Governor's Budget. The Governor's Budget proposes \$585,000 (\$525,000 on-going) in Surface Mining and Reclamation Account funds for five permanent positions to conduct reviews of lead agency SMARA compliance audits. With these proposed new positions,

the Department of Conservation estimates that all lead agencies would undergo an audit every six years.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Beverage Manufacturer and Distributor Payment and Reporting

Background. SB 332 (Chapter 815, Statutes of 1999) and SB 1906 (Chapter 731, Statutes of 2000) added new types of beverages to the states' recycling program. Along with the new types of beverages, new participants were added to the program. In 2000, there were 969 distributors subject to the program and today there are 3,234 distributors. The Department of Conservation estimates that 800 new manufacturer and distributor companies are identified each year, but current staffing can only register about 200 new companies annually. When beverage manufacturer and distributor companies are not registered with the state, they do not make program payments to the state. The department estimates that the unregistered companies represent \$8.5 million in lost revenue to the state. The department also has an estimated 26,000 issue backlog with existing participants.

Governor's Budget. The Governor's Budget proposes \$1,154,000 (\$1,038,000 on-going) in California Beverage Container Recycling Fund monies for five permanent positions and five three-year limited-term positions. These positions would register manufacturer and distributor companies, as well as work to resolve the existing issue backlog.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Senior Legal Analyst

Background. The Department of Conservation Legal Office provides legal consultation, advice, and representation to the department's programs. The legal cases the department is involved in have increased in complexity as state regulation of the department's issue areas has increased. Currently, the Legal Office does not have a non-attorney staff that can provide journey-level legal assistance on complex cases. Attorneys are currently performing such work at a higher cost to the state per hour than necessary.

Governor's Budget. The Governor's Budget proposes \$106,000 (\$101,000 on-going) in special funds for one permanent position of a Senior Legal Analyst.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. IT Project Management Office

Background. The Department of Conservation's Office of Technology Services produces all of DOC's IT policy and planning documents, and provides project management guidance to the divisions. The DOC's IT portfolio is approximately \$1 million in projects. However, the department does not currently have a management position responsible for department-wide project management, risk management, recovery, and attendant documentation.

Governor's Budget. The Governor's Budget proposes \$116,000 in special funds for one permanent position for IT project management and compliance activities.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Optimized GIS Support – Office of Technology Services

Background. Geographic Information System (GIS) has been used by the Department of Conservation since 1982 to map and monitor farmland. Over time the use of GIS expanded to include all of DOC's five divisions and twelve programs. Currently DOC uses software products from four major vendors along with software applications for specific needs. As the use of the Internet expanded, DOC's twelve programs developed their own web pages offering access to GIS maps. However, these web pages and the GIS maps they offer are not standardized and require more technical support to transport data from one system to another. The GIS Support Unit also provides GIS technical support for DOC employees. The current staff of two positions has not increased since 1994, despite the fact that GIS use has nearly doubled within DOC during that time.

Governor's Budget. The Governor's Budget proposes \$98,000 (\$92,000 on-going) from various special funds for one permanent position to support the delivery of maps and information via the Internet and to support user needs within DOC's five divisions.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Reappropriation of 2005 Proposition 40 and Proposition 50 Appropriations

Background. The Department of Conservation's California Farmland Conservancy Program (CFCP) was established in 1996 and provides grant funding for the planning and voluntary acquisition of agricultural conservation easements by local governments. The grant funds can also be used for planning and technical assistance, non-profit land trusts, and resource conservation districts. Agricultural conservation easements guarantee the land will continue to be used only for agricultural purposes in perpetuity.

The Department of Conservation's Watershed Coordinator Grant Program (WCGP) was established in 2000. The program emphasized a local, coordinated approach to watershed planning and management. The program has been successful in garnering local and federal dollars for watershed protection at a ratio of about 10 dollars for every state dollar spent.

The Legislature appropriated \$14,944,000 in Proposition 40 bond funds for the CFCP in 2005-06. Of that amount, \$8,748,088 remains unencumbered. The CFCP has identified projects for the balance of the funds, but the length of time it takes to negotiate grant agreements will mean it will take until 2007-08 for the funds to be fully expended.

The Legislature appropriated \$3 million in Proposition 50 bond funds for the WCGP in 2005-06. Of that amount, only \$73,124 remains unencumbered. However, the funds will revert even if they are encumbered as long as they remain unexpended. A grant language provision allows the grant recipients to keep expending the funds past June 30, 2007, which is the time when those funds would revert.

Governor's Budget. The Governor's Budget proposes reappropriation of \$14.9 million in Proposition 40 bond funds for the DOC's California Farmland Conservancy Program and \$3 million in Proposition 50 bond funds for local assistance for the Watershed Coordinator Grant Program. Specifically, these items are:

- Item 3480-101-6029, Budget Act of 2005 (Chapter 38/39, Statutes of 2005)
- Item 3480-101-6031, Budget Act of 2005 (Chapter 38/39, Statutes of 2005)

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Items for Discussion

8. Public Records Retention and Searches

Background. Numerous state laws mandate that agencies provide public access to their records. The Department of Conservation is experiencing an increasing volume of large public records requests (11 requests in 2002, 52 requests in 2005). Electronic communications are considered a part of public records and are available to the public upon request; however, the Department of Conservation has no means to catalog electronic documents or communications such as e-mails and a staff attorney must spend valuable time reading electronic records for relevance to the public request.

Governor's Budget. The Governor's Budget proposes \$492,000 (\$198,000 on-going) from various special funds for one permanent position to respond to public records and litigation requests. Also, of these funds \$300,000 would be used for software that would catalog electronic records, including e-mails, for easier searches of relevant materials.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

9. Watershed Coordinator Grant Program – Proposition 50

Background. The Watershed Coordinator Grant Program provides local assistance grants to Resource Conservation Districts for protection and restoration of watersheds. The program aims to bring together environmental groups, agricultural landowners, and local governments in projects that benefit water quality, stream restoration and fire safety.

Governor's Budget. The Governor's Budget proposes \$10.15 million in Proposition 50 (The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002) bond funds for local assistance grants and an extension of two limited-term positions. The \$9 million for local assistance grant funds would be divided as follows:

- \$1 million in year one
- \$3 million in year two
- \$3 million in year three
- \$2 million in year four

Staff Analysis. These are local assistance funds to provide technical assistance to local governments when the local governments apply for grants. Local assistance funding for this kind of program should be provided in one year increments, rather than for four years, so that the Legislature can maintain oversight of the program's success.

Staff Recommendation. Staff recommends the Subcommittee fund the proposal for \$1 million for the first year.

10. Agricultural Land Conservation – Prop 84 Planning Grants and Planning Incentives

Background. Agricultural conservation easements are a payment to a landowner for a change in the land title regulating the land-use type. The easement cannot be lifted even if the property is sold, and thus the land is protected for agricultural use in perpetuity. Placing an agricultural easement on a property lowers the property taxes the land owner must pay. The DOC provides grant funding for non-profits and local governments to purchase agricultural conservation easements from willing sellers. To date, DOC has administered over \$70 million in previously appropriated bond funds for grants to purchase agricultural conservation easements.

Proposition 84 Section 75065(c) identifies \$90 million for planning grants and planning incentives to encourage the development of regional and local land use plans designed to promote a number of conservation objectives, including the protection of natural resources and agricultural lands. The bond does not identify which department will administer these grants and incentives.

Governor’s Budget. The Governor’s Budget proposes \$10 million in Proposition 84 bond funds (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006). The funds would be used for local assistance grants and one limited-term position for program delivery.

The DOC would utilize the grant funds for:

- The development of agricultural conservation easements that also include wildlife habitat benefits and management practices.
- Planning grants for local governments to develop and implement agricultural land conversion mitigation programs to address the ongoing loss of farmland within their jurisdictions.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

11. Implementation of AB 3056

Background. AB 3056 (Chapter 907, Statutes of 2006) makes a number of changes to the beverage container recycling program. These changes include:

- Extends the program sunset date from January 1, 2007 to January 1, 2012.
- Increases the annual market development and expansion grants from \$10 million to \$20 million.
- Adds plastic and aluminum containers to the quality incentive payments program (glass already included).
- Appropriates \$15 million annually for program payments. Authorizes payment of up to \$60 per ton for glass, \$180 per ton for plastic, and \$125 per ton for aluminum meeting all specified criteria.
- Establishes a Plastic Market Development Program authorizing up to \$5 million annually to certified entities and product manufacturers for empty plastic beverage containers collected and either recycled or used in manufacturing.
- Establishes a Recycling Incentive Payment Program authorizing up to \$10 million annually to eligible recycling centers and drop-off or collection programs.
- Requires the DOC to conduct a cost survey during 2007 and every two years thereafter to determine future handling fee payments.
- Authorizes up to \$20 million during FY 2007-08 in competitive grants issued to community conservation corps designated by a city or county.
- Reduces the processing fee paid by beverage manufacturers to zero for any container type with a recycling rate of 40 percent or greater.
- Increases distributor redemption payment withholding for administrative costs from 1 percent to 1.5 percent.
- Authorizes up to \$5 million for expenditures until January 1, 2008 for a public education and information campaign aimed at promoting increased recycling of beverage containers.

Currently, of the approximately 20 billion beverages with CRV currently sold in California, about 12 billion are redeemed. This is approximately a 60 percent recycling rate. Prior legislation, the California Beverage Container Recycling and Litter Reduction Act (AB 2020, Margolin, Statutes of 1986), sets an objective of 80 percent recycling rate for beverage containers.

Governor's Budget. The Governor's Budget proposes \$3,357,000 (\$2,146,000 on-going) from the California Beverage Container Recycling Fund for 19 permanent positions and 4 one-year limited-term positions. These funds would be used for implementing AB 3056 (Chapter 907, Statutes of 2006).

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

12. Comprehensive Recycling Community Project

Background. The Comprehensive Recycling Community Project is a new pilot project that intends to increase beverage container recycling by fifty percent in targeted

communities. This pilot project aims to develop strategies that can be applied to other communities to increase recycling. This pilot project will select four cities and work with the local governments to implement strategies. The goal is to achieve an 80 percent recycling rate.

Governor's Budget. The Governor's Budget proposes \$1,972,000 (\$423,000 on-going) from the California Beverage Container Recycling Fund for four permanent positions and implementation costs for the Comprehensive Recycling Community Project.

Staff Analysis. AB 3056 (Chapter 907, Statutes of 2006) aims to greatly increase recycling incentives in communities. The provisions of AB 3056 have not yet been implemented, and thus the effectiveness of its measures is not yet clear. The Legislature should wait to observe the effectiveness of AB 3056 prior to undertaking more efforts to increase the recycling rate.

Staff Recommendation. Staff recommends the Subcommittee reject the budget proposal.

13. Sustainable Communities – California Green Cities

Background. The Department of Conservation is proposing to establish a Green City Partnership Initiative. This initiative would provide grants to cities and regions for the development of comprehensive plans that take into account multiple land use, environmental quality, and economic development issues leading to the establishment of sustainable "Green" communities.

The DOC would utilize these funds to provide greater access to integrated spatial planning and natural resource maps and data on-line, allowing cities and counties that perform infrastructure and land use planning to reduce planning costs and more easily comply with state and federal environmental laws and regulations.

In addition to data and mapping, the DOC would provide local assistance grants for programmatic plans. These local programmatic plans would provide added local planning direction, including provisions calling for increased housing densities, limitations on housing in agricultural and open space lands, identification of habitat and open space lands for protection, identification of a 20-year land supply to meet expected growth pressures over that period, limitations on the number of large residential lots, and restrictions calling for new urban development to be adjacent to existing urban development.

Proposition 84 Section 75065(c) identifies \$90 million for planning grants and planning incentives to encourage the development of regional and local land use plans designed to promote water conservation, reduce automobile use and fuel consumption, encourage greater infill and compact development, protect natural resources and agricultural lands,

and revitalize urban and community centers. The bond does not identify which department will administer these grants and incentives.

The Department of Conservation envisions the Green City Partnership Initiative as an eight-year program with \$56 million in mapping and grants assistance to local communities.

Governor's Budget. The Governor's Budget proposes \$10.4 million from Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006) bond funds for mapping, local assistance grants and three limited-term positions for program delivery.

The funds would be divided as follows:

- \$4 million for mapping of integrated natural resources data for state and regional land use decision-making.
- \$6 million in local assistance grants for programmatic plans for additional guidance to promote sustainable, pro-environment policies and goals in local planning.
- \$400,000 for three limited-term positions for program delivery.

Staff Analysis. This type of land use planning effort would be a new mission for the Department of Conservation. The administration has not put forward a "California Green Cities" initiative that would allow the department to undertake this type of new mission. The administration also has not defined what is involved in the vision of a "Green" community.

The department has informed staff that program guidelines as well as the definition of a "Green" community would be developed after the Legislature appropriates funds for this program. However, waiting for program guidelines until after the full program appropriation has been made greatly reduces Legislative oversight. A completely new undertaking for the state such as this Green City Partnership Initiative should have greater Legislative control in order to ensure that the program develops guidelines and direction consistent with Legislative and voter intent.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until the administration submits trailer bill language allowing a new mission for the Department of Conservation or upon approval of a policy bill that establishes this program within the department.

3560 State Lands Commission

Background. The State Lands Commission (SLC) is responsible for the management of lands that the state has received from the federal government. These lands total more than four million acres and include tide and submerged lands, swamp and overflow lands, the beds of navigable waterways, and vacant state school lands.

Governor's Budget. The Governor's budget proposes \$28 million to support SLC in 2007-08. This is about the same as current year estimated expenditures.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Mineral Resource Management	\$ 9,831	\$ 8,161	-\$1,670	-16.9
Land Management	9,620	9,547	-73	-0.8
Marine Facilities Division	9,441	10,902	1,461	15.5
Administration	3,516	3,456	-60	-1.7
<i>less distributed administration</i>	-3,516	-3,456	60	-1.7
Total	\$ 28,892	\$ 28,610	-\$282	-1.0
Funding Source				
General Fund	\$ 10,292	\$ 10,213	-\$79	-0.8
Special Funds	14,639	14,408	-231	-1.6
Bond Funds	0	0	0	
<i>Budget Act Total</i>	<i>24,931</i>	<i>24,621</i>	<i>-310</i>	<i>-1.2</i>
Reimbursements	3,532	3,554	22	0.6
Land Bank Fund	429	435	6	1.4
Total	\$ 28,892	\$ 28,610	-\$282	-1.0

Vote-Only Items

1. Selby Slag Remediation

Background. The SLC is part of a 1989 Consent Judgment that requires remediation of extensive heavy metal contamination on a 66-acre site in Selby, California, just west of the Carquinez Bridge. Between 1985 and 1970, a lead, gold, and copper smelter operated

on the site. Beginning in the late 1940s, the state negotiated leases of tidelands to the American Smelting and Refining Company and its predecessors that directed placement of remnant smelter slag onto and into state-owned land.

The American Smelting and Refining Company and SLC were sued in 1983 to allocate liability for cleanup costs at the site, which led to the 1989 Consent Judgment. According to the Consent Judgment, the state is responsible for one-third of the remediation costs for the site. \$8.7 million has been allocated since 1988 for the state's share of clean up at the site. Ongoing water quality monitoring indicates that de-acidification interim remedial measures that were conducted previously at the site have not completely remedied the problem.

Governor's Budget. The Governor's Budget proposes \$1,178,750 in General Fund to fund the state's portion of remediation work at the state-owned land in Selby. These funds will be used to fund acid area remediation and water quality monitoring, which are remedies proposed by the Department of Toxic Substances Control.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

2. Ballast Water Inspection Workforce

Background. The Marine Invasive Species Act of 2003 (Chapter 491, Statutes of 2003), directs the SLC to inspect 25 percent of vessels with qualifying voyages for compliance with ballast water management requirements. Ballast water is the sea water vessels pick up for stability when they are not carrying cargo. This water can contain organisms, such as plants, that can be invasive and destructive to the California coastal habitat. With current staffing of five inspectors, SLC is inspecting about 14 percent of all vessels with qualifying voyages. To cover the cost of inspections, the Marine Invasive Species Act allows the SLC to charge a fee of up to \$1,000 from each qualifying vessel. Currently the fee is set at \$500.

Governor's Budget. The Governor's Budget proposes \$608,000 from the Marine Invasive Species Control Fund for an additional five positions to inspect vessels with qualifying voyages for compliance with ballast water management requirements.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Marine Oil Terminal Inspectors

Background. The Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS) became a regulatory requirement of the California Building Code in February 2006. SLC is in charge of completing engineering audits of California's Marine Oil Terminals. There are over 40 marine oil terminals in California for which engineering inspections will be completed. These engineering audits contain extensive inspection criteria and require engineering analyses to determine the structural, mooring, and berthing capacity as well as the fitness-for-purpose of each terminal. The operator of the marine oil terminal is responsible for any repairs that the SLC inspectors find are necessary for safe operation.

Governor's Budget. The Governor's Budget proposes \$702,000 from the Oil Spill Prevention and Administration Fund for four new positions to implement MOTEMS inspections. These proposed positions are:

- 2.0 engineers to assist terminal operators with the mandatory MOTEMS audit process and rehabilitation
- 1.0 engineer to keep MOTEMS standards current and updated and assist in updating the Oil Spill Prevention database
- 1.0 research analyst to document, follow-up and keep track of all MOTEMS related activities

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3640 Wildlife Conservation Board

Background. The Wildlife Conservation Board (WCB) acquires property in order to protect and preserve wildlife and provide fishing, hunting, and recreational access facilities. The WCB is an independent board in the Department of Fish and Game and is composed of the Director of the Department of Fish and Game, the Director of the Department of Finance, and the Chairman of the Fish and Game Commission. In addition, three members of the Senate and three members of the Assembly serve in an advisory capacity to the board.

Governor's Budget. The Governor's Budget proposes \$155 million to support the WCB in 2007-08 year. This is over a 72 percent reduction from estimated expenditures in the current year due to the current year reflecting many acquisition projects for which the funds were appropriated in prior years but expended in 2006-07. General Fund support for the board increased by slightly less than 9 percent in the budget year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
State Operations	\$ 3,933	\$ 4,281	\$ 348	8.8
Capital Outlay	563,457	151,533	-411,924	-73.1
Total	\$ 567,390	\$ 155,814	-\$411,576	-72.5
Funding Source				
General Fund	\$ 5,201	\$ 16,149	\$ 10,948	210.5
Special Funds	-7,266	3,058	10,324	-142.1
Bond Funds	557,128	135,607	-421,521	-75.6
<i>Total Budget Act</i>	<i>\$555,063</i>	<i>\$154,814</i>	<i>-\$400,249</i>	<i>-72.1</i>
Reimbursements	8,226	1,000	-7,226	-87.8
Oak Woodlands Conservation Fund	4,160	0	4,160	100.0
Total	\$ 567,449	\$ 155,814	-\$403,315	-72.1

Vote-Only Items

1. Funding for Public Access Program

Background. The Wildlife Conservation Board is involved in acquiring, conserving, developing, improving and providing access to natural resources to accommodate the needs of the public in sports fishing and other outdoor pursuits. The WCB constructs fishing piers and develops fishing access sites at lakes, on the ocean, and along the state's waterways and aqueducts. In addition to fishing piers, WCB has developed boat launching ramps and access trails. The majority of the projects undertaken have been minor capital outlay projects under \$500,000 in cost per project. Once the project has been constructed, local governments are in charge of operating and maintaining the infrastructure at no cost to the state.

Governor's Budget. The Governor's Budget proposes \$1 million from the Wildlife Restoration Fund for minor capital outlay projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Items for Discussion

2. Funding for Rangeland, Grazing Land and Grassland Protection Program

Background. The Rangeland, Grazing Land and Grassland Protection Act of 2002 (Chapter 984, Statutes of 2002) designated the Wildlife Conservation Board as the lead agency to protect rangeland, grazing land, and grasslands through the purchase of conservation easements. WCB has identified approximately 600,000 acres of important rangeland and grassland for protection. To date, the WCB has acquired conservation easements on nearly 36,000 acres of rangeland, grazing land and grasslands.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) Chapter 6, Section 75055 (d) (1), provides \$15 million for the implementation of the Rangeland, Grazing Land and Grassland Protection Act of 2002.

Governor's Budget. The Governor's Budget proposes \$14,293,000 in Proposition 84 Bond funds for the Rangeland, Grazing Land, and Grassland Protection Program.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3. Funding for Oak Woodland Preservation

Background. The Oak Woodland Preservation program is intended to support and encourage long-term private stewardship and conservation of oak woodlands; provide incentives to private farming and ranching operations to protect oak woodlands; provide incentives for the protection of oak trees that provide superior wildlife values; encourage local land use planning that preserves oak woodlands; and provide assistance to local government entities; park and open space districts for the development and implementation of oak conservation elements in local general plans.

The Oak Woodland Conservation Act (Chapter 588, Statutes of 2001) allows up to 20 percent of grant funds to be spent on public education and outreach efforts and assistance to local governmental entities for the development of oak conservation elements in local general plans. The remaining 80 percent of the funds appropriated must be spent on capital outlay.

To date, the Wildlife Conservation Board has approved funding to preserve 282,000 acres of oak woodlands.

Proposition 84, Chapter 6, Section 75055 (d) (2) provides \$15 million for the preservation of oak woodlands.

Governor's Budget. The Governor's Budget proposes \$14,293,000 in Proposition 84 bond funds for Oak Woodlands Conservation Program.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

4. Natural Communities Conservation Planning Implementation – Proposition 84

Background. The Natural Community Conservation Planning Act of 1991 started the Natural Communities Conservation Planning (NCCP) program. The objective of the NCCP program is to conserve natural communities at the ecosystem scale while accommodating compatible land use. The NCCP is a plan for the conservation of natural communities that takes an ecosystem approach and encourages cooperation between

private and government interests. The plan identifies and provides for the regional or area-wide protection and perpetuation of plants, animals, and their habitats, while allowing compatible land use and economic activity.

Governor's Budget. The Governor's Budget proposes \$25 million in Proposition 84 bond funds for the Natural Communities Conservation Planning program.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

5. Program Delivery – Proposition 84

Background. The Wildlife Conservation Board is requesting funding to support existing Board staff that will be assigned to and working on the Proposition 84 funded projects.

Governor's Budget. The Governor's Budget proposes \$776,000 in Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) bond funds to fund:

- Five existing positions reassigned to Proposition 84 projects
- Two new positions at the Wildlife Conservation Board
- One new position at the Department of Fish and Game

Questions.

1. What "resource shifts" does the Wildlife Conservation Board anticipate having to make to meet its program delivery needs under Proposition 84?
2. Why is the Department of Fish and Game employee requested through a Wildlife Conservation Board budget?

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

6. Integrating Agricultural Activities with Ecosystem Restoration and Wildlife Protection

Background. California contains some of the most valuable agricultural land in the world. Each year agricultural land is lost to development since that development is more financially profitable than farming. Conservation measures that are designed to reward and encourage the integration of working farmlands and the natural ecosystem provide an opportunity to meet critical life cycle needs of many wildlife species. The cost of

implementing such natural ecosystem practices to farming operations are frequently prohibitive for many farmers.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) Chapter 6, Section 75055 (d) (4) authorizes \$5 million for grants to assist farmers in integrating agricultural activities with ecosystem restoration and wildlife protection.

Governor's Budget. The Governor's Budget proposes \$4,762,000 in Proposition 84 bond funds for grants to assist farmers in integrating agricultural activities with ecosystem restoration and wildlife protection.

Staff Analysis. The Wildlife Conservation Board would provide for 10 years of contract protection to the restored land. However, bond funded projects are repaid from the General Fund for 30 years. Bond funded projects should have endurance matching the payback period.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3780 Native American Heritage Commission

Background. The Native American Heritage Commission (NAHC) preserves and protects California Native American cultures. The commission's powers and duties include identifying and cataloging important geographic sites, helping Native Americans gain access to these sites, protecting burial and sacred sites, and ensuring that remains are treated appropriately. The commission also works to mitigate the negative impacts of development on the state's Native American cultural resources.

Governor's Budget. The Governor's budget proposes \$775,000 to support the NAHC in 2007-08. This is the same level of expenditures as estimated in the current year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Native American Heritage	\$775	\$775	\$0	0
Total	\$775	\$775	\$0	0
Funding Source				
General Fund	\$770	\$770	\$0	0
<i>Budget Act Total</i>	<i>770</i>	<i>770</i>	<i>0</i>	<i>0</i>
Reimbursements	5	5	0	0
Total	\$775	\$775	\$0	0

1. Implementation of Recent Mandates – Informational Issue

Background. Legislation (SB 18) was enacted in 2004 to require that every city and county planning agency consult with California Native American tribes during preparation or amendment of a general plan. Local governments contact the NAHC to help in making the connection between the relevant tribes and local government officials.

Legislation (AB 978) enacted in 2001 establishes a process for repatriating Native American human remains and cultural items that are in the possession of any state or local agency or museum that receives state funds. The legislation also created a Commission to mediate disputes and impose civil penalties.

Implementation Status. Staff understands that the Commission created under AB 978 has been appointed, but that rules and regulations have not been developed and there has been little to no activity by the Commission thus far.

Questions.

- What is the status of implementation of SB 18?
- What is the estimated compliance rate of local governments for implementing SB 18?
- What is the current status of the Repatriation Commission established by AB 978?
- Have any remains or sacred objects been repatriated under this legislation?
- What is the current funding for implementation of both these programs?

Staff Recommendation. Informational issue. Staff has no recommendation for action.

3790 Department of Parks and Recreation

Background. The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Support of the Department of Parks and Recreation	\$ 466,148	\$ 382,490	-\$83,658	-17.9
Local Assistance Grants	93,458	44,279	-49,179	-52.6
Capital Outlay	169,174	67,011	-102,163	-60.4
Total	\$ 728,780	\$ 493,780	-235,000	-32.2
Funding Source				
General Fund	\$ 231,630	\$ 150,359	-81,271	-35.1
Special Funds	233,056	202,950	-30,106	-12.9
Bond Funds	139,291	69,403	-69,888	-50.2
<i>Budget Act Total</i>	<i>\$ 603,977</i>	<i>\$422,712</i>	<i>\$-181,265</i>	<i>-30</i>
Federal Trust Fund	77,633	27,241	-50,392	-64.9
Reimbursements	46,136	43,013	-3,123	-6.4
Harbors and Watercraft Revolving Fund	747	814	67	8.9
California Missions Foundation Fund	289	0	-289	-100
Total	\$ 728,782	\$ 493,780	\$-235,002	-32.2

Vote-Only Items

1. Empire Mine

Background. Empire Mine State Historic Park is the site of one of the oldest and longest-running gold mines in California. Closed in 1956, the mine contains approximately 367 miles of abandoned and flooded mine shafts. The mining operations left the land contaminated with various dangerous chemicals, including arsenic, cyanide, mercury, thallium, manganese, and iron. The Empire State Historic Park covers 850 acres of land.

As the owner of the Empire Mine lands, the Department of Parks and Recreation was sued for alleged violations of the Federal Clean Water Act. The lawsuit was settled on January 13, 2006 through a consent decree in federal court. The consent decree requires California State Parks and Recreation to immediately implement corrective measures to mitigate the impacts from toxic soils and contaminated surface water discharges to the local watershed.

In addition to the federal court consent decree, the Department of Parks and Recreation is facing the following violation orders:

- An Imminent and Substantial Endangerment Determination and Consent Order issued by the Department of Toxics and Substances Control on January 27, 2006.
- An order issued by the Regional Water Quality Control Board under California Water Code section 13267 (Order to Submit Technical Reports and Industrial Storm Water General Permit Order 97-03-DWQ) on December 17, 2004.

Past Appropriations and Actions. In FY 2005-06, the Legislature appropriated \$500,000 for studies to determine the presence of contaminants, prepare a cumulative human health risk assessment, prepare storm water pollution prevention plans, and provide a final summary report of all the activities and appropriate implementation processes to address these actions.

In FY 2006-07, the Legislature appropriated \$5 million for Phase I interim corrective measures at the Empire Mine State Historic Park.

Governor's Budget. The Governor's Budget proposes \$4.1 million General Fund for remediation and treatment measures at Empire Mine. These funds would be for Phase II of a multi-year plan to remediate the site.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Concessions Program

Background. The Department of Parks and Recreation contracts with vendors to provide certain services at state parks. These vendors pay the state to operate in state parks. The department collects approximately \$11 million in revenue annually from concessions contracts.

Governor's Budget. The Governor's Budget proposes to approve the following concessions and operating agreements:

- Old Town San Diego state historic park
- Folsom Lake
- Millerton Lake
- San Luis Reservoir
- Salton Sea state recreation areas
- Kings Beach state recreation area

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Completed Development Projects – Prairie City SVRA

Background. The Prairie City State Vehicular Recreation Area (SVRA) is located near Sacramento. The park covers 1050 acres and offers off highway vehicle recreational opportunities to visitors from around the state. The park currently receives about 200,000 visitors a year.

Additions to the Prairie City SVRA tracks have recently been completed. These additions include a short racing track, Pit Bike racing facility, improvements to the Hangtown National Motocross track, an environmental training center, and picnic tables.

Governor's Budget. The Governor's Budget proposes \$840,000 (\$589,000 on-going) from the Off-Highway Vehicle Fund for 7 new positions to maintain and operate the enlarged Prairie City SVRA.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. OHV Program Restoration Funding

Background. AB 2274 (Keeley and Wyland) Chapter 563, Statutes of 2002, required that fuel tax revenue attributable to off-highway vehicles would be divided by placing 100 percent of the tax attributable to unregistered off-highway vehicles to the Conservation and Enforcement Services Account (CESA) and 100 percent of the tax attributable to registered off-highway vehicles to the Off-Highway Vehicle Trust Fund. AB 2274 also required that 30 percent of the funds in the Off-Highway Vehicle Trust Fund be used for restoration of lands where OHV use had taken place.

AB 2274 defined “restoration” as: upon closure of the unit or any portion thereof, the restoration of land to the contours, the plant communities, and the plant covers comparable to those on surrounding lands or at least those that existed prior to off-highway motor vehicle use.

Governor’s Budget. The Governor’s Budget proposes \$1,711,000 in one-time funds from the Off-Highway Vehicle Trust Fund to restore areas affected by non-authorized off-highway vehicle activities.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Items for Discussion

5. Deferred Maintenance Program

Background. The Department of Parks and Recreation (Parks) has an estimated \$900 million backlog of deferred maintenance. In 2006-07, the Legislature appropriated \$250 million General Fund to the Department of Parks and Recreation. The Governor’s Budget proposes to revert \$160 million of that General Fund appropriation. The Department of Parks and Recreation needs staff to implement the \$90 million in deferred maintenance it still has left. Parks states that it needs 41 positions, of which it has already filled 35.

Governor’s Budget. The Governor’s Budget proposes to make permanent 41 administratively created maintenance positions at the Department of Parks and Recreation. The total cost of the positions would be approximately \$13 million out of the \$90 million General Fund.

Staff Recommendation. Hold open until Subcommittee determines whether to give Parks bond money for deferred maintenance.

6. Local Assistance Program

Background. The Department of Parks and Recreation provides various grants to cities, counties, non-profit organizations, regional park districts, local park districts, museums, aquariums, zoos, and other public utility or community service districts. These local assistance grants are used for capital projects, including acquisition of real property, development, and rehabilitation. Grants from the Off-Highway Vehicle account are given away by the Off-Highway Motor Vehicle Recreation Commission.

In 2004, the State Auditor’s Office audited the Department of Parks and Recreation for their use of OHV funds. The State Auditor found inappropriate use of Off-Highway Motor Vehicle Recreation Commission funds by Parks. The State Auditor found that “based on a questionable

legal interpretation and inadequately supported cost estimates, the department is using Off-Highway Trust Fund money—\$3.6 million during fiscal year 2003-04—to support state parks that do not have OHV recreation”.

Currently proposed legislation, SB 742 (Steinberg), would change how the funds from the Off-Highway Vehicle Trust Fund are used.

The Off-Highway Motor Vehicle Recreation Commission is sun-setting in 2008.

Governor’s Budget. The Governor’s Budget proposes \$39,279,000 from numerous special funds for local assistance grants. The grants are from the following accounts:

- \$5,379,000 from the Habitat Conservation Fund
- \$18,000,000 from the Off-Highway Vehicle Trust Fund
- \$9,700,000 from the Recreational Trails Fund
- \$6,200,000 from the Federal Trust Fund

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

7. Funding for the Museum of Tolerance

Background. The Museum of Tolerance is located in the Simon Wiesenthal Center in Los Angeles. The Museum was founded in 1993 and challenges visitors to confront bigotry and racism and to understand the Holocaust. The Museum hosts approximately 350,000 visitors annually. Programs offered by the Museum include Tools for Tolerance, Tools for Tolerance for Teens, Teaching Steps to Tolerance, Task Force Against Hate, and the National Institute Against Hate Crimes.

Governor’s Budget. The Governor’s Budget proposes \$5 million General Fund for an expansion of the Museum of Tolerance. The expansion would create 10,000 square feet Inter-Dependence Culture Center in the Museum. The new Center will consist of open space, a gift shop, lobby area, café, storage area and indoor assembly area.

Staff Recommendation. Staff recommends the Subcommittee hold this item open and direct staff to research if changing the funding source for the \$5 million from General Fund to Proposition 84 Department of Parks and Recreation Local Assistance bond funds would be possible.

8. Proposition 84 Planning, Administration for State Park System Allocation

Background. Proposition 84 provides \$400 million in general obligation bond funds to the Department of Parks and Recreation.

Governor's Budget. The Governor's Budget proposes \$5,206,000 in Proposition 84 bond funds for 57.9 new positions to administer the Proposition 84 bond.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

9. Proposition 84 Program Delivery for Local Grant Programs

Background. Parks and Recreation has for a long time administered grants from bond funds to local governments and non-profits for park development. Proposition 84 provides two funding sources for the Department of Parks and Recreation to use as local assistance:

- \$400 million in Chapter 9, Section 75065 (b) for local and regional parks
- \$100 million in Chapter 8, Section 75063 (b) for nature education and research facilities

Proposition 84 also includes \$90 million in urban greening funds, of which \$70 million is not designated to any particular department. The Department of Parks and Recreation wants to administer that \$70 million for local assistance grants.

Governor's Budget. The Governor's Budget proposes \$1.37 million in Proposition 84 bond funds for 10.2 new positions to administer parks Proposition 84 bond grants.

Staff Analysis. The Subcommittee should wait for the policy committee to announce a policy for the use of the \$70 million in urban greening funds.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

10. Reappropriation of City of Oroville Grant

Background. The City of Oroville received a \$3 million grant in Proposition 40 bond funds in 2002.

Proposed Language:

3791-490 – Extension of Liquidation Period, Department of Parks and Recreation

The balance of the appropriation provided in the following citation is re-appropriated for the purpose and subject to the limitations, unless otherwise specified, provided for in the following appropriation and shall be available for liquidation of encumbrances until December 31, 2008.

6029 – California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund.

Chapter 1126, Statutes of 2002

Sec.2.(b) Historical and Cultural Resources Preservation Opportunity Grant Program

Provisions:

1. The re-appropriation is limited to the \$3,000,000 grant to the City of Oroville.

Staff Recommendation. Staff recommends the Subcommittee approve the reappropriation.

11. Balance in State Parks Recreation Fund – Informational Item

Background. The State Parks Recreation Fund will have a balance of \$56,000 at the end of the budget year. The fund expends approximately \$120 million a year. Any shortfalls in the SPRF will have to be covered with General Fund.

Questions:

1. What would the department need to do to reduce parks expenditures out of the State Parks Recreation Fund?
2. What steps, other than raising park fees, has the department considered to bring a healthier balance to the SPRF?
3. Can the department have counties or non-profit organizations purchase some of its parks to save costs but preserve parks for public use?

12. Boating and Waterways Funds

Background. The Department of Parks and Recreation has been receiving appropriations from the Harbors and Watercraft Revolving Fund. The proposed 2007-08 budget would provide \$26,649,000 to the department from the Harbors and Watercraft Revolving Fund.

The Department of Boating and Waterways is also funded out of the Harbors and Watercraft Revolving Fund. The Department of Boating and Waterways has argued that due to the fact that

the monies in the account come from boaters and that there is a need to replace aging infrastructure they should receive the funds that the Department of Parks and Recreation is currently receiving.

The Harbors and Watercraft Revolving Fund receives money from:

- Annual appropriation from the Motor Vehicle Fuel Account from taxes imposed on distribution of fuel to propel vessels.
- Vessel registration fees.
- Fees received from the licensing of yacht and ship brokers and salesmen.

Current Law. The California statute Harbors and Navigation Code, Section 85.2 (b) (1) states:

The money in the fund shall also be available, upon appropriation by the Legislature, to the Department of Parks and Recreation for the operation and maintenance of units of the state park system that have boating-related activities. Funds appropriated to the Department of Parks and Recreation may also be used for boating safety and enforcement programs for waters under its jurisdiction.

Harbors and Navigation Code, Section 85.2 (b) (2), also states that:

The Department of Parks and Recreation shall submit to the Legislature, on or before January 1 of each year, a report describing the allocation and expenditure of funds made available to the Department of Parks and Recreation from the Harbors and Watercraft Revolving Fund and from the Motor Vehicle Fuel Account in the Transportation Tax Fund attributable to taxes imposed on the distribution of motor vehicle fuel used or usable in propelling vessels during the previous fiscal year.

Questions:

1. How many boating activity related parks does the department manage?
2. On what does the department spend the \$27 million received from the Harbors and Watercraft Revolving Fund?
3. What services would the department have to eliminate if it were to lose the \$27 million it currently receives from the Harbors and Watercraft Revolving Fund?
4. Did the department submit the required report to the Legislature on January 1, 2007?

3720 California Coastal Commission

Background. The California Coastal Commission, following its initial creation in 1972 by a voter initiative, was permanently established by the State Coastal Act of 1976. In general, the act seeks to protect the state's natural and scenic resources along California's coast. It also delineates a "coastal zone" running the length of California's coast, extending seaward to the state's territorial limit of three miles, and extending inland a varying width from 1,000 yards to several miles. The commission's primary responsibility is to implement the act's provisions. It is also the state's planning and management agency for the coastal zone. The commission's jurisdiction does not include the San Francisco Bay Area, where development is regulated by the San Francisco Bay Conservation and Development Commission.

Governor's Budget. The Governor's budget proposes a total of \$17 million to support the Coastal Commission in 2007-08. This is approximately the same level as estimated expenditures in the current year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Coastal Management Program	\$ 16,337	\$ 16,090	-\$247	-1.5
Coastal Energy Program	763	860	97	12.7
Administration	1,739	1,751	12	0.7
<i>less distributed administration</i>	-1,658	-1,651	7	-0.4
Total	\$ 17,181	\$ 17,050	-131	-0.8
Funding Source				
General Fund	\$ 11,460	\$ 11,351	-109	-0.9
Special Funds	1,333	1,298	-35	-2.6
<i>Budget Act Total</i>	<i>12,793</i>	<i>12,649</i>	<i>-144</i>	<i>-1.1</i>
Federal Trust Fund	3,052	2,910	-142	-4.6
Reimbursements	1,337	1,491	154	11.5
Total	\$ 17,182	\$ 17,050	-132	-0.8

1. Coastal and Marine Education Whale Tail License Plate Program

Background. The Whale Tail License Plate sales revenues are deposited into the Coastal Beaches and Coastal Enhancement Account fund for the purposes of beach cleanup, educational outreach, and maintaining public beaches. The Coastal Commission is supposed to receive 75 percent of the funds from the Whale Tail License Plate sales. The California Coastal Commission provides grants to non-profits and government agencies to provide education outreach in the community regarding coastal environments and protection.

Governor's Budget. The Governor's Budget proposes \$252,000 in Coastal Beaches and Coastal Enhancement Account funds for a one-time augmentation to the Coastal Commissions budget.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Informational Items

1. Enforcement – Informational Item

Background. The Coastal Conservancy was established by the California Coastal Act. The Act's basic goals were to:

- Protect, maintain, enhance, and restore the overall quality of the coastal zone environment and its natural and artificial resources.
- Maximize public access and public recreational opportunities in the coastal zone consistent with sound resources, conservation principles, and constitutionally protected rights of private property owners.
- Assure priority for coastal-dependent and coastal-related development over other development on the coast.

The Coastal Commission issues permits for coastal development, except when a local government has a local coastal plan in place, the local government then issues the permits. However, the local coastal plan does not allow the local government to conduct enforcement of the plan. The Coastal Commission's enforcement program addresses violations of permits and unpermitted development.

The Coastal Commission receives reports of violations for private citizens. The number of open cases the Coastal Commission has exceeded 1,000 in 2006. With all these cases, the Coastal Commission only has three enforcement agents and no staff to enforce the Northern California coastline at all.

Questions:

1. What is the impact of development in violation of permits or without permits on the coast?
2. What kinds of enforcement efforts do the districts conduct?
3. What action does the Coastal Conservancy take once a permit violation is reported?
4. What is the statute of limitations on a permit violation? What is the penalty amount?

2. Liquefied Natural Gas Plants – Informational Item

What is LNG? Liquefied Natural Gas (LNG) is natural gas in a liquid form. LNG is neither corrosive nor toxic. It is most commonly stored underground under pressure. LNG is normally warmed to make natural gas to be used in heating and cooking as well as electricity generation and other industrial uses. LNG can also be kept as a liquid to be used as an alternative transportation fuel. Natural gas is the cleanest burning fossil fuel. It produces less emissions and pollutants than either coal or oil.

LNG in California. There are currently no LNG terminals located on the west coast of the United States. As demand for natural gas increases in California and throughout the United States, alternative sources of natural gas are being investigated. According to the Energy Commission, a number of companies have recently proposed to build LNG import facilities in California. For example, in 2004, Sound Energy Solutions filed an application for an LNG plant off the coast of Long Beach.

Commission Role. The State Coastal Act of 1976 made the Coastal Commission responsible for permitting construction of offshore oil and gas development. All offshore oil and gas exploration, including any development on the federal outer continental shelf, must be reviewed by the Commission. Projects in federal waters are reviewed for consistency with California's federally-approved Coastal Management Program. A 1984 amendment to the Coastal Act requires the Commission to work with the Governor and other agencies relative to offshore oil transportation and refining issues (PRC 30265 and 30265.5). Marine terminals, refineries, oil and gas pipelines, and other energy development in the coastal zone must be regulated by the Commission (PRC 30260–30263).

Questions:

1. What resources does the Coastal Commission currently have to respond to permitting requests for LNG facilities?
2. How long does it take the Coastal Commission to respond to a permitting request with current staffing levels?

3. Webstreaming of Commission Meetings

Background. During 2006-07 the Legislature appropriated funds for a pilot project to webstream Coastal Commission meetings. These meetings take place quarterly in large meeting halls around the state. The pilot project funds will run out in February 2008.

3760 State Coastal Conservancy

Background. The State Coastal Conservancy (SCC) is authorized to acquire land, undertake projects, and award grants for the purposes of: (1) preserving agricultural land and significant coastal resources, (2) consolidating subdivided land, (3) restoring wetlands, marshes, and other natural resources, (4) developing a system of public accessways, and (5) improving coastal urban land uses. In general, the projects must conform to California Coastal Act policies and be approved by the conservancy governing board.

Governor's Budget. The Governor's budget proposes \$138 million for the State Coastal Commission. This is a 36 percent decrease over the current year budget due to decreased capital outlay funds.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Coastal Resource Development	\$4,895	\$5,057	\$162	3.3
Coastal Resource Enhancement	12,758	6,528	-6,230	-48.8
Administration	3,282	3,939	657	20.0
<i>less distributed administration</i>	-3,282	-3,939	-657	20.0
Capital Outlay	205,056	130,737	-74,319	-36.2
Total	\$222,709	\$142,322	-\$80,387	-36.1
Funding Source				
General Fund	\$8,000	\$0	-\$8,000	-100
Special Funds	13,113	10,587	-2,526	-19.2
Bond Funds	165,455	127,677	-37,778	-22.8
<i>Budget Act Total</i>	<i>186,568</i>	<i>138,264</i>	<i>-48,304</i>	<i>-25.8</i>
Federal Trust Fund	5,142	2,132	-3,010	-58.5
Reimbursements	30,999	1,926	-29,073	-93.7
Total	\$222,709	\$142,322	-\$80,387	-36.1

Vote-Only Items

1. Redirection of Funding – California Ocean Protections Council

Background. The California Ocean Protection Council (COPC) implements the California Ocean Protection Act (COPA). The COPC is housed within the State Coastal Conservancy, which provides administrative support and serves as fiscal agent for COPC. Each year the Coastal Conservancy takes on funding design and implementation of more than one hundred separate projects. The Coastal Conservancy is also requested to provide technical assistance to local, state, and federal agencies and to nonprofit organizations.

Governor’s Budget. The Governor’s budget proposes to redirect \$430,000 of the Coastal Conservancy’s \$1 million Operating Expenses and Equipment baseline to five new positions at the Coastal Conservancy to administer the California Ocean Protections Council. The funds are coming from the California Environmental License Plate Fund.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Public Access Program

Background. The State Coastal Conservancy works on various types of public access programs, including:

- acquisition of trail easements
- acceptance of offers to dedicate
- design and construction of trails, stairways, staging areas, restrooms and interpretive signage
- providing facilities for physically disabled, or mobility impaired, visitors

The State Coastal Conservancy provides grants for operations costs to local government agencies and nonprofit organizations to open up new accessways.

Governor’s Budget. The Governor’s Budget proposes \$900,000 in special funds for development, operation, and maintenance of public accessways:

- \$500,000 from the Coastal Access Account
- \$400,000 from the Coastal License Plate Fund

Staff Recommendation. Staff recommends the Subcommittee approve the item as proposed.

Discussion Items

3. Staffing to Implement Proposition 84

Background. Proposition 84 allocates \$360 million for the Coastal Conservancy's coastal and San Francisco Bay programs. Proposition 84 also allocates \$90 million for the California Ocean Protection Council.

These new positions would administer the California Ocean Protection Council's programs and assist in such high profile efforts as the creation of marine reserves, ocean mapping, and the development of ocean observation systems.

These new positions would also work on projects such as the Klamath River restoration, the South Bay Salt Ponds in San Francisco Bay, the removal of Matilija Dam, and the restoration of Ballona Lagoon.

Governor's Budget. The Governor's Budget proposes \$1.5 million in Proposition 84 bond funds for five positions to implement Proposition 84 programs.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

4. Proposition 84 Funds for Coastal Conservancy Programs

Background. The State Coastal Conservancy works on three major programs: coastal resource enhancement, public access and coastal resource development, and San Francisco Bay Conservancy. The Coastal Conservancy's capital outlay projects protect and improve rivers, lakes, streams, watersheds, beaches, bays, coastal waters, and other natural resources of the coast and San Francisco Bay area; and promote the public's access to and enjoyment of the coast and San Francisco Bay shoreline; work on the California Coastal Trail; and provide trail connections to the coast from inland areas, including the development of regional river parkway systems.

Proposition 84 provides funds for the State Coastal Conservancy:

- \$45 million for Santa Ana River Parkway – Chapter 5, Section 75050 (i).
- \$135 million for protection of beaches, bays, coastal waters, and watersheds – Chapter 7, Section 75060 (b)
- \$45 million for protection of Monterey Bay – Chapter 7, Section 75060 (e)
- \$27 million for protection of San Diego Bay – Chapter 7, Section 75060 (f)

Proposition 84 provides funds for the San Francisco Bay Area Conservancy:

- \$108 million for the San Francisco Bay Area Conservancy Program – Chapter 7, Section 75060 (c)

Governor’s Budget. The Governor’s Budget proposes \$84,443,000 in Proposition 84 bond funds for the State Coastal Conservancy for either capital outlay or local assistance.

The funds would be used to:

- Acquire, restore and enhance river and stream corridors, wetlands, urban watersheds, bays and estuaries, as well as related coastal waters, beaches, and other environmentally sensitive lands and waters in coastal areas to protect public health and safety, and preserve biodiversity.
- Acquire land and rights-of-way, to develop public accessways, including accepted offers-to-dedicate, to expand and improve the California Coastal Trail, and to preserve scenic open space lands.
- Acquire, restore and enhance wetlands and other environmentally sensitive lands in the San Francisco Bay area and to grant funds for such purposes to public agencies and nonprofit organizations.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

5. Ocean Protection Council: Capital Projects and Science Applications

Background. The California Ocean Protection Council (COPC) works on a wide variety of problems on California’s coast and ocean, including over-fishing, habitat destruction, invasive species, beach erosion, loss of economic vitality, poor water quality, lack of enforcement capabilities, and marine debris. COPC is currently working on an ocean mapping project that aims to map all state waters over the next five years.

Proposition 84, Chapter 7, Section 75060 (g) provides \$90 million to California Ocean Protection Trust Fund, funds from which can only be used for ocean protection and related activities.

Governor’s Budget. The Governor’s Budget proposes \$28 million in Proposition 84 bond funds for the Ocean Protection Council for capital projects and science applications. Of that amount, approximately \$5 million would be for science and the rest for capital outlay.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

6. Conservancy Programs

Background. The Coastal Conservancy funds public access programs on the coast. These programs can include beach stairways, restrooms, parking lots, alternative transportation systems, wildlife viewing areas, facilities for people with limited mobility or other special needs, and trails connecting inland populations to the coast.

Governor's Budget. The Governor's Budget proposes \$9,549,000 in Proposition 12 bond funds for various Coastal Conservancy programs. Specifically, the funds would be for:

- \$4,012,000 for the California Coastal Trail and for the coastal access program
- \$2,236,000 for restoration projects at Santa Monica Bay
- \$1,455,000 for conservancy programs north of the Gualala River
- \$909,000 for conservancy programs within Santa Cruz, Monterey, San Luis Obispo and Santa Barbara Counties
- \$632,000 for San Francisco Bay Area Conservancy Programs
- \$350,000 to acquire land for the Laguna Coast Wilderness Park

Reversion of Funds. The funds requested in the Governor's Budget were originally appropriated in FY 200-01 and reverted five years later. The funds were reverted for numerous reasons. These include:

- The original appropriation designated the funds towards specific projects rather than objectives. The conservancy was unable to encumber funds for some of the projects.
- Some of the projects were very large and not all funds were liquidated within the five-year period.
- Proposition 40 and 50 funds were allocated to a restoration project in Upper Newport Bay, but not all of the funds were needed for the projects ready to go and some funds were allowed to revert.
- It took longer to complete some projects than expected.
- Regulatory and permitting issues were more complex than anticipated.
- Funding was provided for projects and the landowner turned out to be unwilling to sell the property or there were issues with the sale that took longer than anticipated to resolve.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Reappropriation of Coastal Conservancy Programs and San Francisco Bay Conservancy Program

Background. The State Coastal Conservancy's program include: 1) agricultural conservation, 2) San Francisco Bay Area conservation, 3) watershed and ocean protection, 4) coastal resource restoration, 5) coastal resource enhancement, 6) urban waterfront restoration, 7) reservation of significant resource sites, and 8) development of a system of public accessways along the coast.

In 2004-05, the Legislature appropriated \$26.4 million to the State Coastal Conservancy to implement conservancy programs.

Governor's Budget. The Governor's Budget proposes a reappropriation of \$4.5 million to the State Coastal Conservancy for various programs. The funds would be divided as follows:

- \$1 million for the San Francisco Bay Conservancy Program
- \$2 million for the Coastal Conservancy Programs
- \$1.5 million in reimbursements

Staff Recommendation. Staff recommends the Subcommittee hold this item open until the department answers the following questions:

- Why were the funds not expended in a timely manner?
- Where are the reimbursements coming from?

3125 California Tahoe Conservancy

Background. The California Tahoe Conservancy (CTC) 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 agencies and nonprofit organizations for the purposes of its programs.

Governor's Budget. The Governor's Budget proposes \$45.5 million for the Tahoe Conservancy. This is an eight percent increase over the current year due to an increase in bond funds.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Tahoe Conservancy	\$25,083	\$29,708	\$4,625	18.4
Capital Outlay	18,643	16,519	-2,124	-11.4
Total	\$43,726	\$46,227	\$2,501	5.7
Funding Source				
General Fund	\$189	\$192	\$3	1.6
Special Funds	6,069	4,897	-1,172	-19.3
Bond Funds	35,796	40,423	4,627	12.9
<i>Budget Act Total</i>	<i>42,054</i>	<i>45,512</i>	<i>3,458</i>	<i>8.2</i>
Reimbursements	1,459	500	-959	-65.7
Tahoe Conservancy Fund	213	215	2	0.9
Total	\$43,726	\$46,227	\$2,501	5.7

Note: The California Tahoe Conservancy's biomass energy budget change proposal submitted jointly with the California Department of Forestry and Fire Protection will be heard on March 26 with the California Department of Forestry and Fire Protection budget.

1. Implementation of the Environmental Improvement Program for the Lake Tahoe Basin

Background. The Environmental Improvement Program (EIP) represents a collaborative capital improvement approach toward meeting environmental and public access goals at Lake Tahoe. The EIP reflects a commitment to capital outlay, local assistance, and programmatic approaches to counter the rapid decline of the resources and public recreation values of the Lake Tahoe Basin. Since 1998, the state has appropriated approximately \$181 million to the Tahoe Conservancy for the EIP implementation.

Governor's Budget. The Governor's Budget proposes \$39,631,000 for the California Tahoe Conservancy from various bond funds. Of this amount, \$16.1 million would be for capital outlay and \$23.5 million for local assistance. These bond funds are as follows:

- \$996,000 from Proposition 12
- \$1,122,000 from Proposition 40
- \$9 million from Proposition 50
- \$27,373,000 from Proposition 84

In addition to the funds requested, the administration is proposing to make the Habitat Conservation Fund off-budget.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3810 Santa Monica Mountains Conservancy

Background. The Santa Monica Mountains Conservancy (SMMC) acquires, restores, and consolidates lands in the Santa Monica Mountains Zone for park, recreation, or conservation purposes. The SMMC was established by the Legislature in 1980.

Governor's Budget. The Governor's Budget proposes \$18,207,000 for operations and capital outlay expenditures for the SMMC from various special funds and from Proposition 84 bond funds.

- \$1,194,000 for operations and to support 5.2 positions.
- \$17,013,000 for capital outlay and local assistance.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Santa Monica Mountains Conservancy	\$778	\$1,194	\$416	53.4
Capital Outlay	24,068	17,013	-7,055	-29.3
Total	\$24,846	\$18,207	-\$6,639	-26.7
Funding Source				
Special Funds	\$502	\$260	-\$242	-48.2
Bond Funds	24,344	17,947	-6,397	-28.2
Total	\$24,846	\$18,207	-\$6,639	-28.6

1. Capital Outlay: Acquisition and Local Assistance Grants

Background. The Santa Monica Mountains Conservancy's strategic plan is to purchase, preserve, protect, restore and enhance land to form an interlinking system of urban, rural and river parks, as well as open space, trails, and wild-life habitats accessible to the general public. In addition, the SMMC forms partnerships with other agencies, including federal, state, county, city, resources conservation districts, water districts, park and open space district.

The cost of land in the SMMC operations area is estimated at \$10,000 per acre. SMMC can purchase land from willing sellers and acquire by eminent domain.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) dedicates \$56 million in bond funds specifically for the Santa

Monica Mountains Conservancy. Chapter 5, Section 75050 provides \$36 million and Chapter 7, Section 75060 provides an additional \$20 million.

Governor's Budget. The Governor's Budget proposes \$17 million in Proposition 84 bond funds for protection and restoration of rivers, lakes and streams, watersheds and associated lands, and other natural resources.

With these funds, the SMMC intends to pay full market price to acquire privately owned watershed property, and pay the costs associated with planning, permitting, and administrating coastal watersheds.

Staff Analysis. The SMMC has been operating since 1980 and has a successful history of preserving over 55,000 acres of land. The SMMC developed the Santa Monica Mountains Conservancy Work Program to prioritize land acquisition, and holds public hearings on every project. The SMMC has, in the past, handled over \$22 million in capital outlay and local assistance grants in a single year.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

2. Capital Outlay and Grants

Background. The Santa Monica Mountains Conservancy receives funds through donations, settlements and other sources. These funds are placed into the Santa Monica Mountains Conservancy Fund. The SMMC needs Legislative authority to expend these funds. If sufficient funds are not received through donations, the funds cannot be expended despite spending authority.

Governor's Budget. The Governor's Budget proposes \$13,000 in expenditure authority from the Santa Monica Mountains Conservancy Fund. The funds would be used toward SMMC mission in land acquisition, improvements, restoration, environmental interpretation, and grants.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3820 San Francisco Bay Conservation and Development Commission

Background. The San Francisco Bay Conservation and Development Commission (BCDC) implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, BCDC regulates and issues permits for: (1) all filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries; (2) changes in the use of salt ponds and other "managed wetlands" adjacent to the bay; and (3) significant changes in land use within the 100-foot strip inland from the bay. The commission's main objectives are to minimize fill in San Francisco Bay and maximize public access to the shoreline.

Governor's Budget. The Governor's Budget proposes \$5.3 million for the San Francisco Bay Conservation and Development Commission to support operations and 41.8 existing positions.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Bay Conservation and Development	\$5,378	\$5,305	-\$73	-1.3
Total	\$5,378	\$5,305	-\$73	-1.3
Funding Source				
General Fund	\$4,445	\$4,420	-\$25	-0.5
<i>Budget Act Total</i>	<i>4,445</i>	<i>4,420</i>	<i>-25</i>	<i>-0.5</i>
Bay Fill Clean-Up and Abatement Fund	203	206	3	1.5
Federal Trust Fund	51	0	-51	-100.0
Reimbursements	679	679	0	0.0
Total	\$5,378	\$5,305	-\$73	-1.3

Staff Recommendation. No issues have been raised regarding this program. Approve as budgeted.

3825 San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy

Background. The San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy (SGLAC) acquires and manages public lands in the San Gabriel basin, along the San Gabriel river and its tributaries, the lower Los Angeles river and its tributaries, and the San Gabriel Mountains. The conservancy acquires land to provide open space, low-impact recreational and educational uses, water conservation, watershed improvement, and wildlife and habitat restoration and protection.

Governor's Budget. The Governor's budget proposes \$38,834,000 from various funding sources for operations and capital outlay. The budget proposes 5.5 new positions.

- \$1,164,000 from special funds and Proposition 50 and Proposition 84 bond funds for operations and 9 positions.
- \$12,670,000 from Proposition 12 bond funds for capital outlay.
- \$25,000,000 from Proposition 84 bond funds for capital outlay.

Summary of Expenditures

<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy	\$555	\$1,164	\$609	109.7
Capital Outlay	6,210	37,670	31,460	506.6
Total	\$6,765	\$38,834	\$32,069	474.0
Funding Source				
Special Funds	\$323	\$319	-\$4	-1.2
Bond Funds	6,417	38,515	32,098	500.2
<i>Budget Act Total</i>	<i>6,740</i>	<i>38,834</i>	<i>32,094</i>	<i>476.1</i>
Reimbursements	25	0	-25	-100.0
Total	\$6,765	\$38,834	\$32,069	474.0

1. Proposition 84 Capital Outlay and Grants

Background. The Rivers and Mountains Conservancy acquires and manages lands. The conservancy also provides grants to local governments, non-profits, water districts, and others to perform site preservation, enhancement, and restoration. The conservancy has a list of over 400 projects in its work area that are ready for funding. The conservancy has a 5-year plan for programs and acquisition.

Proposition 84, Chapter 5, Section 75050 (g) (2) provides \$36 million to the Rivers and Mountains Conservancy for unspecified projects within watersheds.

Proposition 84, Chapter 7, 75060 (d) (3) provides \$15 million to the Rivers and Mountains Conservancy for watersheds.

Governor's Budget. The Governor's Budget proposes \$25 million in proposition 84 bond funds for the conservancy.

Staff Analysis. Although the budget change proposal submitted by the Governor is for \$25 million, the proposal states that grant funds totaling \$46.7 million will be provided to the Rivers and Mountains Conservancy over 5 years. The Legislature may wish to consider restricting budget bill language that clearly states this appropriation is one-time and does not serve as a tacit approval of future grant funds appropriations.

Questions:

1. The grant expenditure schedule provided in the budget change proposal shows half of the grant funds, \$25 million, requested in the first year. Why does the conservancy want half of the funds right away and can it move these funds out quickly enough to expend them responsibly?
2. Has the conservancy spent down all of the Proposition 40 and 50 funds available to it for appropriation? If not, why should the Legislature provide the entire \$25 million in new funds before the old bond funds are spent down?

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

2. Proposition 84 Program Delivery Staff

Background. Currently, the conservancy has an executive director, secretary, and 1.5 project analysts. As Proposition 84 funds are appropriated to the conservancy, there will be new responsibilities associated with the prioritizing, planning, and implementation of projects. There will also be expanded duties in project selection, acquisitions, and management, as well as

administrative functions associated with systems development, document flow and business functions of such projects.

Governor's Budget. The Governor's Budget proposes \$523,000 in Proposition 84 bond funds for three new permanent positions and two limited-term positions. The total cost of these positions over five years will be \$2,497,000.

Staff Analysis. The appropriateness of the requested staffing level depends upon whether or not the Legislature chooses to appropriate the full \$25 million in Proposition 84 funds requested in another budget change proposal (see number 1 above).

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3. Add 0.5 Positions

Background. The conservancy currently manages over 120 grant contracts annually. Several years ago, the conservancy lost 0.5 PY due to budget cuts across state government.

In 2003-04, \$172,000 was reverted from the conservancy's operations expenses and equipment budget since the conservancy had not expended the funds.

Governor's Budget. The Governor's Budget proposes \$222,000 in Proposition 40 and Proposition 50 funds for 0.5 position and operating expenses and equipment.

Of the amount requested, \$40,000 is for the 0.5 PY and the remaining \$182,000 are for operating expenses and equipment within the conservancy unrelated to the position.

Staff Analysis. The conservancy has not justified the need for an additional \$182,000 for operating expenses and equipment. The conservancy should provide information to the Subcommittee demonstrating how their operating expenses and equipment needs have increased over 2003-04 when the funds were reverted from their budget.

Staff Recommendation. Staff recommends the Subcommittee approve \$40,000 for the 0.5 PY.

4. Reappropriation for Capital Outlay

Background. In 2002-03, the Legislature appropriated \$18 million to the conservancy from Proposition 40 funds. The conservancy was unable to expend the funds for multiple reasons, but mainly there were a few large land acquisitions that the conservancy could not complete.

Governor's Budget. The Governor's Budget proposes a \$12.67 million reappropriation in Proposition 40 bond funds for the conservancy.

Staff Analysis. The conservancy has indicated to staff that although it has identified up to \$60 million in land acquisitions, those land purchases are still undergoing Department of General Services (DGS) review. The previous land acquisitions fell through because of numerous problems, and there is no guarantee that the projects identified this time by the conservancy will be approved by DGS. The conservancy should provide information to the Subcommittee showing that the projects are ready for expenditure.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

3830 San Joaquin River Conservancy

Background. The San Joaquin River Conservancy (SJRC) acquires and manages public lands within the San Joaquin river parkway, which consists of approximately 5,900 acres on both sides of the San Joaquin River between Friant Dam and the Highway 99 crossing.

Governor's Budget. The Governor's budget proposes \$456,000 to support SJRC in 2007-08. This is nearly the same level of support as in the current year. The Governor's Budget also proposes an additional \$1 million for capital outlay.

Wildlife Conservation Board. The Wildlife Conservation Board (WCB) is designated to make land acquisitions on behalf of SJRC. The Governor's budget provides \$10 million in Proposition 84 bond funds to finance acquisitions for SJRC.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
San Joaquin River Conservancy	\$449	\$456	\$7	1.5
Capital Outlay	2,996	1,000	-1,996	-66.6
Total	\$3,445	\$1,456	-\$1,989	-57.7
Funding Source				
Special Funds	\$334	\$341	\$7	2.1
Bond Funds	115	115	0	0.0
<i>Budget Act Total</i>	<i>449</i>	<i>456</i>	<i>7</i>	<i>1.5</i>
Reimbursements	2,996	1,000	-1,996	-66.6
Total	\$3,445	\$1,456	-\$1,989	-57.7

1. San Joaquin River Conservancy Acquisitions

Background. The legislative mandate for the San Joaquin Conservancy is to acquire and protect approximately 5,900 acres along the San Joaquin River corridor in order to preserve and enhance the area's cultural and natural resources, and provide educational and recreational opportunities

to the public. To date, the conservancy has acquired approximately 4,146 acres. The Wildlife Conservation Board (WCB) performs all of the conservancy's acquisitions for them, and the funds for these appropriations are reflected in the WCB budget.

Governor's Budget. The Governor's Budget proposes \$8.5 million in Proposition 84 bond funds to the San Joaquin Conservancy which will be used by the Wildlife Conservation Board to acquire lands in the conservancy's area.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

2. San Joaquin River Conservancy Public Access, Recreation, and Environmental Restoration

Background. The San Joaquin River Conservancy has programs in providing public access, recreation, and environmental restoration. The San Joaquin River Parkway Master Plan includes multiple potential projects in public access and recreation. The Jensen River Ranch project is an example of environmental restoration, where wetlands are being created along with plantings of oaks and native shrubs. The conservancy has received a large non-state grant for this project.

Governor's Budget. The Governor's Budget proposes \$1.5 million in Proposition 84 bond funds and \$2 million in reimbursement authority for public access, recreation, and environmental restoration projects. The funds are for the San Joaquin Conservancy, but are expended through the Wildlife Conservation Board's budget.

Questions:

1. What are the San Joaquin Conservancy's priorities for preserving natural habitat vs. providing recreational opportunities to the public?

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3835 Baldwin Hills Conservancy

Background. The Baldwin Hills Conservancy (BHC) acquires and manages public lands within the Baldwin Hills area to provide recreational facilities, open space, wildlife habitat restoration, and educational services.

Governor's Budget. The Governor's budget proposes \$3.5 million to support BHC in 2007-08. This is 84 percent less than the estimated expenditures in the current year due to a loss of capital outlay bond funds.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Baldwin Hills Conservancy	\$431	\$440	\$9	2.1
Capital Outlay	24,386	4,050	-20,336	-83.3
Total	\$24,817	\$4,490	-\$20,327	-81.9
Funding Source				
Special Funds	\$321	\$329	\$8	2.5
Bond Funds	22,496	3,161	-19,335	-85.9
<i>Budget Act Total</i>	<i>22,817</i>	<i>3,490</i>	<i>-19,327</i>	<i>-84.7</i>
Reimbursements	2,000	1,000	-1,000	-50.0
Total	\$24,817	\$4,490	-\$20,327	-81.9

1. Acquisition and Improvement Program

Background. Baldwin Hills Conservancy land acquisitions are conducted in accordance with the 2002 Baldwin Hills Park Master Plan. The BHC work is accomplished through both direct Conservancy work and by providing grants to local agencies. The BHC is currently focusing on saving the Ballona Creek Watershed, of which approximately one-third is coastal sage scrub. The remaining two-thirds of the watershed is degraded by oil production and will require extensive restoration efforts. There are 528 unprotected acres of land in this area.

The land cost in the BHC area range from \$45,000 to \$200,000 per acre.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) dedicates \$10 million for the Baldwin Hills Conservancy.

Governor's Budget. The Governor's Budget proposes \$4,050,000 for the Baldwin Hills Conservancy from Proposition 84 bond funds and reimbursements. The funds requested would be utilized towards protecting and enhancing the two-square mile area Kenneth Hahn State Recreation Area of the Ballona Creek Watershed.

- \$3,050,000 from Proposition 84 general obligation bond funds.
- \$1,000,000 from reimbursements.

Questions for the Subcommittee:

1. If the state acquires lands degraded by oil production, does the state become liable for the clean-up costs? If so, what is the estimate for those clean-up costs?
2. Why is the conservancy not requesting positions to implement the bond? Does the conservancy think Prop 84 will get underway only in 2008-09?

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

2. Trailer Bill Language on Sunset Date

Background. The Baldwin Hills Conservancy sunsets January 1, 2008.

Currently pending legislation, AB 3 (Bass), would repeal the sunset date and thus extend the Baldwin Hills Conservancy indefinitely.

Governor's Budget. The Governor has submitted trailer bill language extending the Baldwin Hills Conservancy for another 10 years.

Questions:

1. What has the conservancy accomplished during its ten years of existence?
2. What planning has the conservancy done for the future?

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

3845 San Diego River Conservancy

Background. The San Diego River Conservancy (SDRC) acquires and manages public lands within the San Diego River Area. It acquires lands 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.

Governor's Budget. The Governor's Budget proposes \$3,194,000 to support SDRC in 2007-08. This is 979 percent more than the level of expenditures as estimated in the current year due to an increase in bond funds.

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
San Diego River Conservancy	\$296	\$449	\$153	51.6
Capital Outlay	500	2,745	2,245	449.0
Total	\$796	\$3,194	\$2,398	301.2
Funding Source				
Special Funds	\$296	\$299	\$3	1.0
Bond Funds	0	2,895	2,895	100.0
<i>Budget Act Total</i>	<i>296</i>	<i>3,194</i>	<i>2,898</i>	<i>979.1</i>
Reimbursements	500	0	-500	-100.0
Total	\$796	\$3,194	\$2,398	301.2

1. Urban Greening

Background. The San Diego River watershed includes 440 square miles with five water storage reservoirs, a groundwater aquifer, riparian habitat, coastal wetlands, and tide pools. A little over half of the San Diego River watershed remains undeveloped. Urban pressures on the San Diego River have led to changes in the rivers hydrologic function and its physical characteristics. The Lower San Diego River is also polluted with phosphorus, dissolved oxygen, fecal coliform and total dissolved solids. The San Diego River Conservancy has a 52-mile jurisdiction along the San Diego River.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) Chapter 9, Section 75065(a) allocates \$90 million toward urban greening projects. The Proposition does not specify an agency to receive these funds. The Proposition states that the funds must be used for:

“...projects that reduce energy consumption, conserve water, improve air and water quality, and provide other community benefits. Priority shall be given to projects that provide multiple benefits, use existing public lands, serve communities with the greatest need and facilitate joint use of public resources and investments including schools. Implementing legislation shall provide for planning grants for urban greening programs.”

Governor’s Budget. The Governor’s Budget proposes \$2,895,000 in Proposition 84 bond funds for urban greening planning and projects, and one position.

Staff Analysis. The Proposition specifies in Chapter 9, Section 75065(a) that: “Implementing legislation shall provide for planning grants for urban greening programs”. However, the Administration has not submitted trailer bill language to implement the urban greening programs.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until the administration submits trailer bill language allowing a new mission for the Department of Conservation or upon approval of a policy bill that establishes this program within the department.

3850 Coachella Valley Mountains Conservancy

Background. The Coachella Valley Mountains Conservancy (CVMC) acquires and holds, in perpetual open space, mountainous lands surrounding the Coachella Valley and natural community conservation lands within the Coachella Valley.

Governor's Budget. The Governor's Budget proposes \$11,905,000 to support CVMC in 2007-08. This is a 670 percent increase from current year estimated expenditures due to the administration's decision to an increase in bond funds.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Coachella Valley Mountains Conservancy	\$413	\$429	\$16	3.8
Capital Outlay	1,758	11,514	9,756	554.9
Total	\$2,171	\$11,943	\$9,772	450.1
Funding Source				
Special Funds	\$287	\$298	\$11	3.8
Bond Funds	1,258	11,607	10,349	822.6
<i>Budget Act Total</i>	<i>1,545</i>	<i>11,905</i>	<i>10,360</i>	<i>670.5</i>
Reimbursements	626	65	-561	-89.6
Total	\$2,171	\$11,970	\$9,799	451.3

1. Land Acquisition and Improvements

Background. The Coachella Valley Mountains Conservancy (CVMC) will complete its Natural Community Conservation Plan (NCCP) in August 2007. The NCCP will identify species habitat within the Coachella Valley Mountains. CVMC has a strategic plan that calls for acquisition and preservation of natural habitat, but the NCCP will allow the conservancy to proceed with land acquisitions that protect the most species.

The cost of land varies dramatically within the Coachella Valley Mountains. The CVMC anticipates acquiring some parcels for as little as \$100 per acre, while other parcels will cost as much as \$100,000 per acre. The CVMC only acquires land from willing sellers.

Proposition 84 provides \$36 million to the Coachella Valley Mountains Conservancy.

Governor's Budget. The Governor's Budget proposes \$11,514,000 in Proposition 84 bond funds for land acquisition.

Staff Analysis. The CVMC has previously managed a grant program of as much as \$20 million in a single year.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

3855 Sierra Nevada Conservancy

Background. Legislation was enacted in 2004, (AB 2600), to create a new Sierra Nevada Conservancy (SNC) to provide a vehicle for increasing and coordinating state and federal investments in the Sierra Nevada region. The region contains the mountains and the foothills of the Sierra Nevada range and certain adjoining areas, including Mono Basin, the Owens Valley, and part of the southern Cascade region. The jurisdiction covers all or portions of 22 counties from Shasta and Modoc counties in the north to Kern County in the south. Six geographic sub-regions have been defined within the conservancy boundaries. The conservancy is prohibited from acquiring fee title to land.

Governor's Budget. The Governor's Budget proposes \$21.6 million for the Sierra Nevada Conservancy for operations and local assistance grants. This is a 438 percent increase over the current year due to newly available bond funds.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Sierra Nevada Conservancy	\$4,016	\$21,604	\$17,588	437.9
Total	\$4,016	\$21,604	\$17,588	437.9
Funding Source				
Special Funds	\$3,816	\$3,904	\$88	2.3
Bond Funds	0	17,500	17,500	
<i>Budget Act Total</i>	<i>3,816</i>	<i>21,404</i>	<i>17,588</i>	<i>460.9</i>
Reimbursements	200	200	0	0.0
Total	\$4,016	\$21,604	\$17,588	437.9

1. Proposition 84 Grant Funding

Background. The Sierra Nevada Conservancy (SNC) was created by legislation in 2004. The SNC responsibilities are to:

- increase opportunities for tourism and recreation
- protect, conserve, and restore the region's physical, cultural, archaeological, historical, and living resources
- aid in the preservation of working landscapes
- protect and improve water quality

- assist the regional economy through the operation of the Conservancy's program
- undertake efforts to enhance public use and enjoyment of lands owned by the public

The SNC has never previously had a grant program and has not managed more than \$4 million in funds. SNC is currently developing guidelines for providing grants to local agencies, but those grant guidelines are not yet complete. Grant guidelines must be developed using a comprehensive process of public hearings, including the development of notices, responding to public comments, and consulting with legal staff.

Proposition 84, Chapter 5 Section 75050(j), provides SNC with \$54 million for the protection and restoration of rivers, lakes and streams, their watershed and associated land, water, and other natural resources.

Governor's Budget. The Governor's Budget proposes \$17.5 million in Proposition 84 bond funds for local assistance grants and five new positions at the Sierra Nevada Conservancy.

Staff Analysis. The Sierra Nevada Conservancy's work is very important for preservation of natural resources in the Sierra Mountains. However, the conservancy has never managed a grant program before. The conservancy is still developing its first set of grant guidelines, which are going out for public comment in March 2007. The conservancy may be unprepared for the amount of paperwork and tracking general obligation bond fund grants require.

In addition to having incomplete grant guidelines, the conservancy works in an area where many potential grant recipients have not applied for natural habitat protection grants previously. The conservancy works in an area with 22 rural counties, 40 towns, and 200 small unincorporated communities. Also in the area where the conservancy works are sophisticated non-profit land trusts that do very good work in preserving natural habitat. While the counties and towns may need a great deal of technical assistance to apply for grants, the land trusts working in the area may not need the same level of technical assistance.

Staff Recommendation. Due to direction from the Budget Chair to hold all November 2006 voter approved bond funds open until policy committees hold oversight hearings, staff recommends the Subcommittee hold this item open.

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
Darrell Steinberg
Mark Wyland



Monday, March 26, 2007
1:00 p.m.
Room 112

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Resources—Environmental Protection—Energy

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

3540 Department of Forestry and Fire Protection

Background. The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. In addition, CDF: (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

Governor's Budget. The Governor's Budget provides \$686 million to support CDF in 2007-08. This is approximately \$38 million, or 6 percent, more than the level of expenditures estimated for the current year. The increase is due to increased capital outlay expenditures as well as employee compensation cost increases associated with fire protection. General Fund support for the department is also proposed to increase by approximately 5 percent as a result of increased capital outlay spending.

Summary of Expenditures

<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Office of the State Fire Marshal	\$ 14,383	\$ 15,766	\$ 1,383	9.6
Fire Protection	845,660	851,201	5,541	0.6
Resource Management	56,822	69,017	12,195	21.5
Capital Outlay	8,793	30,954	22,161	252
Administration	66,759	67,006	247	0.4
<i>less distributed administration</i>	<i>-66,129</i>	<i>-66,382</i>	<i>-253</i>	<i>0.4</i>
Total	\$ 926,288	\$ 967,562	\$ 41,274	4.5
Funding Source				
General Fund	\$ 625,768	\$ 654,938	\$ 29,170	4.7
Special Funds	8,337	8,785	448	5.4
Bond Funds	12,947	22,005	9,058	69.9
<i>Budget Act Total</i>	<i>\$ 647,052</i>	<i>\$ 685,728</i>	<i>\$ 38,676</i>	<i>5.9</i>
Federal Trust Fund	29,311	26,258	-3,053	-10.4
Forest Resources Improvement Fund	699	7,802	7,103	1016.1
Timber Tax Fund	31	33	2	6.4
Reimbursements	249,199	247,741	-1,458	-0.6
Totals	\$ 926,292	\$ 967,562	\$ 41,270	4.5

Vote-Only Items

1. Urban Forestry Grant Program

Background. The CDF Urban Forestry Program was started by the Legislature in 2006-07 with a \$3 million appropriation from Proposition 40 bond funds. The Urban Forestry Program aims to:

- Facilitate the planting of trees in urban areas.
- Manage urban forest resources.
- Facilitate the creation of permanent jobs in tree maintenance and related urban forestry activities.
- Maximize potential of tree and vegetative cover in reducing energy consumption and producing fuel and other products.
- Encourage the coordination of state and local agency activities in urban forestry and related programs, and encourage maximum citizen participation in their development and implementation.
- Prevent the introduction and spread within the state of the Dutch elm disease and reduce or eliminate the loss of elm trees resulting from the disease.
- Prevent infestations and spread of pine pitch canker within the state and reduce the loss of pine trees resulting from the pitch canker disease.

Grant funds would be provided to urban areas with respect to tree inventories and plans, education programs, ordinance development, and design of tree maintenance programs. The CDF would provide technical assistance in planning projects, development and coordination of training programs, advice on tree diseases and forest ecology, and retention of native trees.

The California Climate Action Team's 2006 report identified urban forestry as an important potential element in reducing greenhouse gas emissions.

Governor's Budget. The Governor's Budget proposes \$7 million in Proposition 40 bond funds for urban forestry programs. The funds would support 1.3 positions (\$136,000). The grant funds would be expended over three years.

Staff Analysis. CDF successfully encumbered all of the funds provided for this program in 2006-07. With the funds received in the current year, CDF provided 15 grants to various organizations including the Sacramento Tree Foundation, the Los Angeles Conservation Corps, and California ReLeaf.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Sierra Nevada Watershed Health and Fire Risk

Background. Traditionally, firefighting in the Sierra Nevada has emphasized active fire suppression. Over time this policy has led to increasing amounts of dead wood and shrubs in the forests that can provide fuel for fire to burn with greater intensity, if a fire were to get started. The impacts of a high intensity wildfire on watershed health are directly related to streams, increased sedimentation, increased nutrients to streams, and impacts to wildlife and habitat availability. There are four main watersheds in the Central Sierra Nevada area: Feather, Yuba, Bear, and American rivers.

The California Fire Plan emphasizes pre-fire management of private lands, including fuel breaks, fire safe landscaping, removal of hazardous vegetation, and inspections for fire safe clearance around homes. The California Fire Plan provides the framework CDF uses to assess risks of wildfire. However, the California Fire Plan was developed in 1996 and has not been updated since. Currently, there is no framework for CDF to determine where fuel reduction projects are needed to protect watershed assets.

Governor's Budget. The Governor's Budget proposes \$912,000 in Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002) bond funds over three years for Sierra Nevada fire management planning. These funds would provide watershed health and fire risk data for local communities and stakeholder groups to design and implement programs. Specifically, the program activities would include development and publication of the California Watershed Assessment Manual, watershed planning workshops, development of GIS data layers for fire, fuels, timber harvest plans, post-fire erosion, and vegetation mapping.

The Governor's Budget proposes that the funds be divided as follows:

- Year 1 - \$219,000
- Year 2 - \$359,000
- Year 3 - \$334,000

The work will be done through contracts with the University of California and through specific project funding to local government entities in the field.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Urban Forestry Tree Planting Grants

Background. The Legislature used Proposition 12 bond funds to establish the Urban and Community Forestry Program in 2001. The Urban and Community Forestry Program assists cities and counties in seeking innovative solutions to problems such as tree maintenance, mitigating heat-island effects associated with urbanization, and mitigation to air quality issues. The program also encourages demonstration projects to maximize the benefits of tree and vegetative cover in reducing energy consumption, producing fuel, lumber, and other products from under-utilized urban forest wood fiber.

To date, over \$7 million in grants have been encumbered by the program. The Proposition 12 funds were used to leverage 50-50 federal matching grants for urban greening projects. These grants are awarded to small non-profits and local governments. However, some of the non-profits and local governments were lacking in organizational capacity to carry out the grants they had been awarded.

Governor's Budget. The Governor's Budget proposes a reappropriation of \$1,876,000 in Proposition 12 bond funds for urban tree planting. Of this amount, \$191,000 would be to extend two positions through fiscal year 2007-08.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

4. Lake Tahoe Basin Interagency Fuels Reduction, Forest Restoration, and Biomass Utilization Budget Change Proposal

Background. Biomass is a renewable energy source. It refers to mainly plant matter – such as wood, crops, manure, and some garbage – that can be burned to produce energy. When burned, the chemical energy in biomass is released as heat. Biomass can also be converted to other usable forms of energy like methane gas or transportation fuels like ethanol and biodiesel. Biomass does not include coal or petroleum.

On April 25, 2006, the Governor issued an Executive Order on Biomass S-06-06. This Executive Order directs California to meet a 20 percent target within the established state goals for renewable generation for 2010 and 2020 with biomass.

The Lake Tahoe basin's forests are overstocked with small trees, brush, and other materials that pose a fire hazard. In response to this fire threat, federal, state, and local agencies have developed a basin-wide Draft Fuels Management Plan that recommends treatment of 22,720 acres of lands over the next ten years. As part of the Draft Fuels Management Plan, the Tahoe ReGreen program was established to conduct systematic property inspection and fuels treatment.

The cost of disposing biomass generated by fuel reduction efforts is very expensive, as is the cost of treating the land in the first place. The United States Forest Service estimates that manual treatment by a crew will run up to \$3,000 per acre. One of the most common ways of treating land is through controlled burning. However, in the Tahoe Basin, there are not enough allowable burn days to deal with the large amount of fuel.

Governor's Proposal. The California Tahoe Conservancy and the California Department of Forestry and Fire Protection have presented a joint proposal to harvest dead wood from forests and burn that wood for biomass energy. This would be a pilot program designed to demonstrate

the environmental and economic benefits of managing forest biomass projects throughout the Lake Tahoe Basin.

This pilot program would provide:

- \$716,000 in one-time funds to the Tahoe Conservancy for ReGreen activities and equipment to move crews and harvested biomass.
- \$296,000 in on-going funds for two limited-term Forester I positions and operating costs.
- Cogeneration Facility – \$3.5 million in Proposition 84 bond funds for a 1-3 MWe bioenergy production facility. The site for the facility has not yet been determined. Currently, there is not enough fuel (15,000 – 24,000 bone dry tons) from the proposed Tahoe fuel reduction projects to generate 3 MWe.
- Thermal Use Facility – \$400,000 in Proposition 84 bond funds for the South Lake Tahoe High School boiler, biomass storage shed, and other associated equipment. The project would burn up to 2,183 green tons of wood a year to heat the school facility. The school's energy bill is expected to go down by about \$60,000 annually as a result of this project.
- Placer County Biomass Utilization Program – \$200,000 in Proposition 84 bond funds for the start-up costs and first year of operation for collecting biomass and transporting it to a biomass energy production facility in Loyalton, California.

Governor's Budget. The Governor's Budget proposes \$5,112,000 for support and two positions to begin biomass utilization of harvested forest fuels in the Lake Tahoe Basin.

LAO Recommendation. The LAO points out that the Department of Forestry and Fire Protection (CDF) has extensive experience in forest management. However, CDF does not have expertise with respect to the other aspect of the budget request—providing support for significant energy generation projects. Given the complexity of the design and development of any power plant, it takes significant expertise to evaluate proposals to receive public funding for such projects.

The LAO points out that the California Energy Resources Conservation and Development Commission (Energy Commission) has considerable expertise providing financial support to renewable energy projects and has several ongoing programs that do so. For example, the Public Interest Energy Research (PIER) Program provides state funds for research, development, and demonstration projects that provide environmental and economic benefits through increased energy efficiency, increased reliability, and reduced costs for energy in the state.

The LAO believes that the Energy Commission should be the lead agency for supporting renewable energy projects, including biomass utilization projects, based on its longstanding technical expertise and established programs in this subject area. The LAO recommends that the Legislature delete the proposed funding of \$4.1 million from Proposition 84 for these biomass utilization projects. The LAO believes that given the significant, existing resources at the Energy Commission potentially available to support green energy projects, the commission should evaluate whether the proposed projects should be supported from existing funds, in the context of other funding priorities.

The LAO also recommends denial of the two limited-term forester positions in the budget request. CDF proposes to use \$296,000 in Proposition 40 bond funds to support two limited-term foresters. These new positions would support the department's fuel reduction proposal by enforcing the Forest Practice Act (as it relates to fuel reduction activities) and implementing other forestry-related activities. The LAO believes that these activities are regulatory in nature and should be funded out of the department's base budget, rather than using bond funds.

Questions:

1. Does the Energy Commission currently have a role in this project and what has that role been?
2. Why should the Department of Forestry and Fire Protection baseline be grown for limited-term positions, especially when these positions are proposed to be paid for with bond funds?
3. What impact will this project have on the Tahoe-basin air quality?

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

5. Budget Bill Language for a General Fund Loan

Background. The California Department of Forestry and Fire Protection (CDF) pays vendors with reimbursements for services provided during fire fighting only after the vendor has recordable expenditures. Approximately a quarter of CDF's support budget is related to reimbursable activities.

Towards the end of the fiscal year, CDF has to rely on incoming reimbursements from local governments to pay vendors who provide services to CDF. The billing cycle that CDF operates on is quarterly: they compile all expenses four times a year and bill the local governments. The local governments then take 45 days to review the bills and reimburse the state. The process of paying vendors for services can take as long as six months.

The CDF wants the ability to take short-term General Fund loans to cover vendor payments. These short-term loans would be paid back by September 30 of the following fiscal year.

Proposed Language. The Governor's Budget proposes the following budget bill language:

Notwithstanding any other provision of law, the Director of Finance may authorize a loan from the General Fund, in an amount not to exceed 35 percent of reimbursements appropriated in this item to the Department of Forestry and Fire Protection, provided that:

- (a) The loan is to meet cash needs resulting from the delay in receipt of reimbursements for services provided.
- (b) The loan is for a short term and shall be repaid by September 30 of the fiscal year following that in which the loan was authorized.
- (c) Interest charges may be waived pursuant to Section 16314 subdivision (e) of the Government Code.

- (d) The Director of Finance may not approve the loan unless the approval is made in writing and filed with the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers appropriations not later than 30 days prior to the effective date of the approval, or not sooner than whatever lesser time that the chairperson of the joint committee, or his or her designee, may determine.

Question:

1. How many counties wait longer than 45 days to pay the state for billed services?

Staff Recommendation. Staff recommends the Subcommittee hold item open.

6. Bargaining Unit 8 Changes for Firefighter I

Background. Bargaining Unit 8 (BU 8) covers the state's firefighters. On July 1, 2006, the BU 8 contract was extended through June 30, 2008. This contract extension reduced the duty workweek for a Firefighter I from 96 hours to 72 hours. The new contract results in three consecutive 24-hour workdays rather than the previous four 24-hour workdays. With this new contract, the amount of overtime CDF must pay firefighters increased.

AB 1165 (Chapter 229, Statutes of 2006) provided CDF with General Fund for 2006 to cover the cost of hiring additional seasonal Firefighter I positions and to pay the planned overtime for existing Firefighter I positions.

Governor's Budget. The Governor's Budget proposes \$4.2 million in reimbursement authority for CDF to cover planned overtime costs for Firefighter I positions during the fire season.

Missing Report. In 2005-06, the Legislature moved to funding fire protection year-round. In the 2005 Supplemental Report Language, the Legislature ordered the California Department of Forestry and Fire Protection to submit a report by January 10, 2007, on the department's fire prevention work. The report was supposed to include information on the department's and the contract counties (Los Angeles and Orange) fire prevention activities including data for all of the performance measures the department is supposed to develop in 2006; analysis showing that the fire prevention activities have increased in the off-season due to the increased funding for year round staffing; and listing of the actual Amador agreements and revenues received in 2005-06 as compared to baseline amounts in 2004-05.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until the administration submits the required report.

7. Urban Greening

Background. Proposition 84, Chapter 9, Section 75065 (b), provides \$90 million for urban greening. Of that amount, a minimum of \$20 million is reserved for the Department of Forestry and Fire Protection for urban greening programs.

The goals of the Department of Forestry and Fire Protection urban greening program are:

- Increase the amount of urban forests
- Facilitate the creation of jobs in tree maintenance and related urban forest activities
- Reduce energy consumption through maximized tree and vegetative cover
- Encourage the coordination of state and local activities in urban forestry
- Prevent and limit the spread of tree diseases and pests

Governor's Budget. The Governor's Budget proposes \$45.9 million over 10 years to fund urban greening projects and local assistance grants. The first year of funding would be \$4,490,000 and eight positions.

Staff Analysis. Staff has concerns that the Legislature would be approving a 10 year program without the program guidelines or the grant guidelines available for evaluation.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

8. Efforts to Contract with Certified Disabled Veteran Business Enterprises Update – Informational Item

Background. Existing law provides that state agencies have a goal of assigning 3 percent of contracted services to certified disabled veteran businesses. CDF has acknowledged past lapses in meeting this goal, but believes it has made significant progress with this objective. On the other hand, all parties acknowledge that the goal is just that, and is not as strong as a binding requirement for a certain percentage of contracts to go to qualified disabled contractors.

Though existing law also establishes a goal of 25 percent of all contracts be awarded to certified small businesses, these small businesses are entitled to a 5 percent competitive advantage with certain bids to state agencies. Disabled contractors are not covered by this provision nor are they guaranteed a contract even when their price is the same as that of a non-disabled contractor. Similarly, state agencies, including CDF, do not set aside a specific portion of their contracting budgets for certified disabled contractors.

In 2006, CDF awarded 2.2 percent of its contract for goods and services to disabled veteran businesses. This is up from 2005, when only one percent of contracts were awarded to disabled veterans. Also, CDF awarded 16.4 percent of its contracts to small businesses, an increase over the 2005 rate of 13.3 percent.

As part of the *2005-06 Budget Act*, the Legislature requested a report from CDF on its efforts to contract with certified disabled veteran businesses, as directed by current law. In this report, CDF identified inconsistent policies at the department related to contracting with veteran-owned businesses. The report indicated that CDF conducted eight hired equipment dispatching training workshops throughout the state for CDF fire dispatchers in 2005. A total of 64 dispatchers from 21 of CDF's dispatching centers received training on CDF's emergency equipment hiring and dispatching policies and a special emphasis was placed on how CDF provides preferential hiring opportunities to disabled veteran business enterprises.

Questions:

- What steps has CDF taken to increase contracting with disabled veteran businesses and small businesses?
- What steps does CDF intend to undertake to further increase the rate of contracting with disabled veterans businesses and small businesses?
- How often are the dispatchers trained?

Staff Recommendation. Informational item, no recommended action.

9. State Responsibility Areas – Informational Item

Background. The Department of Forestry and Fire Protection (CDF) is responsible for fire protection on approximately one-third (31 million acres) of California's lands. The lands for which CDF is responsible are mostly privately owned forestlands, watersheds, and rangelands referred to as "state responsibility areas" (SRA). The SRA lands must be designated by the Board of Forestry and must be covered wholly or in part by timber, brush, or other vegetation that serves a commercial purpose (such as rangeland or timber harvesting) or that serves a natural resource value (such as watershed protection).

The state is responsible for wildland firefighting in SRA. These SRA are primarily privately-owned timberlands, rangelands, and watersheds. Lands owned by the federal government or incorporated within existing city limits are excluded from SRA. Also, if the density of houses is greater than three units per acre, the Board of Forestry generally removes these lands from SRA and local governments become responsible for fire protection. State law does not explicitly require local governments to provide nonwildland fire protection within SRA, although in practice local governments generally have assumed this responsibility, as structure fire protection and emergency services are generally considered local responsibilities.

Existing law requires CDF to provide wildland fire protection on SRA. The law allows the department to provide other emergency services—such as structure fire protection or medical emergency response—in SRA when resources are available and it is within the CDF's budget. In addition to state and local responsibility areas, the federal government owns a large amount of land in the state—including national forests and other federal lands. On these lands, the federal government is responsible for fire protection.

Cooperation among the department, federal fire agencies, and local fire agencies is governed by a series of agreements among the various parties. These agreements specify how and when various agencies will provide assistance to one another, whether or not such assistance will require reimbursement to the assisting agency, and the terms of such reimbursements. The state is reimbursed for responses to incidents that are either a federal or local responsibility after either the first 12 or 24 hours of response.

Growing Number of SRA Homes. Over the last several decades, the state has experienced significant housing development at the boundary between wildlands and urban areas, known as the wildland urban interface. In particular, significant development has occurred in the Sierra Nevada foothills and the interior ranges of Southern California. While the total acreage in SRA has remained stable over the last 15 years, the number of housing units in SRA has increased by 15 percent over this period—despite changes in SRA designations which have moved fire protection responsibility for significant numbers of houses from SRA to local responsibility areas.

As development increases in previously undeveloped—and often fire prone—areas, fire protection costs increase for several reasons. First, the presence of more people increases the incidence of wildland fires, as fires from human caused activities spread to wildland areas. Second, protecting people and homes often requires greater fire suppression effort than would typically be used on forests or rangelands. Finally, the presence of people and structures can sometimes limit the techniques used for fire prevention or suppression. For example, the use of prescribed burning to reduce available fuel loads or the use of aircraft to suppress fires may be limited by the presence of homes in a formerly wildland area. The inability to use these kinds of fire suppression tactics increases the need for more labor-intensive firefighting methods to protect people and homes.

Property Owners Benefit. Property owners in SRAs directly benefit from CDF's fire protection services, as does the state's general population through the preservation of natural lands and their wildlife habitat. One of the largest cost drivers over the last decade for CDF has been the suburban encroachment onto SRA lands. Even though CDF is not directly responsible for the populated areas, in calendar year 2006, CDF responded to more than 340,000 separate incidents—including vegetation fires, structure fires, and emergency medical incidents.

Budgeting for Fire Protection. The department's fire protection budget is divided into baseline fire protection and emergency expenditures. The baseline budget includes normal day-to-day costs, such as salaries and benefits for employees, the costs of operating facilities, and other regular firefighting costs. The budget also includes funding for the Emergency Fund (E-Fund) which is used to pay for costs of fire protection beyond budgeted expenditures, such as overtime or special equipment rentals. The E-Fund expenditures are typically associated with large wildland fires that vary considerably in number and severity year-to-year. It is difficult to predict the costs of responding to these fires, so the department is given a separate General Fund appropriation for this purpose—generally based on the ten-year average expenditure for emergency fire suppression—and the Director of Finance is given the authority to augment this appropriation as needed, provided certain reporting requirements are satisfied.

Actual fire protection expenditures (including E-Fund) in 1996-97 were \$475 million. In the current year, the department estimates total fire protection expenditures (including E-Fund expenditures beyond the budget appropriation) will be \$869 million—an 83 percent increase over the last decade, or an average increase of just over 8 percent per year. The proposed CDF budget for 2007-08 is \$967 million.

Previous SRA Fire Protection Fee. In 2003-04, the Legislature enacted legislation establishing a fire protection fee to be levied on private landowners in SRA. This fee was to be assessed on these landowners as a flat fee of \$35 per parcel. However, subsequent legislation the following year rescinded the fee, before any fee revenues were collected. Concerns were raised that a flat fee did not fairly reflect the benefits of fire protection enjoyed by property owners paying the fee. For instance, owners of small parcels would pay the same fee as owners of large parcels, even though protecting large parcels may cost much more than protecting small parcels.

LAO Recommendation. The LAO has identified three major cost drivers for CDF: changes in wildland fuel conditions, increasing development in the wildland-urban interface; and increasing labor costs.

The LAO believes that it is appropriate for the beneficiaries of state fire protection to contribute to the cost of such protection. Because the department's fire protection provides both public benefits (the protection of watersheds, for example) and private benefits (the protection of timber lands and houses in SRA) it is appropriate that private beneficiaries contribute to the state's cost of doing so. Therefore, the LAO recommends reinstating fire protection fees on private property owners in SRA, so that the private beneficiaries of state fire protection pay a portion of the state's costs. Specifically, the LAO recommends that the fee be set so that the total cost of fire protection in SRA be split evenly between the state's General Fund and fee payers. Combining fees and General Fund revenues to finance a program enables a sharing of costs among private beneficiaries of services and the general public. Evenly splitting the cost of fire protection between user fees and the General Fund in the budget year would reduce the costs to the General Fund by \$426 million.

The LAO also recommends the Legislature review standards for SRA designation, and in particular alter the existing density criteria and require that more focus be put on whether the lands are being actively used for timber production or grazing, or if they still provide real watershed protection benefits.

Staff Recommendation. Staff recommends no action at this time.

3860 Department of Water Resources

Background. The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Resources Development System, including the State Water Project. The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects. The department is also a major implementing agency for the CALFED Bay-Delta Program, which is putting in place a long-term solution to water supply reliability, water quality, flood control, and fish and wildlife problems in the San Francisco Bay Delta.

Additionally, the department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage receipt and delivery of the energy procured by the contracts. (More on the CERS division of DWR is included in the Energy and Utilities section of this report.)

Governor's Budget. The Governor's Budget proposes \$1.4 billion to support DWR in the budget year. This is a 27 percent increase over estimated expenditures in the current year mainly the result of an increase in the amount of resources bond funds available for appropriation. General Fund support for the department is proposed to decrease by 99 percent to reflect a shift to bond funding. An additional \$6.4 billion is not subject to the Budget Act (these funds are primarily for energy payments related to the 2001 electricity crisis).

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
California Water Plan State Water Project Infrastructure	\$ 419,532	\$ 646,666	\$ 227,134	54.1
Public Safety and Prevention of Damage Services	262,430	597,163	334,733	127.5
California Energy Resources Scheduling	8,943	9,252	309	3.5
Capital Outlay	5,789,862	5,577,211	-212,651	-3.7
Administration	451,074	196,607	-254,467	-56.4
<i>less distributed administration</i>	63,700	63,848	148	0.2
Loan Repayment Program	-63,700	-63,848	-148	0.2
	-4,013	-4,013	0	0
Total	\$ 7,744,687	\$ 7,858,452	\$ 113,765	1.5
Funding Source				
General Fund	\$ 688,065	\$ 5,115	-\$682,950	-99.3
Special Funds	12,717	11,923	-794	-6.2
Bond Funds	398,035	1,378,611	980,576	246.3
<i>Budget Act Total</i>	<i>1,098,817</i>	<i>1,395,649</i>	<i>296,832</i>	<i>27</i>
Federal Trust Fund	12,665	12,863	198	1.6
State Water Project Funds	817,898	837,026	19,128	2.3
DWR Electric Power Fund	5,789,862	5,577,211	-212,651	-3.7
Bosco-Keene Renewable Resources Investment Fund	20	0	-20	
Reimbursements	25,425	35,703	10,278	40.4
Total	\$ 7,744,687	\$ 7,858,452	\$ 113,765	1.4

Vote-Only Items

1. Additional Legal Office Support Staff

Background. Legal services require staff to complete various tasks such as drafting litigation and administrative pleadings; construction and repair contracts; agreements with federal, State, and local public agencies and private entities; and other legal documents, including executive orders and documents for the Governor's office.

Currently, the Department of Water Resources legal office has 22 attorney positions. The department received five new attorney positions in the *2006-07 Budget Act*, but did not receive an increase in support positions.

Governor's Budget. The Governor's Budget proposes \$148,000 for three permanent positions for administrative support.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Contra Costa Water District Canal Lining

Background. The Contra Costa Water District Canal Lining project is intended to improve drinking water quality by reducing the impacts of non-point source local agricultural drainage and groundwater that enters the canal. The project was phased to address a variety of constraints including schedule, regulatory, funding, and coordination. Phase I included environmental documents for all phases, a new pumping plant, and canal replacement for 2,000 feet near the new plant. Phase II includes replacement of 11,000 feet of canal. Phase I construction will go to bid in the summer of 2007.

Governor's Budget. The Governor's Budget proposes \$2,824,000 in Proposition 13 bond funds to fund Phase II of the Contra Costa Water District's Canal Lining project.

Department Statements. The department has informed staff that construction for the two phases can be completed simultaneously. In addition, the department has stated that because the two phases cover the lining of adjacent stretches of canal, there may be savings in construction costs by completing the two phases simultaneously.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. San Clemente Dam Remediation CEQA

Background. The Department of Water Resources Division of Safety of Dams determined in the early 1990s, that the San Clemente Dam was not seismically stable. Remediation efforts must take place on the San Clemente Dam, either through retrofitting or decommissioning. The Department of Water Resources is the lead agency for the remediation Environmental Impact Report (EIR). Under the California Environmental Quality Act, the lead agency has authorization to recover costs of preparing the EIR from the dam owner.

Governor's Budget. The Governor's Budget proposes \$200,000 in reimbursement authority from the California American Water Company, owner of the San Clemente Dam. The funds would be used for services required to complete the Environmental Impact Report for the San Clemente Dam.

Staff Analysis. Under the California Environmental Quality Act (CEQA), the entity constructing a project is not necessarily the lead agency. The state can be the lead agency for local government or even private projects when the state must grant permits necessary for the project to proceed. The lead agency is liable for financial damages should the project harm the environment. Thus, it is in the state's interest to help in completing the environmental documents for projects for which the state is the lead agency.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Urban Streams Proposition 13 Grant Program

Background. The Urban Streams Restoration Program provides technical assistance and grants for communities to address local flooding and erosion problems, enhance environmental values, and promote community stewardship of streams. The program focuses on restoration, land reserve acquisition, and alternative land management practices. The grants are offered to local government and non-governmental sponsors for multi-objective projects designed to solve urban flooding and erosion problems while restoring natural environmental values of streams.

Governor's Budget. The Governor's Budget proposes \$134,442 from the Urban Stream Restoration Subaccount for 1.7 existing positions to provide oversight of Proposition 13 grant projects. The Governor's Budget also proposes a reversion of \$94,674 in Proposition 13 state operations funding from 2005-06 and a reversion of \$39,768 in Proposition 13 local assistance funding from 2001-02.

The Urban Stream Restoration Subaccount receives funds from Proposition 13 bond sales.

There are currently seven existing Proposition 13 grants that the staff will manage.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Sacramento Valley Water Management Program

Background. The Sacramento Valley Water Management Agreement was signed between the Department of Water Resources, U.S. Bureau of Reclamation, and many water districts and other local agencies that agreed to work together to plan and implement a series of projects that would help meet the flow objectives required to maintain water quality in the Bay-Delta. Each project under the agreement must be reviewed by the State Water Resources Conservation Board (SWRCB) to determine that the project will contribute to the SWRCB's plan for the Bay-Delta.

The goals of the Sacramento Valley Water Management program include:

- Providing the mechanism for satisfying the flow-related objectives of the SWRCB's 1995 Bay-Delta Water Quality Control Plan.
- Avoid the Phase 8 hearings of the SWRCB's Bay-Delta process by resolving water rights disputes.
- Facilitate the development of integrated water management strategies that will enhance the Upstream and Export Water Users' abilities to optimize use of their existing supplies, enable them to develop additional supplies to meet their existing and future water needs, and enhance their water management flexibility.

The Department of Water Resources anticipates completion of the Sacramento Valley Program Environmental Impact Report during the Spring/Summer of 2007.

Governor's Budget. The Governor's Budget proposes \$8,488,000 in Proposition 204 bond funds for local assistance and state operations for the Sacramento Valley Water Management and Habitat Protection Measures Program. Additionally, \$8,026,294 in Proposition 204 funds are requested for 2008-09. Of the amount for 2007-08:

- \$8,448,000 is for local assistance
- \$40,000 is for state operations

Proposed Projects. The proposed projects include:

- 25 water management projects (23 conjunctive use and two reservoir re-operation projects) to produce 185,000 acre-feet of water that would otherwise not be available in the Sacramento River.
- Seven system improvement projects (canal lining and flow measurement projects) to reduce diversions from the river.

The goal of the program is to develop projects that will make up to 185,000 acre-feet of water available in any given year. Progress will be measured by implementation of projects and determining how much of the 185,000 acre-feet of project capacity can be provided as each project is implemented.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

6. Integrated Regional Water Management – State Operations and Local Assistance Grants

Background. The Integrated Regional Water Management and Local Groundwater Assistance grant programs assist local agencies in the acquisition and construction of capital outlay, water conservation, and groundwater recharge facilities projects and in the development of new local water supply projects. Since 1984, these programs have funded over \$660 million in grants for over 350 projects and feasibility studies.

During the past three years, the Department of Water Resources IRWM grants were:

- 2006-07: No Local Groundwater Assistance Grants; \$157 million in IRWM Implementation Grants to 8 agencies (\$78 million from FY06-07 and balance from FY 07-08).
- 2005-06: No Local Groundwater Assistance Grants; \$12.6 million in IRWM Planning Grants to 28 agencies.
- 2004-05: \$6.4 million - Local Groundwater Assistance Grants to 30 agencies; No IRWM grants.

Governor’s Budget. The Governor’s Budget proposes \$113,135,000 in Proposition 50 bond funds for local assistance and state operations for regional water management and local groundwater assistance. The funds would be divided:

- \$99,635,000 for local assistance IRWM grants for 2007-08
- \$6.4 million for reestablishment of local assistance for 2007-08
- \$6.4 million for reestablishment of local assistance for 2008-09
- \$700,000 for state operations to fund four existing positions

Staff Recommendation. Hold open.

7. Colorado River Management Account – All American and Coachella Canal Lining Projects

Background. California’s share of Colorado River water is limited to 4.4 million acre feet during a normal hydrologic year. This is enough water for about 6.4 million people for a year. However, in the past, California has used up to 800,000 acre feet more than what is apportioned to the State.

The water demands of Arizona and Nevada, which also draw from the Colorado River, have been growing as well. The United States Department of Interior directed California to reduce its use of Colorado River water to 4.4 million acre feet. The Quantification Settlement Agreement (QSA) allows California to use surplus water above 4.4 million acre feet for 15 years. The

surplus water would come from methods such as water conservation. The California Plan includes conservation of Colorado River water through specified canal lining projects and improved water management through implementation of groundwater storage and dry-year supply projects, in addition to other measures.

Governor's Budget. The Governor's Budget proposes \$82 million for the lining of the All-American and Coachella Canals. The funding would come from:

- \$47,282,000 in General Fund
- \$34,740,000 in Proposition 84 general obligation bond funds

The budget proposes a three year encumbrance period for the Proposition 84 funds.

Staff Recommendation. Hold open.

8. Flood Management Comprehensive Strategic Plan

Background. California's Central Valley would naturally have seasonal floods if not for a levee system constructed during the early-to-mid-1900s. The Central Valley flood control system was intended to protect agricultural land and consists of levees, weirs, bypasses, and overflow areas. Today, the Department of Water Resources is responsible for the operation and maintenance of 1,600 miles of Central Valley levees.

The Department of Water Resources is entering the third year of a three year program to strengthen the department's Division of Flood Management. The division is responsible for:

- Ensuring the integrity of existing flood project infrastructure through improved maintenance program that balance public safety and needed environmental protection
- Evaluating the integrity and capability of existing flood control project facilities and preparing an economically viable rehabilitation plan
- Improving the effectiveness of emergency response programs
- Updating floodplain maps and providing better education on flood risks to the public and to agencies that authorize development in floodplains
- Implementing a multi-objective management approach for floodplains that would include, but would not be limited to, increased flood protection, ecosystem restoration, and farmland protection
- Evaluating potential policies and procedures that may determine the State's capacity to fund levee maintenance, infrastructure improvements, and emergency response in the Delta

Governor's Budget. The Governor's Budget proposes \$11,985,000 (\$9,480,000 baseline and \$2,505,000 one-time) from various funding sources for 35 new positions and 2.5 existing positions. The funds would be divided as follows:

- \$7,980,000 from General Fund (AB 142) for 32 new positions
- \$1.5 million in baseline reimbursement authority and 3 new positions
- \$671,000 in one-time Proposition 13 bond funds for 2.5 existing positions

- \$1,834,000 in one-time Proposition 13 bond funds for local assistance funding
- \$465,000 in one-time General Fund for equipment
- Reversion of \$834,388 in Proposition 13 bond funds for state operations and local assistance

New Programs. The Governor's Budget proposal would have several new program implications for the State's flood management system:

- **Maintenance Area Formation** – The budget proposes three new positions to work on forming Maintenance Areas, which would allow the State to complete necessary work on levees where the local agencies have not adequately maintained the levees. These Maintenance Areas would be paid for by the property owners who benefit with a new fee.
- **Coordinated Reservoir Operations** – The budget proposes two new positions to create and maintain a modeling system and related communications interfaces to manage flood risk by improving reservoir operations.
- **Climate Analyses for Flood Impacts and Planning** – The budget proposes two new positions to evaluate increased flood potential due to global climate change. These positions will support the Department's efforts to assess and plan for increased risk, develop appropriate emergency plans, update flood maps, and inform California communities.
- **Flood Operations Center Emergency Decision Support System** – The budget proposes one new position to develop a computer-based decision support system for real-time decisions for flood emergency response.
- **Floodplain Management Technical Assistance to Local Communities** – The budget proposes three new positions to develop and provide a strategic mapping outreach program and to educate the State's communities in floodplain management programs.

Questions:

1. With the creation of the maintenance areas is the state taking on responsibility that was previously with the locals?
2. Is this an appropriate use of AB 142 funds?
3. What entity will reimburse the state for the \$1.5 million requested for maintenance areas?

Staff Analysis. AB 142 provided the Department of Water Resources with \$500 million for levee evaluation and repair and related work, and flood control system improvements. Not all of the activities proposed by the department fit in with the discussion the Legislature had when approving AB 142, when it was indicated that the funds were for emergency levee repairs.

Staff Recommendation. Hold open.

9. Evaluating and Improving the State's Flood Control System

Background. The Bay-Delta has a vast flood control system consisting of levees, weirs, bypasses, and overflow areas. The Department of Water Resources intends to undertake flood control work in the Central Valley and the Delta in the following program areas:

- Delta Levees System Integrity
- Sediment Removal Flood Control Project
- Flood Control Project Subventions Program
- Floodway Corridor and Flood Protection Corridor Programs
- State-Federal Flood Control System Modification
- Floodplain Evaluation and Delineation
- California Flood Plan
- Statewide Flood Damage Reduction Feasibility Studies and Local Levee and Flood Control Structure Evaluation Grants

Governor's Budget. The Governor's Budget proposes \$369,870,000 from Proposition 1E and Proposition 84 bond funds for evaluating and improving the state's flood control system. The funds would also support 52 new positions. The funding is divided as follows:

- \$19,550,000 for state operations from Proposition 1E
- \$7,370,000 for state operations from Proposition 84
- \$167,450,000 for local assistance from Proposition 1E
- \$175,500,000 for local assistance from Proposition 84
- \$91 million to be continuously appropriated from Proposition 84

Staff Analysis. The Subcommittee should consider linking these projects to "clean construction". Clean construction utilizes technology that aims to reduce hydrocarbons (HC), carbon monoxide (CO), and particulate matter (PM) that construction equipment releases while burning diesel fuel.

Staff Recommendation. Hold open.

10. Capital Outlay

Projects. The Governor's Budget includes multiple capital outlay projects:

- **South Delta Improvement Program** - \$31,360,000 for acquisition and working drawings. Of the requested amount, \$14.4 million is Proposition 13 bond funds and \$16.96 million is Proposition 50 bond funds. This project aims to improve conditions for San Joaquin River salmon by reducing their movement into the south Delta via Old River, maintain adequate water levels, and increase the State Water Project operational flexibility by raising the Delta export limit. This item was previously heard as part of the CALFED package.
- **Mid-Valley Area Levee Reconstruction Project** - \$874,000 Proposition 1E bond funds for acquisition and construction. This project would restore sections of the Sacramento River Flood Control Project to original design standards. This project would protect about 3,000 people and cost \$14.4 million to fully construct.

- **South Sacramento County Streams** - \$8,851,000 Proposition 1E bond funds for acquisition, working drawings, and construction. This project would construct 12.6 miles of floodwalls, raise 4.6 miles of existing levees, construct 1.3 miles of new levees, install sheet-pile cutoff walls in 7.7 miles of existing levees, channel exactions, constructing box culverts, and retrofitting 17 bridges. The total cost of the project is \$57 million, toward which \$16.6 million has already been budgeted.
- **American River Watershed, Folsom Dam Raise** - \$29,309,000 in Proposition 1E bond funds for acquisition and construction. This project would raise the Folsom Dam by seven feet and provide an additional 95,000 acre-feet of floodwater storage space. This project also includes new water temperature control shutters, 620 acres of ecosystem restoration, and Folsom Reservoir dike strengthening. The total cost of the project is \$263 million.
- **American River Watershed, Folsom Dam Raise Bridge** - \$4,401,000 in Proposition 1E bond funds for acquisition and construction. This project would meet the requirements of SB 347 for the state to contribute financially up to \$9 million with the City of Folsom to construct a new bridge over the American River south of the Folsom Dam. The total cost of the bridge project is estimated at \$41 million.
- **American River Flood Control Natomas Features** - \$3,740,000 in Proposition 1E bond funds for reimbursement to the Sacramento Area Flood Control Agency for the State's share of Phase 1B of the Natomas Features project.
- **West Stanislaus County Orestimba Creek Project** - \$755,000 in continuously appropriated Proposition 84 bond funds for the state's share of feasibility studies for flood damage reduction and ecosystem restoration on Orestimba Creek, Del Puerto Creek, and Salado Creek in Western Stanislaus County. The total project cost is estimated at \$13.4 million.
- **Rock Creek/Keefer Slough Feasibility Study** - \$488,000 in continuously appropriated Proposition 84 bond funds for a study of a public safety flood control project for the Rock Creek-Keefer Slough watershed to be completed jointly with the U.S. Army Corps of Engineers. The total project cost is estimated at \$27 million.
- **White River/Deer Creek Feasibility Study** - \$250,000 in continuously appropriated Proposition 84 bond funds for the first year of a feasibility study for flood control improvements on White River and Deer Creek in Tulare County near the community of Earlimart. The total cost of the study is estimated at \$3.1 million.
- **Frazier Creek/Strathmore Creek Feasibility Study** - \$250,000 in continuously appropriated Proposition 84 bond funds for the first year of a feasibility study for flood control improvements on Frazier Creek and Strathmore Creek in Tulare County near the community of Strathmore.
- **Systemwide Levee Evaluations and Repairs** - \$100 million in Proposition 1E bond funds to begin conducting a systemwide evaluation of the State's levees and repair erosion sites where deficiencies are found. Of the \$100 million, \$43.71 million will support 23 new positions and pay for consulting services.

Staff Recommendation. Hold open all capital outlay items.

11. Integrated Regional Water Management and Stormwater Flood Management

Background. Proposition 84 and Proposition 1E, passed by voters in November 2006 jointly provided \$1.9 billion for integrated regional water management. The Department of Water Resources is proposing to use these funds for local assistance grants, grant administration, and technical assistance, including data analysis and program assessment. Specifically, the funds would be used toward:

- Integrated regional water management grants (\$808.5 million)
- Stormwater flood management grants (\$274.5 million)
- Regional planning grants and regional planning grants for disadvantaged communities (\$30 million)
- Local groundwater management grants (\$18 million)
- Directed actions to projects with interregional and statewide benefits (\$32 million)
- Directed actions to projects that benefit disadvantaged communities (\$10 million)
- Scientific research grants (\$8 million)
- Data collection, management, dissemination, and analysis (\$15 million)
- Technical assistance and coordination for collaborative regional planning efforts (\$15 million)
- Assessment of progress and benefits of integrated regional water management implementation (\$3 million)
- Grant administration for 10 years (\$40.5 million)

Governor's Budget. The Governor's Budget proposes \$965 million in Proposition 84 bond funds and \$289.5 million in Proposition 1E funds over 11 years. Also, 46.5 new positions are requested to support these two programs.

Question:

1. Has DWR considered utilizing groundwater storage capacity and regional water sharing as a water management strategy?

Staff Recommendation. Hold open.

12. Proposition 84 Multi-Benefit Planning and Feasibility Studies

Background. Department of Water Resources (DWR) intends to initiate two specific types of on-going studies, in cooperation with other State agencies to evaluate, in greater detail, the anticipated effects of climate change on California rivers and waterways. DWR intends to use the information from the studies to redesign existing systems to minimize flood impacts, maintain water supplies, and minimize environmental impacts to fish and to riparian habitats. Coastal waterways and inland estuaries, such as the Delta, will also be studied to identify

impacts from rising sea levels, so that recommendations can be developed to address specific problems. These studies are:

- Promotion of Urban and Agricultural Water Conservation
- Completion of CALFED Surface Storage Studies
- Integration of Flood Management and Water Supply Systems
- Implementation of the California Water Plan Recommendations
- Development of a Delta Vision and Strategic Plan

Governor's Budget. The Governor's Budget proposes \$64,725,000 in Proposition 84 bond funds for the Department of Water Resources to conduct studies on global climate change.

Questions:

1. How do these studies relate to the flood management proposals?
2. Why should surface storage studies be paid for through this BCP? There is another BCP for surface storage studies.
3. Is DWR already developing the Delta Vision through another budget request, either alone or jointly with another state agency such as CALFED?
4. How will DWR ensure that these recommendations are translated into action?

Staff Recommendation. Hold open.

13. Proposition 84 – Fiscal Coordination and Oversight

Background. In November 2006, California voters approved Proposition 84, which provides \$1.5 billion for water-related projects. Proposition 84 does not identify a lead agency to oversee and coordinate bond activities. The Department of Water Resources is responsible for managing its own cash needs, loans, allocation balances, and maintaining records.

Governor's Budget. The Governor's Budget proposes \$255,000 from Proposition 84 bond funds for two new positions to provide fiscal administration, coordination, and oversight for Proposition 84 projects. These funds will come from the five percent administrative expenses for the bond.

Staff Recommendation. Hold open.

14. Urban Streams Proposition 84 Grant Program

Background. Traditional management of streams in California has led to many instances of drastic alteration of natural systems and loss of environmental quality. With improved understanding of these natural systems the state has undertaken new kinds of projects intended to address flooding, erosion, and other watershed issues.

The Urban Streams Restoration Program provides technical assistance and grants for communities to address local flooding and erosion problems, enhance environmental values, and promote community stewardship of streams. The program specifically funds restoration, land reserve acquisition, and promotes alternative land management practices.

The Urban Streams Restoration Program is current operating with Proposition 13 and Proposition 40 funds. The program has been operating since fiscal year 2000-01 and each year the amount of local assistance requested has far outpaced the available funds.

Governor's Budget. The Governor's Budget proposes \$16,470,000 for local assistance and \$900,000 for state operations from Proposition 84 bond funds. No new positions are requested. The funds would be expended as follows:

- 2007-08: \$150,000 in state operations for 1.2 existing positions and \$9.1 million for local assistance
- 2008-09: \$320,000 in state operations for 2.3 existing positions and \$7,370,000 for local assistance
- 2009-10: \$290,000 in state operations for 2.1 existing positions
- 2010-11: \$90,000 in state operations for 0.9 existing positions
- 2011-12: \$50,000 in state operations for 0.6 existing positions

Staff Recommendation. Hold open.

15. San Joaquin River Restoration Reimbursement Authority

Background. In 1988, the Natural Resources Defense Council (NRDC) sued the Bureau of Reclamation and the Friant Water Users Authority (FWUA) over the fish population levels in the river. In August of 2006, NRDC and FWUA entered into a settlement agreement, the goal of which is to "restore and maintain fish populations" in the San Joaquin River below the Friant Dam. The settlement specifies actions that will be taken over the next 20 years to restore the San Joaquin River. The intent is to restore approximately 150 miles of river from the Friant Dam to the confluence with the Merced River.

Under the agreement, the federal government will provide funds to restore the river, while FWUA agreed to actions that will increase flows in the river. The Resources Agency estimates that costs for restoring the San Joaquin River will range from \$350 to \$800 million over 20 years. While the state is not a party to the lawsuit, The Department of Water Resources, the Resources Agency, and the California Environmental Protection Agency have entered into a memorandum of understanding with the settling parties regarding the state's role in the restoration.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) provides \$100 million to the Resources Agency for San Joaquin River restoration.

Governor's Budget. The Governor's Budget proposes \$57,900,000 in reimbursement authority over five years and four new positions as well as two limited-term positions to work on San Joaquin River restoration.

Staff Recommendation. Hold open until the vote on the Secretary for Resources' Proposition 84 funds request for San Joaquin River Restoration.

16. San Joaquin River Restoration Program – Proposition 13

Background. In 1988, the Natural Resources Defense Council (NRDC) sued the Bureau of Reclamation and the Friant Water Users Authority (FWUA) over the fish population levels in the river. In August of 2006, NRDC and FWUA entered into a settlement agreement, the goal of which is to “restore and maintain fish populations” in the San Joaquin River below the Friant Dam. The settlement specifies actions that will be taken over the next 20 years to restore the San Joaquin River. The intent is to restore approximately 150 miles of river from the Friant Dam to the confluence with the Merced River.

Governor's Budget. The Governor's Budget proposes \$1,323,000 in Proposition 13 bond funds over three years to supplement the implementation of the San Joaquin River restoration.

The funding will be used specifically for contracts and equipment to participate in investigating, developing, and implementing channel modifications intended to increase the likelihood of anadromous fish restoration in the San Joaquin River below Friant Dam. These requested funds are intended to supplement the actions in the Settlement Agreement between NRDC and FWUA.

The Governor's Budget also proposes a reversion of \$2,163,000 in Proposition 13 local assistance funds. The funds proposed for reversion were provided by the Department of Water Resources for the San Joaquin River Restoration program, but the Department of Water Resources subsequently terminated the agreement.

The difference between this item and item #16 above is that the funds requested here are for grants to non-governmental agencies. The funds requested here would be used to fund a Restoration Administrator and Technical Advisory Committee members through a grant to the Resources Legacy Fund.

Staff Recommendation. Hold item open until the Subcommittee votes on the Secretary for Resources San Joaquin River Restoration item.

State Water Project

17. State Water Project Informational Issue

Background. The State Water Project (SWP) is the state's main water conveyance system, mostly from Northern California, to parts of the San Francisco Bay Area, the Central Valley, and Southern California. The project was initiated with a voter-approved bond (Proposition 1) in November 1960. The project is mainly funded by water users (SWP contractors) of the system. However, there are other significant sources of funding. Specifically, the federal government provides a share of the costs for flood control projects related to SWP; the General Fund and user fees pay for recreation and fish and wildlife programs; and state general obligation bond funds have funded related environmental programs such as CALFED.

SWP Off Budget. The State Water Project is "off budget", meaning that: (1) funds to support these positions, as well as all other functions of the SWP, are not appropriated in the annual budget bill, and (2) the department is not required to submit funding requests in conjunction with position requests.

LAO Recommendation. The LAO thinks that the role of SWP in the state is substantially different today than in 1960 when it was established, thereby justifying a change in its budget status. While in past years SWP operated more or less as a discrete, self-contained program, with fiscal oversight provided by SWP contractors who pay most of the project's costs, the SWP of today is much more integrally connected to other major "on budget" state programs. In particular, there is a growing recognition of SWP's role in contributing both to the causes of, and the potential solutions to, water-related problems in the Delta.

The state has a number of ongoing programs to address Delta issues, including CALFED. The SWP often directly benefits from these programs (such as those improving water quality and water conveyance), contributes funding to them, and may even play a programmatic role in them, but this is done off budget and therefore outside of legislative budgetary oversight. Similarly, SWP contractors are beneficiaries of the state-funded improvements underway in the state system of flood control. Without SWP being on budget, the Legislature is unable to evaluate the entire water system and address the state's water policy issues, including Delta issues, in a comprehensive way.

The Legislature has faced the issue of whether to bring large off-budget programs on budget in the past. For example, the state's transportation program was brought on budget in the 1970s. As previously noted, the role of SWP has changed, making it increasingly difficult for the Legislature to comprehensively address the state's water policy issues in light of SWP's off-budget status. Therefore, we recommend the enactment of legislation to bring SWP expenditures on budget in order to facilitate legislative oversight of state water issues.

Staff Analysis. Staff cannot properly evaluate the State Water Project need for new positions without context for the programs for which those staff are requested. Therefore, staff requests that the Subcommittee direct the Department of Water Resources to make available a report detailing expenditures by program area for the last three years.

Staff Recommendation. Staff recommends the Subcommittee adopt the following Supplemental Report Language:

On or before October 1, 2007 the department shall report to the chairs of the fiscal committees in both houses on the State Water Project budget. The report shall include the expenditures of the State Water Project by program area for the last three years starting with 2006, and total revenues for each of those years.

18. Division of Engineering Multiple Essential Programs Position Authority Request

Background. The State Water Project is undertaking multiple construction projects over the next 12 years to increase the water carrying capacity of the system. These projects are:

- San Geronio Pass Water Agency East Branch Extension, Phase II
- South Bay Aqueduct Enlargement
- North Bay Aqueduct Enlargement
- California Aqueduct East Branch Enlargement
- Perris Dam Repair
- Delta Facilities
- Oroville Facilities Federal Energy Regulatory Commission license related capital projects
- A.D. Edmonston Pumping Plant

Governor's Budget. The Governor's Budget requests position authority for 42 permanent full-time positions to staff design and construction of multiple major capital facilities associated with the State Water Project. The positions would cost \$3,405,000. These positions would be paid for by the State Water Projects, which is off budget.

Staff Recommendation. Hold open.

19. Protest Resolution Group

Background. Public water agencies contract with the State Water Project for their water supplies. The original water contracts were signed in the 1960s and are still today the basis for the cost allocation for water. Under the current system, water agencies are billed a year in advance for their water use. The total charges for water agencies in 2007 are about \$940 million.

The current staff of 10 people develops the annual statement of charges and responds to all disputes from water agencies. The disputes relate to policy issues or outstanding funding. The water agencies have recently resorted to the following measures to protect their interests: 1) protesting all items on all their monthly bills; 2) filing Board of Control claims on even minor

billing items; and 3) starting costly and time consuming litigation on items that are not resolved in a reasonable time period.

Governor's Budget. The Governor's Budget proposes authority for four new permanent positions to establish a protest resolution group. The positions would cost \$342,000. These positions would be paid for by the State Water Projects, which is off-budget.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

20. Development and Enhancement Models

Background. Computer models can be used to create hypothetical scenarios for water system storage alternatives, regulatory requirements, potential changes in water supplies and demands. The proposed development and enhancement of mathematical models under this program will be used in planning studies to evaluate future water supplies and demands of the state under various hydrologic conditions. The enhanced models would also be used to analyze application in real-time operations of the system.

Governor's Budget. The Governor's Budget proposes five permanent new positions for the planning and operations management of the State Water Project, Central Valley Project, and the Sacramento-San Joaquin Delta system. These positions would cost \$466,000. These positions would be paid for by the State Water Projects, which is off-budget.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

21. State Water Project Water Transfer Program

Background. Water transfers occur when one entity provides water they have a right to use to another water user. Water is generally made available for transfer by four methods: reservoir re-operation, groundwater substitution, water conservation, and exchange. Most water transfers require the use of State Water Project or Central Valley Project (federal) facilities. The Water Transfer Program was established in 2001 and ended in 2004.

The Department of Water Resources water transfer program provided the following functions:

- Provide facilities and ensure that no harm is done to other legal users of water
- Work to ensure that there are no unreasonable effects on fish and wildlife
- Work to ensure that there are no unreasonable effects on the county from which the water is transferred
- Facilitate water transfers
- Review of water transfer proposals for new water in the system
- Coordinate the water transfer process between State, federal, and local agencies, and private parties

- Provide water transfer information and a point of public contact
- Lead efforts to streamline the water transfer approval process
- Assist Environmental Water Account with water transfer review and negotiation
- Act as the agricultural liaison with the California Farm Bureau Federation
- Coordinate with the groundwater staff regarding groundwater substitution water transfer criteria and approval

Governor's Budget. The Governor's Budget proposes one permanent position to support the State Water Project water transfer program. This position would cost \$90,000. This position would be paid for by the State Water Projects, which is off-budget.

Question:

1. Could this water transfer program be used to trade and sell groundwater on a regional basis?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

22. Establishment of the Rio Vista Field Station Manager

Background. The Interagency Ecological Program coordinates state and federal research and monitoring programs in the upper San Francisco Bay and the Sacramento-San Joaquin Delta. These federal and state programs operate from separate facilities in Sacramento, Stockton, and Antioch. These facilities are now being co-located at Rio Vista. This single location is expected to produce efficiency in equipment use and greater scientific collaboration.

Governor's Budget. The Governor's Budget proposes one permanent position to develop, establish, and manage the Rio Vista Estuarine Research Station. This position would cost \$104,000. This position would be paid for by the State Water Projects, which is off-budget.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

23. Comprehensive Drinking Water Quality Surveillance, Forecasting, and Response Program

Background. The Comprehensive Drinking Water Quality Surveillance, Forecasting, and Response Program will include activities such as:

- Identification of locations within the Delta and the State Water Project for surveillance
- Design of monitoring programs
- Acquisition and installation of equipment
- Data management and analysis
- Development of models for forecasting purposes

- Development of response plans for emergency events

The requested positions would work on a comprehensive early warning system for water quality parameters affecting the quality of drinking water and treatment processes needed to produce safe drinking water. The comprehensive program would include drinking water quality surveillance, forecasting, and rapid response. This water quality information can then be used by treatment plant operators to ensure their treatment processes meet water quality standards.

Governor's Budget. The Governor's Budget proposes seven permanent positions to carry out responsibilities associated with the Comprehensive Drinking Water Quality Surveillance, Forecasting, and Response Program. These positions would cost \$496,000. These positions would be paid for by the State Water Projects, which is off-budget.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

24. FERC License Implementation Staffing Requirements

Background. The Federal Energy Regulatory Commission (FERC) issues licenses for dams. The Oroville Dam Hydroelectric Project license is coming up for renewal in 2007. The new FERC license terms will require the creation of plans for aquatic habitat restoration actions on the Lower Feather River to be approved by state and federal agencies and stakeholders. As part of this review process, the Department of Water Resources asserts that it must analyze and recommend:

- Placement of additional gravels and in-stream structures to improve fish habitat in the Feather River
- Construction of side-channels
- Determining what physical and operational improvements are necessary for the Feather River Hatchery
- Construction and operation of a fish counting weir

Governor's Budget. The Governor's Budget proposes 8 new permanent positions. These positions would be paid for by the State Water Projects, which is off-budget. These positions would cost \$529,000. These positions would be divided as follows:

- Five positions for the Oroville Field Division License Compliance Unit
- Three positions for the Feather River Program and Habitat Restoration

Staff Recommendation. Hold open.

25. Environmental Review Program Improvements

Background. The Department of Water Resources tracks all environmental review documents for the Resources Agency. Specifically, DWR analyzes projects, maintains a database of key information about projects, and stores records.

Increasing development along State Water Project and Central Valley Project canals and other infrastructure has prompted DWR to review an increasingly large number of documents. Also, the Reclamation Board has had an increasing amount of work on levees located near State Water Project areas. In 1999, the number of documents sent to DWR for review was approximately 3,700. By 2005, the number of documents had grown to over 4,500. During this time, the staffing level has remained at two positions.

Governor's Budget. The Governor's Budget proposes one permanent and one limited-term position to assist with a backlog of environmental review documents. These positions would cost \$66,000. These positions would be paid for by the State Water Projects, which is off-budget.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3600 Department of Fish and Game

Background. The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

Governor's Budget. The Governor's Budget proposes \$315 million to support DFG in the budget year. This is about 19 percent less than estimated expenditures in the current year due to a reduction in General Fund and bond funds available for appropriation. General Fund support for the department is proposed to decrease by 40 percent.

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Biodiversity Conservation Program	\$ 302,776	\$ 240,392	-\$62,384	-20.6
Hunting, Fishing, and Public Use	55,413	57,979	2,566	4.6
Management of Lands and Facilities	65,832	56,259	-9,573	-14.5
Conservation Education and Enforcement	52,866	55,336	2,470	4.7
Spill Prevention and Response	32,799	34,137	1,338	4.1
Capital Outlay	1,314	2,922	1,608	122.4
Administration	46,521	40,677	-5,844	-12.6
<i>less distributed administration</i>	<i>-46,512</i>	<i>-40,677</i>	<i>5,835</i>	<i>-12.6</i>
Totals	\$ 511,009	\$ 447,025	-\$63,984	-12.6
Funding Source				
General Fund	\$ 133,078	\$ 78,565	-\$54,513	-40.9
Special Funds	123,416	152,659	29,243	23.7
Bond Funds	133,628	83,996	-49,632	-37.1
<i>Budget Act Total</i>	<i>\$ 390,122</i>	<i>\$315,220</i>	<i>\$-74,902</i>	<i>-19.2</i>
Federal Trust Fund	57,270	57,701	431	0.7
Reimbursements	65,350	69,810	4,460	6.8
Salton Sea Restoration Fund	2,644	2,718	74	2.8
Harbors and Watercraft Revolving Fund	5	5	-	0
Special Deposit Fund	610	1,435	825	135.2
Coastal Wetlands Account	-5,000	136	5,136	-102.7
Total	\$ 511,001	\$ 447,025	-\$63,976	-12.5

Vote-Only Items

1. Yuba Feather River Flood Control

Background. The Department of Fish and Game is proposing to provide the environmental mitigation projects around the Yuba Feather River Flood Control project. The flood control project is being undertaken by the local government and would provide flood control for over 25,000 existing residents.

The Department of Fish and Game received \$11,778,000 in Fiscal Year 2005-06 for this project.

Governor's Budget. The Governor's Budget proposes \$7,445,000 in Proposition 13 bond funds for environmental mitigation, enhancement, and restoration of the Yuba Feather River Flood Control projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Coastal Wetlands Management

Background. Management of coastal wetlands includes monitoring the implementation and effectiveness of large-scale planning efforts, restoration plans, wildlife status and trends, pollution enforcement efforts, and the implementation and success of conservation plans. Currently, the Department of Fish and Game in the South Coast Region has three positions dedicated to the management of 60,000 acres. Of these lands, approximately 5,100 acres are not receiving any management.

Governor's Budget. The Governor's Budget proposes \$136,000 from the Coastal Wetlands Account for one position to manage and maintain coastal wetlands properties owned or managed by DFG in Southern California.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Salmon Permit Fee Waiver

Background. Salmon fishing in California requires a commercial fishing salmon stamp and a basic commercial salmon vessel permit. The funds received from the permits and stamps are used to breed approximately 2 million Chinook salmon annually. The salmon fishers must pay for the stamp and permit annually or they lose their fishing licenses permanently.

In the spring of 2006, the federal government halted all salmon fishing off the coast of California due to the threatened status of many salmon species. The Governor responded with a June 29, 2006 proclamation for "Assistance Measures for California's Salmon Fishermen" that waived the payment of the fees until fishing is reinstated.

Governor's Budget. The Governor's Budget proposes \$282,000 General Fund one-time augmentation to replace commercial salmon vessel and salmon stamp fees.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Lower Colorado River Multi-Species Habitat Conservation Plan

Background. The Colorado River provides 50 percent of the fresh water for southern California. The Lower Colorado River Multi-Species Habitat Conservation Plan (Plan) intends to protect the lower Colorado River environment while ensuring the certainty of existing river water and power operations, address the needs of threatened and endangered wildlife, and prevent the listing of additional species as threatened or endangered.

The Plan is currently the largest Habitat Conservation Plan in the United State, and came about as a 10 year planning effort between 50 organizations, including state agencies, local governments, water and power agencies, Sovereign Indian Nations, and non-governmental groups.

Governor's Budget. The Governor's Budget proposes \$6,755,000 in Proposition 84 bond funds for Lower Colorado River Multi-Species Habitat Conservation Plan implementation. Of the \$7 million available, 3.5 percent has been set aside for bond financing costs.

These funds would allow the department to acquire approximately 3,000 acres.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

5. CalTIP Authority Augmentation

Background. CalTIP is a confidential witness program that allows the public to anonymously report wildlife violations via a toll-free "hotline". The phone line has been in operation since 1981 and receives about 300 reports of alleged wildlife poaching a month. CalTIP calls are received from every county in the state regarding multiple species including game animals, endangered species, migratory birds, fish, mollusks, and crustaceans.

The CalTIP program allows game wardens to more effectively combat wildlife crime. The citations issued by game wardens generate over \$1 million in fine revenues and penalty

assessments annually. In 1995, a \$15 additional fine was imposed on most violations and this new revenue was deposited into the Secret Witness Dedicated Account.

Governor's Budget. The Governor's Budget proposes \$75,000 in additional spending authority from the Fish and Game Preservation Fund Dedicated Secret Witness Account for a toll-free "hotline" for the public to report wildlife violations.

Staff Analysis. Currently, the Secret Witness Dedicated Account receives approximately \$80,000 in revenues annually. The Account has a balance of \$600,000 and outgoing annual expenditures of \$45,000. The requested increase in appropriation authority would spend down the Account balance in 15 years. After 15 years, the Account would begin to run a deficit, if no new revenues or expenditures would be located.

Thus, the Subcommittee may wish to request a report within 5 years on the fund condition and the success of the program.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal with the following Supplemental Report Language:

On or before January 10, 2012 the department shall submit to the Legislature a report on (1) the fund condition of the Fish and Game Preservation Fund Dedicated Secret Witness Account, (2) the expenditures out of the account for the last three years, (3) a projection of fund solvency, and (4) a discussion of program successes in general and with measurable outcomes.

6. Administration Augmentation

Background. The Department of Fish and Game received 139 permanent positions as part of the *2006-07 Budget Act*. However, these positions did not include support staff.

Governor's Budget. The Governor's Budget proposes 12 new positions for administrative support for \$1,614,000. The budget does not specify what fund would pay for these positions. These positions would be:

- Business and Contracts Management Branch – 3 new positions
- Human Resources Branch – 3 new positions
- Accounting Services Branch – 3 new positions
- Budget Branch – 1 new position
- Information Technology – 2 new positions

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Automated License Data System – Year Two

Background. The Automated License Data System (ALDS) is intended to replace the current paper-based licensing system used by the Department of Fish and Game (DFG). The new ALDS system will:

- Facilitate the achievement of federal mandates for California's participation in the recreation portion of the State License Marching System, the Licensee Certification, and Harvest Information Program requirements.
- Reduce the risk of losing federal participation monies for fish and wildlife program mandated by the federal government.
- Provide timely and relevant data for use in other DFG programs.
- Speed up the collection and provide timely and accurate reporting of DFG revenues.
- Increase access for license buyers through the Internet.
- Enhance the quantity and quality of services DFG offers to the public.
- Improve DFG law enforcement presence in the field.

The total cost of the Automated License Data System is estimated at \$30.7 million. The project would continue until Fiscal Year 2013-14.

Governor's Budget. The Governor's Budget proposes \$3,394,000 from various funding sources and a funding shift of \$151,000 to implement year two of the Automated License Data System (ALDS). The funds requested are as follows:

- \$2,710,000 from the Fish and Game Preservation Fund
- \$389,000 from reimbursements
- \$295,000 from the Hatchery and Inland Fisheries Fund
- \$151,000 funding shift from 2 limited-term positions to operating expenses

Questions:

1. How will DFG ensure that the project stays within budget and scope? Many other state departments have experienced difficulties with managing IT projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8. San Francisco Public Utilities Commission

Background. The San Francisco Public Utilities Commission operates the Hetch Hetchy water project. The Hetch Hetchy supplies water to over 2.4 million people in the San Francisco Bay Area. In 1987, the Secretary of the Interior Donald Hodel proposed the restoration of the Hetch Hetchy. The San Francisco Public Utilities Commission wants to undertake a study of alternatives for the Hetch Hetchy, from expansion to restoration.

Governor's Budget. The Governor's Budget proposes position authority for one permanent Staff Environmental Scientist position to study, consult, develop, and evaluate environmental

mitigation measures for the San Francisco Public Utilities Commission Bay Area Cities Water System Improvements project. This would be a redirected position.

Staff Analysis. Under the California Environmental Quality Act (CEQA), the entity constructing a project is not necessarily the lead agency. The state can be the lead agency for local government or even private projects when the state must grant permits necessary for the project to proceed. The lead agency is liable for financial damages should the project harm the environment. Thus it is in the state's interest to help in completing the environmental documents for projects for which the state is the lead agency.

For this project, the San Francisco Public Utilities Commission is the lead agency. Therefore, the Legislature should carefully consider the role of the state in preparing CEQA or other environmental documents when the state is not the lead agency.

Staff Recommendation. Staff recommends the Subcommittee deny the budget proposal.

9. Newhall Ranch Environmental Impact Report

Background. Newhall Land and Farming Company, Valencia Company, and Lennar are engaged in planning the development of 48,000 acres in the Santa Clara River watershed in Northern Los Angeles and Venture Counties. The Santa Clara River is one of the most endangered rivers in the country with numerous sensitive species and habitats occurring on the property to be developed.

The Department of Fish and Game completes Stream Alteration Agreements, California Endangered Species Act (CESA) incidental take permits, and California Environmental Quality Act (CEQA) participation. Newhall Land wishes to provide funds to reimburse the Department of Fish and Game for providing these environmental services with greater speed.

Governor's Budget. The Governor's Budget proposes \$395,000 (\$90,000 one-time, \$305,000 on-going) in reimbursement authority for two positions to staff and perform the role of lead agency to prepare the California Environmental Quality Act documents for the Newhall Ranch Resource Management and Development Plan.

Staff Analysis. Under the California Environmental Quality Act (CEQA), the entity constructing a project is not necessarily the lead agency. The state can be the lead agency for local government or even private projects when the state must grant permits necessary for the project to proceed. The lead agency is liable for financial damages should the project harm the environment.

DFG is serving as a lead agency, as opposed to a responsible agency under CEQA, even with the County's prior involvement because of the significant biological resources at issue, including important populations of the San Fernando Valley spine flower, a plant species protected by CESA previously thought to be extinct. Thus it is in the state's interest to help in completing the environmental documents for projects for which the state is the lead agency.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

10. San Joaquin River Restoration Implementation

Background. In 1988, the Natural Resources Defense Council (NRDC) sued the Bureau of Reclamation and the Friant Water Users Authority (FWUA) over the fish population levels in the river. In August of 2006, NRDC and FWUA entered into a settlement agreement, the goal of which is to “restore and maintain fish populations” in the San Joaquin River below the Friant Dam. The settlement specifies actions that will be taken over the next 20 years to restore the San Joaquin River. The intent is to restore approximately 150 miles of river from the Friant Dam to the confluence with the Merced River.

Under the agreement, the federal government will provide funds to restore the river, while FWUA agreed to actions that will increase flows in the river. The Resources Agency estimates that costs for restoring the San Joaquin River will range from \$350 to \$800 million over 20 years. While the state is not a party to the lawsuit, The Department of Water Resources, the Resources Agency, and the California Environmental Protection Agency have entered into a memorandum of understanding with the settling parties regarding the state’s role in the restoration.

Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006) provides \$100 million to the Resources Agency for San Joaquin River restoration.

Governor’s Budget. The Governor’s Budget proposes \$40 million in reimbursements over five years for support of the San Joaquin River Restoration from Friant Dam to the Merced River. The schedule of expenditures is as follows:

- \$1,185,000 and six permanent positions in 2007-08
- \$6,323,000 in 2008-09
- \$11,456,000 and two permanent positions in 2009-10
- \$16,706,000 in 2010-11
- \$4,330,000 in 2011-12

Staff Recommendation. Staff recommends the Subcommittee hold this item open until the Subcommittee votes on the Secretary for Resources San Joaquin River restoration funding request.

11. OSPR Scientific Readiness and Prevention Improvement

Background. The Department of Fish and Game Office of Spill Prevention and Response (OSPR) was established in 1990 to prevent and respond to oil spills affecting marine waters of the State. The overall goal of the OSPR is to protect sensitive environmental areas and

ecosystems including coastal waters, estuaries, bays, beaches, and fish and wildlife. The department works on prevention, readiness, response, and restoration.

In the 1990s, OSPR developed Environmental Sensitivity Index (ESI) maps for inter-tidal and near shore regions of the State. These ESI maps provide information on the sensitivity of shoreline types to spills and proposed cleanup techniques, information on habitats and biological resources present, including the presence of sensitive and endangered species, as well as human-use resources including public beaches, parks, marine sanctuaries, water intakes, and archaeological sites.

Governor's Budget. The Governor's Budget proposes \$415,000 (\$275,000 one-time, \$140,000 on-going) for two positions from the Oil Spill Prevention Administration Fund to make improvements to the readiness and prevention elements of the OSPR Spill Response Program.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

12. OSPR Inland Oil

Background. The Office of Spill Prevention and Response (OSPR) aims to protect California's natural resources by preventing, preparing for, and responding to oil and other deleterious materials, and through restoring and enhancing affected resources. Recent changes to California Government Code Section 8670.3(i) has changed the definition and jurisdiction of Marine vs. Inland waters. The Eastern Delta was included in marine waters by the change in statute definition. However, OSPR does not have a position dedicated to monitoring and enforcing pollution activities and incidents in the Eastern Delta.

Governor's Budget. The Governor's Budget proposes a re-direction of \$56,000 and a 0.5 position from the Fish and Wildlife Pollution Account to the Oil Spill Prevention Administration Fund.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

13. OSPR Drills and Exercise Program

Background. Current law requires that every owner or operator of a tank vessel, nontank vessel, or vessel carrying oil as secondary cargo, must prepare and implement an Oil Spill Contingency Plan. These plans must be submitted to the OSPR before the vessel may operate in the marine waters of California. These plans are required to describe how a plan holder will prevent, respond to, and mitigate oil spills caused by their operations.

Harbors and Navigation Code Section 8670.1 requires that the Department of Fish and Game conduct announced and unannounced drills of the Oil Spill Contingency Plans. In 2005, the

Department of Finance conducted a review of the program and found that the drills were not conducted unannounced and sometimes no drills were conducted at all.

Governor's Budget. The Governor's Budget proposes \$843,000 from the Oil Spill Prevention Administration Fund for 7 permanent positions to create a new Drills and Exercises Program.

The department intends to conduct 108 on-vessel drills and four out-of-state drills a year with four drill coordinators.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

14. OSPR Reimbursement Authority for Military Facility Cleanup

Background. The Department of Fish and Game has worked since 1994 on review and oversight of activities related to cleanup and remediation of chemical contamination at military bases scheduled for closing in California. DFG specifically works to ensure that:

- Base toxic clean-up levels are adequate to protect fish, wildlife and their habitats.
- Remedial activities either do not compromise natural resource values, or they are properly mitigated.
- Appropriate state laws and policies are considered throughout all processes of the remediation.

The department states that currently there are four military bases that are not being worked on due to lack of staffing.

Governor's Budget. The Governor's Budget proposes a shift of \$132,000 and two 0.5 positions from the Fish and Wildlife Pollution Account to Reimbursements. The reimbursements are coming from the Department of Toxic Substances Control and the State Water Resources Control Board.

Due to a special exemption provided by AB 1700 (2003) for positions working on base closings, these positions would not be subject to the six month vacancy elimination rules.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

15. AB 7 Legislative Adjustment for Heritage and Wild Trout

Background. The California Wild Trout Program was established in 1972 to protect and manage selected streams and lakes suited for wild trout populations. To date, 67 streams and 22 lakes have been placed under special management as wild trout, heritage trout, or "catch-and-release" waters.

AB 7 (Cogdill, 2006) requires the Department of Fish and Game to hire seven employees for the Heritage and Wild Trout Program. In 2006-07, three permanent employees were hired along with four limited-term employees.

Governor's Budget. The Governor's Budget proposes to make four temporary positions permanent in the Heritage and Wild Trout Program. The funds to pay for these positions come from the Hatchery and Inland Fisheries Fund.

Question:

1. What is the cost of these positions to the state?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

16. Land Management

Background. The Department of Fish and Game (DFG) has numerous responsibilities in land management including security and resource management. The management of DFG lands is important also for containment of invasive species that could spread onto neighboring lands.

In addition to lands DFG purchases, it receives habitat mitigation lands from public and private project proponents as mitigation for the environmental effects of various development projects. The DFG has a statutory mandate to manage and protect these habitat mitigation lands in perpetuity for the unique species and habitat values they support and for which they were acquired.

Governor's Budget. The Governor's Budget proposes \$2,850,000 from various funding sources for 18.5 permanent positions and three limited-term positions to meet management and maintenance needs for site security, resource management, and public use on lands. The funds would come from:

- \$639,000 from Proposition 12
- \$825,000 from the Special Deposit Fund
- \$1,386,000 from reimbursements

Staff Analysis. Bond funds are not an appropriate funding source for on-going maintenance and management of lands.

Staff Recommendation. Hold item open to allow the department time to explain why bond funds should be used for these positions.

17. AB 3158 Environmental Review Program

Background. In 1991, the Legislature passed AB 3158 which established an environmental filing fee on California Environmental Quality Act (CEQA) documents. This fee was intended to finance the Department of Fish and Game CEQA Review Program.

However, the fee has only generated approximately \$2 million in revenues annually, while the program expenditures have been around \$6.5 million annually. The remainder of the balance comes from the General Fund and special funds. To raise more revenues to cover the cost of the program, SB 1535 (Kuehl, 2006), raised the CEQA filing fees. The increased revenue from the higher fee is anticipated at \$4.5 million.

The CEQA Review Program currently has 49 employees, who are able to review approximately 28 percent of the state's CEQA documents.

Governor's Budget. The Governor's Budget proposes \$4,534,000 from the Fish and Game Preservation Fund for 34 permanent positions for the California Environmental Quality Act (CEQA) review program.

The department projects that these 34 new employees could increase the department's CEQA document review rate to about 50 percent.

Staff Analysis. Currently, the CEQA Review program is funded with approximately \$2.4 million General Fund. The new revenues raised by the higher fee could cover this General Fund expenditure. The Governor's Budget is proposing to take all of the new fee revenue and use those funds for additional employees to review CEQA documents.

Staff Recommendation. Staff recommends the Subcommittee reduce the CEQA Review Program budget by \$2.4 million General Fund, and reduce the proposed new positions by 14 (for a total of 20 new positions).

18. Anadromous Fish Management

Background. When fish species are listed as endangered or threatened, there are lost fishing opportunities and economic impacts to local communities, construction, and transportation. Nearly all the runs of salmon and steelhead on the coast are listed under either the federal or state Endangered Species Act. The Department of Fish and Game is proposing four programs to increase the numbers of Anadromous fish:

- Coastal Salmonid Monitoring – to gather information on the status and trend of salmon and steelhead populations.
- Coho Recovery Implementation – to manage a grant program for Coho recovery according to an already existing plan.
- Coastal Steelhead and Chinook Recovery – to implement recovery programs according to an already developed plan.

- Steelhead Report Card – to manage steelhead restoration projects and steelhead restoration grants.

Governor’s Budget. The Governor’s Budget proposes \$45,598,000 from Proposition 84 bond funds and special funds for nine permanent positions and six limited-term positions to support the Coastal Salmonid Monitoring Plan Implementation.

Staff Analysis. SB 271 (Thompson, 1997) established the Fishery Restoration Grant Program and parameters in Fish and Game Code 6217.1. For the past 10 years, virtually all state salmon and steelhead monies for DFG projects and grants have been under the purview of Section 6217.1. However, Proposition 84 did not require that salmon and steelhead recovery funds be spent according to Section 6217.1. The Subcommittee may wish to consider adopting trailer bill language to require the Proposition 84 salmon and steelhead recovery funds to be administered according to Section 6217.1.

Staff Recommendation. Staff recommends the Subcommittee hold the item open while directing staff to draft trailer bill language for Subcommittee consideration.

19. Quagga Mussel Invasion – Informational Item

Background. A highly invasive fresh-water Quagga Mussel, related to the Zebra Mussel, was discovered in California on January 17, 2007. The Quagga Mussel was found in Lake Havasu and on the Metropolitan Water District intake pumps. DFG has expressed concern that the species could cause potentially wide-spread damage to drinking water pumping systems and other related infrastructure.

Questions:

1. What is the Department of Fish and Game doing to contain the Quagga Mussel?
2. What could be the consequences of the Quagga Mussel spreading to other bodies of California waters, such as the Delta?

Staff Recommendation. Informational item, no recommended action.

20. Streamflow Money from the State Water Board – Informational Item

Background. Public Resources Code Sections 10001-10005 recognize the need for adequate stream flows to benefit fish and wildlife. These sections require the California Department of Fish and Game (DFG) to:

- Prepare a list of streams in need of minimum stream flow requirements.
- Initiate at least 10 new studies per year to develop proposed minimum stream flow requirements for listed streams.

- Consult with the State Water Resources Control Board, other agencies, and the public concerning the proposed stream flow requirements.
- Transmit the proposed stream flow requirements to the State Water Resources Control Board for its use in approving water rights applications.

To fund DFG's preparation of these reports, the State Water Resources Control Board (SWRCB) collects \$850 per application or petition (with some exceptions) from water rights applicants and petitioners on behalf of DFG. SWRCB has been collecting these fees for more than 15 years, and currently has pending over 500 water rights applications and over 500 petitions to amend existing water rights.

Current Law. Public Resources Code, Section 10004: "The Department of Fish and Game shall initiate studies to develop proposed streamflow requirements for those streams or watercourses *in each fiscal year for which funds are appropriated* and shall complete studies on each stream or watercourse within three years. It is the intent of the Legislature that the department develop a program that will *initiate studies on at least 10 streams or watercourses in each fiscal year.*"

Questions:

1. What reports has the department completed in the last three years?
2. If no reports have been completed, why has the department not undertaken the work?
3. What is the impact on fish and the environment of not having these streamflow studies?

Staff Recommendation. Informational item, no recommended action.

21. Scott and Shasta River Basins Funds – Informational Item

Background. In the *2006-07 Budget Act* the Department of Fish and Game (DFG) received \$10 million General Fund for salmon and steelhead restoration in the Klamath River.

Issue. It has come to the attention of staff that DFG is using these funds to allow private parties to mitigate private responsibilities in the Scott and Shasta river basins. This raises serious questions about the department going against existing practices of requiring private funds to pay for private mitigation responsibilities.

Questions:

1. DFG should provide the Subcommittee with an explanation of the situation and the reasoning behind allowing a portion of the \$10 million to be used by private parties for private party responsibility mitigation.
2. DFG should provide the Subcommittee with information as to how much of the \$10 million has been encumbered to date and on what projects those funds were encumbered.

Staff Recommendation. Informational item, no recommended action.

22. Salmon Regulations – Informational Issue

Background. Fish and Game Code Section 2112 requires the development of regulations for species for which a recovery plan has been approved. Though the Coho salmon has an approved recovery plan, the Department of Fish and Game has not yet developed regulations for Coho salmon.

Questions:

1. What work is the Department of Fish and Game conducting toward developing 2112 regulations that could be administered by the Board of Forestry so that landowners can have a single place to get permits?
2. Does DFG support its draft regulations from July, 2006, that protect Coho salmon throughout their range, or does DFG support the current draft proposal before the Board of Forestry that protects Coho salmon only when an individual fish is actually killed? If the latter, does the department believe that such a narrow rule would actually help implement the Coho Recovery Strategy that has been approved by the Fish and Game Commission?

Staff Recommendation. Informational item, no recommended action.

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
Darrell Steinberg
Mark Wyland



Monday, April 9, 2007
1:00 p.m.
Room 112

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Resources—Environmental Protection—Energy

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

3840 Delta Protection Commission

Background. The Delta Protection Commission (DPC) was created by statute in 1992 to develop a long-term resources management plan for land uses within the Sacramento-San Joaquin Delta. This plan is implemented by local governments in their land use planning processes. Broadly speaking, the main goal of the commission is to protect and enhance the overall quality of the Delta environment for agriculture, wildlife habitat, and recreational activities.

Governor's Budget. The Governor's budget proposes a small increase in funding for the DPC. The increase in funding will support small increases in salaries and operating expenses at the DPC.

Staff Recommendation. Staff recommends the Subcommittee approve the commission's budget as proposed.

3680 Department of Boating and Waterways

Background. The Department of Boating and Waterways (DBW) is responsible for planning and developing boating facilities on waterways throughout California. It is also responsible for protecting the public's right to safe boating by providing subventions to local law enforcement agencies. The department is also responsible for boating safety and education, licensing yachts, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

Governor's Budget. The Governor's Budget proposes \$76.7 million to support DBW, which is approximately 12 percent less than expenditures in the current year. (The majority of DBW's budget is not subject to appropriation in the budget act. Only \$500,000 is subject to the Budget Act.) The department is not supported by the General Fund.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Boating Facilities	\$ 59,117	\$ 49,561	-\$9,556	-16.2
Boating Operations	20,519	20,678	159	0.8
Beach Erosion Control	1,641	311	-1,330	-81.1
Capital Outlay	6,045	6,140	95	1.6
Administration	2,447	2,361	-86	-3.5
<i>less distributed administration</i>	<i>-2,447</i>	<i>-2,361</i>	<i>86</i>	<i>-3.5</i>
Total	\$ 87,322	\$ 76,690	-\$10,632	-12.2
Funding Source				
General Fund	\$ -	\$ -	\$ -	0
Special Funds	1,250	500	-750	-60
<i>Budget Act Total</i>	<i>1,250</i>	<i>500</i>	<i>-750</i>	<i>-60</i>
Federal Trust Fund	13,499	10,036	-3,463	-25.6
Reimbursements	1,015	1,015	0	0
Harbors and Watercraft Revolving Fund	71,558	65,139	-6,419	-9.9
Total	\$ 87,322	\$ 76,690	-\$10,632	-13.2

Vote-Only Items

1. Project Planning

Background. The Legislature has traditionally provided departments that have large capital outlay programs with funds to prepare capital outlay budget packages. These budget packages are planning studies that include engineering site surveying, aerial surveying for development of topographic maps, cost estimating, environmental permitting, and assistance from other state agencies to identify potential site problems.

Governor's Budget. The Governor's Budget proposes \$90,000 from the Harbors and Watercraft Revolving Fund to complete budget packages for major and minor capital outlay projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Minor Projects Summary

Background. The Department of Boating and Waterways is responsible for the planning, design, and construction of public boating facilities and small craft harbors within the state. Minor capital outlay projects for the Resources Agency are defined as capital outlay projects less than \$500,000 in total cost.

Governor's Budget. The Governor's Budget proposes \$6,050,000 from the Harbors and Watercraft Revolving Fund to assist local governments with 17 minor capital outlay projects for recreational boating.

The proposed projects are:

- Emergency Repairs
- Boating Trails
- Low Water Improvements
- Lake Perris Marina Buildings
- Crown Cove BISC Boat Ramp and Docks
- Folsom Lake Granite Bay Stage I Ramp Widening
- Lake Perris Power Cove Ramp Extension
- Lake Perris Ramp 6 Replacement
- Lake Oroville Bloomer Boat-In Campground
- Lake Oroville Lime Saddle Ramp Widening
- San Louis Reservoir High Wind Warning Lights
- Turlock Lake Restroom
- Lake Perris Marina ADA Access
- Castaic Lake East Ramp Wave Attenuator
- Lake Davis Launch Ramp Improvements
- Silverwood Lake Oak/Chamise Boat-In Site Improvements

- Silverwood Lake Sawpit Boarding Float Improvements

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Public Small Craft Harbor Loans

Background. The Department of Boating and Waterways' (DBW) goal is to expand and improve public boater access to California's waterways in environmentally acceptable areas. The demand for DBW boating facilities is driven mainly by aging existing facilities and the continued need for expanded and improved boating safety. The number of registered boats in the state is 968,000, and that number has not grown significantly since 2001.

Governor's Budget. The Governor's Budget proposes \$12,075,000 from the Harbors and Watercraft Revolving Fund for public loans to develop marinas and expand/rehabilitate existing marina facilities. The proposed projects are:

- Dana Point Marina - \$4.8 million
- Emergency Loans - \$500,000
- Sacramento Marina - \$1,475,000
- San Francisco Marina - \$5.3 million

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Launching Facility Grants

Background. The Department of Boating and Waterways (DBW) strives to expand and improve public boater access to California's waterways in environmentally acceptable areas. Two studies conducted for the DBW projected the current recreational boating infrastructure improvement and expansion over the next five years at \$580 million.

Governor's Budget. The Governor's Budget proposes \$12.9 million from the Harbors and Watercraft Revolving Fund for 20 grant projects for local governments.

The proposed projects would be for the construction of launching ramps, shore-side or floating restrooms, boarding floats, shore protection, car/trailer parking, utilities, and landscaping and irrigation.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Private Loans

Background. The Department of Boating and Waterways (DBW) provides construction loans to owners of private marinas. The DBW Private Marina Loan Program provides loans to private marinas that may not be eligible for loans without the state program. The DBW states that traditional financial lending institutions are reluctant to provide improvement loans to marinas. Private marinas are eligible for Small Business Association loans up to \$750,000, but about 25 percent of the loans DBW gives to private marinas are over \$750,000.

AB 1284 (1980) declared that the Harbors and Watercraft Revolving Fund could be used for loans to private marinas. To date, DBW has provided about \$50 million in loans to private recreational marina owners.

Governor's Budget. The Governor's Budget proposes \$6 million from the Harbors and Watercraft Revolving Fund for loans to private marinas.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

6. Aquatic Pest Control Technicians

Background. Two invasive aquatic plants, the water hyacinth and *Egeria densa*, have been found in the Sacramento and San Joaquin Rivers. These aquatic plants contribute to the degradation of native habitat and decline of the overall environmental health of the Delta region.

In the *2005-06 Budget Act*, the Legislature provided the Department of Boating and Waterways with \$85,000 from the Harbors and Watercraft Revolving Fund for two positions to work on aquatic weed control. The *2005-06 Budget Act* stipulated that DBW contract with the California Conservation Corps (CCC) for these two positions. However, DBW has been unable to retain CCC employees due to various reasons including lack of interest on the part of CCC participants, transportation difficulties for youth, and poor job performance on the part of one candidate.

The DBW currently has nine Aquatic Pest Control Technicians and four Aquatic Pest Control Technicians. There are two employees in each boat that works on aquatic weed control.

Governor's Budget. The Governor's Budget proposes a fund transfer of \$85,000 from the interdepartmental contracting budget account to salaries and wages for two Aquatic Pest Control Technician positions. The money is all within the Harbors and Watercraft Revolving Fund.

Questions:

1. What is the impact of these invasive plants on the aquatic environment?
2. What steps is the department taking to ensure that the herbicides do not negatively impact water quality?

3. What impact may these herbicides have on fish?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Abandoned Watercraft Abatement Fund

Background. The Abandoned Watercraft Abatement Fund (AWAF) is used for the removal of abandoned recreational watercraft and water hazards, and in so doing improve public safety of California's waterways. The program was created in 1998, and since then DBW has provided over \$3.3 million to local governments for removal of vessels and other water hazard projects. Statute sets the local match for grants at ten percent.

Governor's Budget. The Governor's Budget proposes \$200,000 from the Abandoned Watercraft Abatement Fund for the administration of the Abandoned Watercraft Abatement Fund program.

Staff Analysis. A clerical error in the budget shows the transfer as \$500,000, rather than the intended \$200,000. The administration submitted an April Finance Letter to correct this mistake. The Finance Letters are being heard on May 7 and May 14.

Staff Recommendation. Hold open until May hearing on Finance Letters.

8. Quagga Mussel Invasion – Informational Item

Background. A highly invasive fresh-water Quagga Mussel, related to the Zebra Mussel, was discovered in California on January 17, 2007. The Quagga Mussel was found in Lake Havasu and on the Metropolitan Water District intake pumps. The Department of Fish and Game has expressed concern that the species could cause potentially wide-spread damage to drinking water pumping systems and other related infrastructure, as well as to fish by removing nutrients from the water.

Questions:

1. What is the Department of Boating and Waterways doing to contain the Quagga Mussel?
2. Could the capital outlay funds requested as part of the *2007-08 Budget* be used for boat-washing stations to keep the Quagga Mussel from spreading?

Staff Recommendation. No Action, informational item.

3860 Department of Water Resources

State Water Project

Background. The Department of Water Resources (DWR), and the activities it and regional and local water agencies engage in to pump and convey water throughout the state, results in the consumption of enormous amounts of energy and in the creation of significant greenhouse gas emissions.

According to the California Energy Commission (CEC), water-related energy use, which includes the conveyance, storage, treatment, distribution, wastewater collection, treatment, and discharge sectors of the water use cycle, consumes about 19 percent of the state's electricity, 30 percent of its natural gas, and 88 billion gallons of diesel fuel every year and this demand is growing.

In addition, the sources of the electricity used for water transport purposes are of increasing interest as state government proceeds to implement the greenhouse gas emissions targets established under law last year. It is of particular concern that, as the state has prohibited its public and private utilities from procuring high polluting coal power, DWR itself continues to own and operate a high polluting conventional coal facility in Nevada, as well as other fossil fuel facilities elsewhere.

Finally, most water experts contend that increased efforts to improve, conserve, and use water more efficiently also provides significant energy savings.

Governor's Budget. Despite a significant set of expenditures on climate-related activities in other agencies' budgets, there is no appropriation or budgetary language that addresses the Department of Water Resources' projects caused greenhouse gas emissions.

Staff Recommendation. Staff recommends that the Subcommittee direct DWR to provide information on how much energy is used in water delivery systems within California; how much energy DWR uses and what the sources of that energy are; and what steps DWR is taking to reduce its energy consumption and coal power usage. Staff further recommends that the Subcommittee direct staff to draft trailer bill language or supplemental report language to ensure DWR undertakes all feasible and cost-effective efforts to reduce its greenhouse gas emissions.

Energy Resources Scheduling Division

Background. The Department of Water Resources' California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor-owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The Governor's Budget proposes \$5.6 billion to fund the CERS division of the Department of Water Resources (DWR). This is \$212 million, or 3.7 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year. These funds are not subject to appropriation in the budget bill.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Electricity Purchases	\$ 4,859,909	\$ 4,643,218	-\$216,691	-4.5
Interest Expense - Revenue Bonds	460,841	441,269	-19,572	-4.2
Payment of Principal - Revenue Bonds	447,690	470,140	22,450	5
Administration	21,422	22,584	1,162	5.4
Total	\$ 5,789,862	\$ 5,577,211	-\$212,651	-3.7

Staff Recommendation. Staff recommends the Subcommittee approve the CERS budget as proposed.

3360 Energy Resources Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

Governor's Budget. The Governor's Budget proposes \$399 million to support CEC in 2007-08. The proposed budget is approximately 18 percent less than estimated expenditures in the current year due to a reduction in renewable energy and PIER funding. The department does not receive any General Fund support.

Summary of Expenditures					
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change	
Type of Expenditure					
Regulatory and Planning	\$ 27,025	\$ 27,757	\$ 732	2.7	
Energy Resources Conservation	33,989	47,510	13,521	39.8	
Research and Development	451,043	343,556	-107,487	-23.8	
Administration	13,653	13,199	-454	-3.3	
<i>less distributed administration</i>	-13,653	-13,199	454	-3.3	
<i>less loan repayments</i>	-2,422	-1,522	900	-37.1	
Total	\$ 509,635	\$ 417,301	-\$92,334	-18.1	
Funding Source					
General Fund	\$0	\$0	\$0	0	
Special Funds	491,912	399,166	-92,746	-18.8	
<i>Budget Act Total</i>	<i>491,912</i>	<i>399,166</i>	<i>-92,746</i>	<i>-18.8</i>	
Federal Funds	11,978	12,390	412	3.4	
Reimbursements	5,745	5,745	0	0	
Total	\$ 509,635	\$ 417,301	-\$92,334	-18.1	

NOTE: Climate change related budget change proposals will be heard on April 16th with other AB 32 implementation proposals. The specific budget change proposals for the California Energy Commission to be heard on April 16th are: 1) Climate Change: Increasing the Use of Alternative Fuels, and 2) Energy Related Climate Strategy Analysis.

Vote-Only Items

1. Appliance Standards Enforcement

Background. The California Energy Commission (CEC) Appliance Efficiency Program intends to increase the efficiency of appliances sold or offered for sale to California consumers and businesses. The Warren-Alquist Act directed the CEC to develop, implement, and enforce standards on appliances for minimum efficiencies or maximum energy consumption allowances for affected appliances.

The Appliance Efficiency Regulations are designed to:

- Establish efficiency standards for non-federally regulated appliances.
- Specify testing, labeling, and marking requirements.
- Specify data collection for most products.
- Provide rules for enforcing the standards.

Increasingly, the CEC's appliance standards are focusing on consumer electronics, which are often manufactured outside of the United States and may be sold through the Internet. To comply with these standards, all manufacturers and parties involved in the sale and distribution of affected appliances must: 1) identify whether each of their products meets the standards and are lawful to sell in California; 2) notify their customers that particular products are not allowed to be sold in California; and 3) track their sales transactions into California to stop transactions that would result in an unlawful sale of a non-complying product.

Governor's Budget. The Governor's Budget proposes \$118,000 from the Energy Resources Programs Account for one permanent position for appliance efficiency standards enforcement.

Staff Analysis. The CEC has calculated that if 30 percent of appliances are non-compliant with the 2004 appliance standards, the loss in energy savings would be 800 GWh, 4.9 million therms, and 42 peak megawatts for each year of appliance sales. These numbers suggest that compliance with appliance standards is a serious greenhouse gas issue, as energy production is closely linked to greenhouse gases.

Staff Recommendation. Staff recommends the Subcommittee approve the budget request.

2. Expanding California's Electricity Demand Forecast Capabilities to Implement the State's Resource Adequacy Commitments

Background. Since the 1970s, the California Energy Commission (CEC) has been the state's primary source for long-term (10-20 years) forecasts of electricity and natural gas demands. These long-term energy forecasts have become a key component of the CEC's Integrated Energy Policy Report and the Public Utilities Commission (PUC) long-term planning process. These

forecasts are important for planning for future need and resource capacity. Currently, the CEC conducts long-term forecasting and some short-term forecasting.

Short-term forecasts of electricity and natural gas require the CEC to compile data for nearly 40 investor-owned utilities, publicly owned utilities, retail service providers, and community choice aggregators; adjust the results based on in-house forecasts; and return the results within three months.

Governor's Budget. The Governor's Budget proposes \$399,000 from the Energy Resources Program Account for two permanent positions and contracts (\$150,000) to support the state's responsibilities for load serving entity forecast analysis and short-term forecasts of electricity demand for assessing electric supply resource adequacy.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Implement AB 549: Improving Energy Efficiency in Existing Homes

Background. Many homes were constructed in California prior to the first Building Energy Efficiency Standards (Building Standards) taking effect in 1978. The California Energy Commission (CEC) indicates that there are approximately eight million homes that were constructed prior to the Building Standards taking effect.

The CEC is required by Public Resources Code Section 25942 to establish regulations for a Home Energy Rating System (HERS) to certify home energy rating services in California. The California HERS program currently includes field verification and diagnostic testing of energy systems through CEC-certified providers.

AB 549 (Longville, 2001) required the CEC to provide a report to the Legislature on ways to decrease wasteful peak load energy consumption in existing residential and non-residential buildings. In the resulting AB 549 report, the CEC found that one of the potential strategies was a time-of-sale energy inspection. The time-of-sale strategy focuses on conducting energy ratings on homes when the properties are up for sale. The home buyer would be provided a report that allows for comparison of the energy efficiency of the home compared to other homes and that recommends cost-effective measures to reduce future utility bills.

Governor's Budget. The Governor's Budget proposes \$534,000 (\$226,000 on-going and \$308,000 one-time) from the Energy Resources Program Account for two permanent positions and contracts to implement a time-of-sale energy rating program for existing homes in California.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Energy Efficiency Planning in Publicly Owned Utilities and Air Conditioning Efficiency Improvement

Background. AB 2021 (Levine, 2006) requires increased energy efficiency in publicly owned utilities and improvements in air-conditioner efficiency. Specifically, AB 2021 requires the California Energy Commission (CEC) to:

- Develop a statewide estimate of all potentially achievable cost-effective electricity and natural gas efficiency savings and establish statewide annual targets for energy efficiency savings and demand reduction over 10 years.
- Investigate options and develop a plan to improve the energy efficiency of, and to decrease the peak electricity demand of, air conditioners in the state.
- Provide recommendations to the local publicly owned electric utility, the Legislature, and the Governor on energy efficiency improvements.

Governor's Budget. The Governor's Budget proposes \$118,000 from the Energy Resources Program Account for one permanent position to support the state's expanded responsibilities for energy efficiency.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Conduct Evaluation of Self Generation Incentive Program

Background. The Public Utilities Commission's (PUC) Self Generation Program was started in 2001 to support larger-scale clean, distributed generation technologies. Distributed generation, also known as net metering, allows consumers who are producing electricity to sell that energy back to the power grid. The program provides rebates for various renewable technologies, such as wind and fuel cells (solar is excluded). The program focuses on systems between 30kW and 5MW.

AB 2778 (Lieber, 2006) requires the California Energy Commission (CEC), on or before November 1, 2008, in consultation with the PUC and the Air Resources Board, to evaluate the costs and benefits of providing ratepayer subsidies for renewable and fossil fuel "ultraclean and low-emission distributed generation," as part of the CEC integrated energy policy report.

Governor's Budget. The Governor's Budget proposes \$500,000 in one-time funds from the Renewable Resource Trust Fund for contract funds to conduct an evaluation of the PUC's Self Generation Incentive Program.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Implementing Public Purpose Natural Gas Research

Background. AB 1002 (Wright, 2000) directed the Public Utilities Commission (PUC) to provide cost-effective energy efficiency and conservation activities, as well as public interest research and development for natural gas. This research program is funded by a surcharge on California's natural gas ratepayers. The collected funds are deposited into the Gas Consumption Surcharge Fund, which is continuously appropriated to the PUC. In August 2004, the PUC issued decision D.04-08-010 approving the public purpose natural gas research program, which would transfer up to \$24 million annually to the California Energy Commission (CEC) to conduct natural-gas related energy research.

CEC has been working to incorporate natural gas research into its existing PIER program since 2004. Currently, the CEC natural gas research program has a total of ten positions. The current program budget is approximately \$18 million. The program has been primarily focusing on energy efficiency and targeted technology research. SB 76 (2005) included transportation-related research to the CEC natural-gas program.

Governor's Budget. The Governor's Budget proposes \$471,000 from the Gas Consumption Surcharge Fund for four permanent positions to conduct research related to transportation, climate change, and air quality.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Building Standards and Compliance Enforcement

Background. The Warren-Alquist Act directed the reduction of wasteful, uneconomic, inefficient, or unnecessary energy consumption. In 1978, the first Building Energy Efficiency Standards (Building Standards) went into effect to meet the statutory direction of the Warren-Alquist Act. Building Standards address the design and construction of all major energy-using equipment in buildings and are required by statute to be performance standards that provide wide flexibility for designers and builders to use features and methods that are optimal for each particular building or development. Building Standards address new construction and additions or modifications to existing buildings.

The CEC states that it receives regular comments and complaints that the Building Standards are not being consistently enforced in the field. Cities and counties are required to enforce the Building Standards, but many of them focus on their traditional missions of health and safety rather than incorporating energy savings into their inspections. There are over 500 building departments in the state.

Governor's Budget. The Governor's Budget proposes \$693,000 (\$285,000 on-going, \$408,000 one-time) from the Energy Resources Program Account for Building Energy Efficiency Standards compliance and enforcement.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8. Implement Renewable Portfolio Standard

Background. SB 107 (Simitian, 2006) accelerated the state's Renewable Portfolio Standard (RPS) program to reach 20 percent of electricity retail sales through renewable energy by 2010, rather than 2017. The funds for the RPS come from AB 1890 (Brulte, 1996), an authorized system benefit charge on utility ratepayers to support existing, new, and emerging renewable resources among other public goods.

To address the requirements of SB 107, the CEC is proposing to:

- Track the RPS performance of California's 36 publicly owned utilities.
- Certify renewable energy credits based on eligibility criteria.
- Develop and implement a process to certify incremental generation from the repowering, expansion, or refurbishing of eligible existing out-of-state facilities.
- Provide supplemental energy payments to cover the above market costs of RPS-eligible procurement, subject to caps that the CEC can impose.

Governor's Budget. The Governor's Budget proposes \$336,000 from the Renewable Resource Trust Fund for three permanent positions to implement expanded mandates of the California Renewable Portfolio Standard.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

9. Administer Existing Renewable Facilities Program

Background. SB 90 (Sher, 1997) authorized the California Energy Commission (CEC) to establish the Renewable Energy Program to distribute funds as incentives for the deployment of renewable energy generation facilities. SB 1250 (Perata, 2006) directs the CEC to undertake an evaluation of renewable energy facilities (solid fuel biomass, solar thermal, and wind) that seek funding incentives from the CEC under the Renewable Energy Program.

Governor's Budget. The Governor's Budget proposes \$118,000 from the Renewable Resource Trust Fund for one permanent position to implement the requirements of SB 1250.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

10. Electricity Resource Planning

Background. AB 1632 (Blakeslee, 2006) requires the California Energy Commission (CEC) as part of its Integrated Energy Policy Report to compile and assess existing scientific studies to determine the potential vulnerability of existing large baseload generation facilities – 1,700 megawatts or greater – to major disruption due to plant aging or an earthquake. According to AB 1632, the study must be completed by November 1, 2008. California only has four plants

with baseload generation of 1,700 or greater: 1) Diablo Canyon nuclear plant, 2) San Onofre nuclear plant, 3) Los Alamos, and 4) Moss Landing.

Governor's Budget. The Governor's Budget proposes \$800,000 one-time funds from the Energy Resources Programs Account for contract funds to complete the study required by AB 1632.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

11. Implement Efficient Solar Homes

Background. In 2006, response to the Million Solar Roof Initiative, the California Energy Commission (CEC) and the Public Utilities Commission (PUC) jointly initiated a ten-year program to expand 30 times the number of energy efficient, solar-powered homes in California by 2017. Starting January 2007, CEC will launch a \$350 million New Solar Homes Partnership. This program will collaborate with home builders and the solar industry. The program funds will be used to provide rebates. The CEC will be responsible for new residential construction, and the PUC will be responsible for commercial and existing residential buildings.

The CEC is proposing to contract out to a third party for the processing of rebate requests. Processing requests is a labor-intensive effort.

Governor's Budget. The Governor's Budget proposes \$148,000 from the Energy Resources Program Account for one permanent position, contract funds, and travel funds to administer the New Solar Homes Partnership.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

12. Petroleum Industry Reporting and Reducing Petroleum Use

Background. The California Energy Commission (CEC) gathers data on the petroleum industry in order to understand and identify what infrastructure is needed, where it is needed, and how soon it will be needed. The work on petroleum availability is driven by:

- Responses to retail price spikes exacerbated by crude oil and wholesale petroleum product prices, physical constraints in California's marine infrastructure, and the transportation fuel industry's storage capacity.
- Rapid response to fuel supply disruptions caused by unplanned disruptions such as refinery outages or pipeline ruptures.

- Research and studies to identify actions that help alleviate the conditions that cause price and supply problems for California.
- Development of programs that will mitigate the impacts of high gasoline and diesel prices and severe price volatility.

AB 844 (Nation, 2003) required the CEC to test tires replacing original equipment, determine if standards for mileage efficiency were appropriate and, if they were, to adopt minimum fuel efficiency standards for replacement tires and inform consumers about test results.

As part of the work on replacement tire fuel efficiency, the CEC intends to undertake a study on tire recycling impact.

Governor's Budget. The Governor's Budget proposes \$953,000 from the Energy Resources Program Account for two new permanent positions; make two limited-term positions permanent; and \$500,000 in baseline contract funds.

Staff Analysis. The CEC is not the appropriate agency to study the impact of recycling tires. The California Integrated Waste Management Board (CIWMB) should be the agency to conduct the study, since the CIWMB is the agency responsible for tire recycling.

Staff Recommendation. Staff recommends the Subcommittee approve \$953,000 for two new permanent positions; make two limited-term positions permanent; and \$500,000 in baseline contract funds. Staff recommends the Subcommittee advise the department that these funds shall not be used toward a study on the impact of tire recycling.

13. PIER Electricity Program Implementation

Background. The Public Interest Energy Research (PIER) program develops technology and provides information on energy policy. PIER aims to improve and maintain energy system reliability; promote economic growth; and protect the environment and public health.

The PIER program is funded by a surcharge on electricity ratepayers. To date, PIER has provided \$488 million to projects related to buildings' end-use efficiency, industrial agriculture and water end-use efficiency; renewables; environmentally preferred advanced generation; energy systems integration; and environmental impacts of energy.

Governor's Budget. The Governor's Budget proposes \$418,000 from the Public Interest Research, Development, and Demonstration Fund for three permanent positions for the PIER electricity program. These positions would work on climate change, renewables, and electricity distribution research.

Staff Analysis. Climate change is a real concern that must be aggressively addressed. Devoting one position to monitoring, analysis, and modeling of regional climate, as well as analysis of options to reduce greenhouse gas emissions is not enough to tackle the major problem of climate change aggressively. Staff recommends the addition of three senior mechanical engineers at a

cost of \$328,000 annually. Two of these positions would work on climate change activities at PIER and one position would work on renewables at PIER.

Staff Recommendation. Staff recommends that the Subcommittee augment the Governor's request by adding three senior mechanical engineer positions at an annual cost of \$328,000 from the Public Interest Research, Development, and Demonstration Fund.

14. Provide Photovoltaic and Energy Efficiency Project Funding and Assistance to California's K-12 Schools

Background. The Williams settlement agreement was entered into between the California Attorney General and the Williams Energy Marketing & Trading Company to settle a lawsuit filed against Williams by the Attorney General. Under the settlement, Williams will pay approximately \$69 million to the state.

The California Energy Commission (CEC) is proposing to use the funds from the Williams settlement for a photovoltaic and energy efficiency program for public K-12 schools. This new program will provide grants, loans, and technical support contracts for combined photovoltaic and energy efficiency projects. This new program is proposed to be marketed and offered jointly with the CEC's existing Energy Conservation Assistance Account.

A portion of the funds would be used for a loan program for K-12 schools to purchase solar panels. The loan program will have repayments of no more than 30 equal semi-annual payments. These payments will reflect the energy savings of the project with a payback period averaging 12 years.

Governor's Budget. The Governor's budget proposes to use \$24.8 million of Williams Energy settlement funds to fund a new Photovoltaic (PV) and Energy Efficiency program for public K-12 schools. The Governor's budget, as part of those funds, proposes to use \$1,061,000 from the State Energy Conservation Assistance Account for four permanent positions to administer the Photovoltaic and Energy Efficiency Project for K-12 schools.

LAO Recommendation. The Legislature passed AB 2756 (Levine) which created a plan to expend Williams Energy settlement funds for energy efficiency retrofits of public schools and buildings. The legislation directed CEC, upon legislative appropriation, to provide grants to K-12 public schools and public universities or community colleges, based on specific criteria and expectations, for various energy conservation projects. The bill did not specify a specific energy technology, but rather allowed the schools to select the most effective energy efficiency projects to be submitted for grant consideration. The legislation was vetoed by the Governor in 2006.

Consistent with legislative intent in AB 2756, the LAO thinks that settlement funds should be awarded for a broader array of energy efficiency upgrades, beyond those that are PV in nature. Examples of other types of energy efficiencies are retrofitting heating and cooling systems, replacing lighting fixtures, improving insulation, and using alternative building materials.

To ensure legislative oversight and consistency with legislative intent for the use of the Williams Energy settlement funds, the LAO recommends that the budget request be denied and instead recommend the enactment of legislation directing the use of Williams Energy settlement funds (in accordance with the settlement agreement), such as was done in AB 2756.

Staff Recommendation. Hold open.

15. Implement Million Solar Roofs Program

Background. SB 1 (Murray, 2006) expanded the California Solar Initiative to include all municipal utilities; allowed consumers to sell back solar power that is produced on their solar panels beyond what they use themselves; required homebuilders to offer solar as an option in new homes; and required the California Energy Commission (CEC) to evaluate adding solar power to building codes.

SB 1 establishes the following new requirements for CEC:

- Beginning January 1, 2011, sellers of production homes must offer the option of a solar energy system to all their customers. The CEC must develop an offset program that allows a developer or seller of production homes to forgo the offer-requirement of a project by installing solar energy systems on other projects.
- By July 1, 2007, the CEC must initiate a public proceeding to study and make findings whether and under what conditions, solar energy systems should be required on new residential and non-residential buildings.
- By January 1, 2008, the CEC must, in consultation with the Public Utilities Commission and local publicly owned electric utilities, establish eligibility criteria for solar energy systems and to establish conditions for ratepayer funded incentives for all installations of solar energy systems on all types of buildings and facilities administered through all programs in the Million Solar Roofs Initiative.
- By January 1, 2008, the CEC must determine reasonable and cost-effective energy efficiency improvements in existing buildings as a condition of providing incentives for eligible solar energy systems, with appropriate exemptions or limitations to accommodate the limited financial resources of low-income housing.
- By January 1, 2010, the CEC must report to the Governor and Legislature on the costs and benefits of net energy metering and other topics.
- Requires the CEC to evaluate the costs and benefits of having an increased number of operational solar energy systems as part of the electrical system.
- Requires the CEC to conduct research related to its delivery of the rebate program for new homes.
- Requires the CEC to make information available to consumers, to provide educational materials and technical assistance to buildings and contractors, and to conduct random audits of solar energy systems to evaluate their operational performance.

Governor's Budget. The Governor's Budget proposes \$486,000 from the Renewable Resource Trust Fund for four permanent positions to implement the Million Solar Roofs Program.

Staff Analysis. Some of the tasks that the four employees would be assigned to complete are short-term assignments. Thus staff recommends that two of the positions be made temporary two-year positions.

Staff Recommendation. Staff recommends that the subcommittee approve two permanent positions and approve two 2-year temporary positions, for \$486,000 total, of which \$236,000 is on-going.

16. Greenhouse Gases Emissions Performance Standard for Publicly Owned Utilities

Background. SB 1368 (Perata, 2006) requires that the California Energy Commission (CEC), in collaboration with the Air Resources Board and the Public Utilities Commission, develop and adopt a greenhouse gas emissions performance standard and implementing regulations for all baseload generation of publicly owned electric utilities by no later than June 30, 2007. SB 1368 also requires the CEC to implement a compliance monitoring and enforcement program, effective July 2007, to assure conformance with the performance standards for the public owned electric utilities.

Governor's Budget. The Governor's Budget proposes \$122,000 from the Energy Resources Programs Account for one permanent position to conduct work associated with the requirements of SB 1368.

Staff Analysis. Climate change is a real concern that must be aggressively addressed. Devoting one position to monitoring, analysis, and modeling of regional climate, as well as analysis of options to reduce greenhouse gas emissions is not enough to tackle the major problem of climate change aggressively. Staff recommends addition of an Electric Generation System Specialist II for the task of implementing an enforcement program to assure conformance with the performance standard by publicly owned utilities.

Staff Recommendation. Staff recommends the Subcommittee augment the Governor's proposal by one Electric Generation System Specialist II at a cost of \$122,000 (for a total of \$244,000) from the Energy Resources Programs Account.

17. Transmission Corridor Zone Designation Process

Background. In its 2003 Energy Report, the California Energy Commission (CEC) noted that existing transmission planning and permitting processes lack important elements to assure that critically needed transmission infrastructure is approved and constructed in a timely manner to meet the state's growing demand for electricity. SB 1059 (Escutia, 2006) provided CEC with the

authority to designate transmission corridor zones for future use to accommodate the needed electric transmission lines. The CEC can designate a transmission corridor zone on its own motion or by an application from an entity planning to construct a high-voltage electric transmission line within California.

In order to ensure that it can move forward with designating transmission corridor zones, the CEC intends to:

- Identify the long-term needs for electric transmission corridor zones within the state.
- Work with federal, state, and local agencies; stakeholders; and the public to study transmission corridor zone alternatives and designate appropriate transmission corridor zones for future use to ensure reliable and efficient delivery of electricity for California's residents.
- Integrate transmission corridor zone planning and designation at the state level with local land use planning processes, so that designated transmission corridor zones are considered by cities and counties when they are making land use decisions.

Governor's Budget. The Governor's Budget proposes \$536,000 from the Energy Resources Program Account for four permanent positions in 2007-08, and proposes \$1,019,000 from the Energy Resources Program Account for four additional permanent positions in 2008-09.

Staff Analysis. Staff is concerned that the Governor's proposal would make it easier for the PUC to exercise eminent domain to convert land use for transmission corridors. Staff recommends the Subcommittee adopt trailer bill language specifying that if the land being considered for a transmission corridor zone is a state park, or is already protected by an easement for habitat, oak woodlands, or wilderness preservation, that the matter of designating those lands as transmission corridor zones would have to be considered by the Public Works Board.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal and direct staff to write trailer bill language as specified in the staff analysis.

18. Renewable Energy Program Effectiveness – Informational Issue

Background. Under current law, investor owned utilities (IOUs) and other energy providers are required to obtain 20 percent of their delivered power from renewable sources (such as wind, small hydroelectric, and PV) by 2010. In furtherance of this statutory target, the CEC administers a renewable energy program funded by Renewable Resources Trust Fund (RRTF). The RRTF receives its funding from a surcharge on consumers' energy bills. The program provides incentives for the production and purchase of renewable energy. One component of the program is the provision of "supplemental energy payments" (SEPs) to renewable energy producers to cover above-market costs of producing renewable energy relative to nonrenewable sources. This program component is designed to make renewable energy more price-competitive for IOUs when IOUs seek energy contracts.

The CEC as well as Public Utilities Commission have indicated that the state is not on target to reach the 20 percent RPS goal by 2010 unless corrective action is taken. The CEC has recently completed an update to its statutorily required Integrated Energy Policy Report (IEPR) that includes recommendations for a number of midcourse changes to the renewable energy program, some of which may require statutory changes. Among the recommended changes are changes to the SEP process to address concerns that renewable energy producers have had difficulty securing financing for their projects, even with the potential of their receiving SEP production incentives. This has led to fewer SEP claims, allowing RRTF to build up a substantial fund balance—projected to be \$142 million at the end of the budget year.

LAO Recommendation. The LAO recommends the Legislature require the commission to report at hearings on its proposals to increase the effective use of RRTF, thereby reducing the fund balance.

Staff Recommendation. Informational item, no action.

8665 Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (CPA) was created in response to the 2000-01 energy crisis and was charged with assuring a reliable supply of power to Californians at reasonable rates, including planning for sufficient reserves. The administrative operations of the agency ceased in October 2004 and its last remaining program, the Demand Reserve Program, is scheduled to expire on June 30, 2007.

Governor's Budget. The Governor's Budget proposes to eliminate the CPA and transfer all remaining CPA funds (estimated at \$2.5 million) to the Energy Commission for repayment of loans.

Legislative Counsel's Digest of Proposed Trailer Bill Language:

Existing law, the California Consumer Power and Conservation Authority Act, creates the California Consumer Power and Conservation Financing Authority, with powers and responsibilities as prescribed, including the issuance of revenue bonds, for the purposes of augmenting electric generating facilities and to ensure a sufficient and reliable supply of electricity, financing incentives for investment in cost-effective energy-efficient appliances and energy demand reduction, achieving a specified energy capacity reserve level, providing financing for the retrofit of inefficient electric powerplants, renewable energy and conservation, and where appropriate, developing strategies for the authority to facilitate a dependable supply of natural gas at reasonable prices to the public. The act creates in the State Treasury the California Consumer Power and Conservation Financing Authority Fund, and would continuously appropriate all money to the fund, except as specified, for the support of the authority. The act prohibits the authority from approving any new program, enterprise, or project, on or after January 1, 2007, unless authority to approve such an activity is granted by statute enacted on or before January 1, 2007.

This bill would repeal the California Consumer Power and Conservation Authority Act, and make other conforming changes.

LAO Recommendation. The LAO notes that CPA has long ceased its administrative operations, and the remaining program which it has been funding is scheduled to expire on June 30, 2007. The CPA has no other current or future activities authorized by statute. Consistent with the de facto termination of CPA under current law as of January 1, 2007, the budget proposes to formally eliminate CPA in statute and transfer remaining funds in the amount of \$2.5 million to the California Energy Commission to repay loans made to CPA in 2002 and 2003. The LAO recommends approval of the Governor's proposal.

Staff Analysis. This is a policy matter that should be handled through a policy bill.

Staff Recommendation. Staff recommends the Subcommittee reject the proposed trailer bill language.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created as a result of energy deregulation and was intended to ensure that wholesale energy markets and the electric transmission system function reliably at a fair cost to consumers. The EOB investigates the structure, function, and competitiveness of markets for bulk energy, transmission, and generating capacity. The EOB also conducts oversight and performance evaluation of the California Independent System Operator. The EOB also represents the state before the Federal Energy Regulatory Commission, Federal Courts, and in regional forums.

Governor's Budget. The Governor's Budget proposes to eliminate the EOB, while providing it with \$4.1 million in operations funding for 2007-08.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Administration	\$ 4,073	\$ 4,128	\$ 55	1.3
Total	\$ 4,073	\$ 4,128	\$ 55	1.3
Funding Source				
Special Funds	\$ 4,073	\$ 4,128	\$ 55	1.3
Total	\$ 4,073	\$ 4,128	\$ 55	1.3

Legislative Counsel's Digest of Proposed Trailer Bill Language:

(1) The existing restructuring of the electrical services industry provides for the authorization of direct transactions between electricity suppliers and end use customers and for the creation of the Independent System Operator and the Power Exchange. An Electricity Oversight Board is also created to, among other things, oversee the Independent System Operator and the Power Exchange, and to determine the composition and terms of service and to appoint the members of the governing boards of the Independent System Operator and the Power Exchange. Existing law makes the Electricity Oversight Board the appeal authority for majority decisions of the governing board of the Independent System Operator only with respect to prescribed matters, that would be subject to California's exclusive jurisdiction.

This bill would eliminate the Electricity Oversight Board and its prescribed functions. This bill would make conforming changes to existing law by removing references to the Electricity Oversight Board.

(2) Existing law requires the Independent System Operator governing board to be appointed by the Governor and to be confirmed by the Senate. Existing law requires these appointments to be for 3-year terms, with initial appointments of one member for a one-year term, 2 members for a 2-year term, and 2 members for a 3-year term. Existing law imposes prescribed requirements regarding the bylaws of the Independent System Operator and the Power Exchange.

This bill would make technical and conforming changes to existing law.

LAO Recommendation. Electricity Oversight Board's (EOB) primary duty at this time is to act as a market monitor, overseeing the state's electricity market, and initiating proceedings at Federal Energy Regulatory Commission (FERC) in response to market manipulation. The EOB has been a participant in over 400 proceedings at FERC and has been a litigant in over 100 cases in the federal courts of appeal. Through 2005-06, EOB has been a party to settlements of over \$1 billion for various overcharges.

The EOB currently has a staff of 23 positions and a budget of \$4.1 million, the majority of which comes from the fee-funded Public Utilities Commission Reimbursement Account. The EOB's governing board currently has not met since March 2003. Since that time, EOB staff has reported directly to the Governor's office.

The proposed trailer bill language to eliminate EOB does not specify how current workload and authority at the board would be transferred to other agencies. Rather, the proposed statutory language simply eliminates any references to the board in statute, and gives the Governor power to designate a successor for all of EOB's duties and authority including legal matters.

The LAO finds that while there may be merits in consolidating EOB's functions in another energy entity, the Governor's proposal is incomplete in that it does not address the energy-related activities in several other state entities, nor does it provide a plan on which state agency would be assuming EOB's current duties and workload. The issue of which state entity would assume EOB's duties is particularly relevant given that moving EOB's electricity market monitoring duties into certain other energy agencies raises potential conflicts of interest. The FERC requires that entities that monitor the electricity market be independent from any market participant or interest. Some of the state's energy entities—such as CEC and CERS—could be considered market participants. Additionally, EOB is currently involved in a number of FERC proceedings and litigation as noted above. The Governor's proposal is silent on who would be assuming EOB's role in these cases to ensure that the cases continue to be pursued aggressively on behalf of the state's ratepayers.

We think it is important to note that the EOB is currently fully operational and has ongoing workload, which, absent the Governor's proposal or another plan to reorganize the state's energy entities, would carry on into the budget and future years. The EOB's current workload includes involvement in about 240 cases pending at FERC. The EOB legal workload also includes over 100 items of appeal in the United States Court of Appeals. These cases, largely, are pursuing

settlements for electricity price overcharges during the energy crisis, on behalf of the state's electricity ratepayers.

The LAO recommends the Legislature withhold action on the EOB budget, and require the administration to present at budget hearings a plan to assign EOB's duties and pending legal workload to other state agencies.

Staff Analysis. The Governor's Budget proposes to end the Electricity Oversight Board without moving the responsibilities of the EOB to other departments. Some departments that could be considered for current EOB duties are the Attorney General's Office, the Public Utilities Commission, and the California Energy Commission. The administration needs to submit to the Legislature a proposal to shift critical EOB functions to other agencies before a proposal to end the EOB can be considered.

Staff Recommendation. Staff recommends the Subcommittee reject the proposed trailer bill language to eliminate the Electricity Oversight Board. Staff further recommends the Subcommittee approve the proposed \$4.1 million budget for the Electricity Oversight Board.

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain video providers and passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support the CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type Expenditure				
Regulation of Utilities	\$ 375,297	\$ 381,501	\$ 6,204	1.6
Universal Service Telephone Programs	897,408	884,615	-12,793	-1.4
Regulation of Transportation Administration	18,637	20,458	1,821	9.7
Administration	21,781	26,247	4,466	20.5
<i>less distributed administration</i>	<i>-21,781</i>	<i>-26,247</i>	<i>-4,466</i>	<i>20.5</i>
Total	\$ 1,291,342	\$ 1,286,574	-\$4,768	-0.4
Funding Source				
General Fund	\$0	\$0	\$0	0
Special Funds	1,277,329	1,269,575	-7,754	-0.6
<i>Budget Act Total</i>	<i>1,277,329</i>	<i>1,269,575</i>	<i>-7,754</i>	<i>-0.6</i>
Federal Funds	1,209	1,702	493	40.8
Reimbursements	12,786	15,297	2,511	19.6
Total	\$ 1,291,324	\$ 1,286,574	-\$4,750	-0.4

NOTE: Climate change related budget change proposals will be heard on April 16th with other AB 32 implementation proposals. The specific budget change proposal for the Public Utilities Commission is: AB 32 – Climate Change Activities.

Vote-Only Items

1. Implement Demand Response and Advanced Metering Programs

Background. Currently, electrical utilities use standard analogue meters to measure customers' electricity usage. These analogue meters can only measure the total electricity usage of a customer and cannot break that usage down by time of day (or peak vs. non-peak usage). These analogue meters must be read by employees walking out to each meter and recording the usage amount manually.

Advanced metering (AMI) is the hardware and software that enables the utilities to record customer electricity usage by time of day. AMI will allow customers to participate in time-differentiated rates and demand response programs. AMI will also lower the utilities' operational costs.

Currently three large utilities, PG&E, Edison, and SDG&E, serving about 11 million ratepayers have stated their intent to install AMI. The PUC has already approved PG&E's \$1.7 billion proposal to upgrade to AMI.

The PUC currently has 4 employees working on AMI implementation in overseeing existing demand response programs and providing technical review of applications to invest in advanced meter infrastructure.

Governor's Budget. The Governor's Budget proposes \$211,000 from the Public Utilities Commission Utilities Reimbursement Account for two permanent positions to develop and implement new demand response programs.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Increase Number of Rail Crossing Safety Staff

Background. The Public Utilities Commission (PUC) has statutory authority over approximately 14,200 highway and railroad crossings. As part of its responsibilities, the PUC determines the design of the crossings and the location of the crossings, as well as the terms of installation, operation maintenance, use, and warning devices.

In April 2005, the PUC issued its first-ever Rail Safety Action Plan. This plan included components for increasing railroad crossing safety, including:

- Identifying new construction projects that adversely impact rail safety and then initiating informational and other actions to ensure that rail safety is addressed before the project is built.
- Collecting and analyzing data on "near miss" incidents relative to rail crossings and along the rail right-of-way.

- Investigate rail-related fatalities and significant accidents, and apply the lessons learned to rail crossing diagnostic reviews, to rail corridor safety enhancements, and to operational safety enhancements that advance the cause of rail safety.
- Issue public reports regarding the root causes and significant contributing factors of all accidents investigated.

In 2006, there were 143 deaths related to rail crossings and people walking on the rails. During the same time period, there were another 417 injuries related to rail crossings and rail trespassing. Currently, the PUC has a staff of 19 positions to work on rail safety. However, in 2000-01, the PUC had a staff of 25 positions to work on rail safety.

Governor's Budget. The Governor's Budget proposes \$86,000 in State Highway Account funds for one permanent position to increase rail crossing safety oversight activities.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Railroads: Maintenance and Safety

Background. California has nearly 11,000 miles of railroad track. The condition of these tracks must be inspected routinely to ensure that railroad accidents do not occur. The railroad companies inspect the track with mechanical track inspection devices and are responsible for repairing damaged track. The Public Utilities Commission (PUC) must then inspect the track to ensure the maintenance was properly conducted. The PUC conducts assessments of railroad practices, facilities, and operations in order to address problem areas before an accident or incident occurs.

AB 1935 (Bermudez) required the PUC to increase the number of railroad inspections, as well as collect and analyze data on "near-miss" incidents. Currently, the PUC has 5.5 positions to handle this kind of work. These five positions were able to inspect 4,776 miles of track in 2006.

Governor's Budget. The Governor's Budget proposes \$705,000 from the Public Utilities Commission Transportation Reimbursement Account for seven permanent positions to conduct safety inspections of railroad equipment and facilities.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal as budgeted.

4. California Solar Initiative – Monitoring, Evaluation, and Consultants

Background. In January 2006, the Public Utilities Commission (PUC) adopted D.06-01-24, which designed the California Solar Initiative and began implementation steps. Also during

2006, the Legislature passed SB 1, the Million Solar Roofs bill. SB 1 includes multiple requirements, among them:

- Award monetary incentives for eligible solar energy systems.
- Award monetary incentives for up to the first one megawatt of electricity generated by an eligible solar energy system.
- Adopt a performance-based incentive program by 2008.
- Requires reasonable and cost effective energy efficiency improvements in existing buildings as a condition of providing incentives for the installation of solar energy systems.
- Requires time-variant pricing for all ratepayers with a solar energy system.
- Imposes a charge necessary to fund the California Solar Initiative on all electricity ratepayers except for low income ratepayers.

SB 1 provided \$2.1 billion for the California Solar Initiative through investor-owned utility electricity ratepayer fees. The entire \$2.1 billion is off-budget, and not subject to annual Legislative appropriation. SB 1 specified that up to ten percent of the \$2.1 billion could be used for administrative purposes. SB 1 requires the PUC to measure and report on the costs and benefits of the California Solar Initiative and other related policies such as net metering and time of use pricing.

Governor's Budget. The Governor's Budget proposes \$2,460,000 in reimbursements from the SB 1 monies for three positions and consulting costs for the PUC to implement, administer, and evaluate the California Solar Initiative. These funds are approximately one percent of the allowable administrative budget under SB 1.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Renewables Portfolio Standard Program

Background. In 2006, the Legislature passed SB 107 (Simitian and Perata), which accelerates the existing Renewables Portfolio Standard (RPS) by requiring retail sellers of electricity to procure at least twenty percent of their retail sales from renewable power sources by 2010. SB 107 has multiple requirements, including:

- Accelerating the RPS goal of 20 percent renewable generation from 2017 to 2010.
- Requires the PUC, in consultation with the Energy Commission, to study the use of supplemental energy payments for short term contracts, and to submit a report to the Legislature by June 30, 2007.
- Allows renewable energy produced outside of California, but delivered to an in-state location, to count toward the RPS.

Governor's Budget. The Governor's Budget proposes \$108,000 from the Public Utilities Commission Utilities Reimbursement Account for one new position.

The position would implement the Renewable Energy Credits program, set rules for and oversee the procurement entities, and manage the increased use of supplemental energy payments for PUC approved renewable energy projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Video Franchising

Background. AB 2987 (Nunez, 2006), the Digital Infrastructure and Video Competition Act, created a program for issuance of state video franchises and established the Public Utilities Commission (PUC) as the administering agency for the program.

In administering AB 2987, the PUC will have to monitor broadband and video market developments, respond to federal policy changes impacting California, address formal complaints lodged by local governments, and initiate investigations surrounding complaints. Since AB 2987 requires applicants to provide data on a census block level, and there are over 7,000 census tracts in California, the PUC will need to begin tracking this application component with GIS mapping.

Governor's Budget. The Governor's Budget proposes \$950,000 total, of which \$850,000 is from the Public Utilities Commission Utilities Reimbursement Account and \$100,000 is from the Public Utilities Commission Ratepayer Advocate Account. These funds would be for 10.5 positions to carry out the requirements of AB 2987, of which one position would be for the Division of Ratepayer Advocates.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Increase Staff to Ensure Passenger Carrier Enforcement at Airports and Enhance Licensing Filings

Background. The Legislature enacted the Passenger Charter-Party Carrier's Act in 1961. The Act made the Public Utilities Commission (PUC) responsible for regulation of the operations and services of for-hire passenger carriers, which includes limousines. Limousine operators are among those who pay a fee to the PUC for regulation of the passenger carrier industry.

The Greater California Livery Association has expressed concerns to the PUC that numerous limousine drivers are operating without a license. Airports have similarly expressed concerns about unlicensed limousine drivers operating on airport property. Due to the high demand for chartered transportation at airports, there is suspected to be a concentration of unlicensed limousines at airports.

Governor's Budget. The Governor's Budget proposes \$486,000 from the Public Utilities Commission Transportation Reimbursement Account for five permanent positions to conduct passenger carrier enforcement activities at California's major airports.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8. Infrastructure Improvements and Repairs

Background. The Public Utilities Commission (PUC) headquarters are housed in a state-owned building located in San Francisco. The Department of General Services is responsible for completing the work.

The proposed projects are:

- Re-painting of the building's exterior
- Re-cultivation of the building's exterior walls
- Study with plans and specifications for seven elevator cars
- Re-design and replace two courtyard roll-up gates
- Comprehensive space plan study
- Structural study to evaluate cracks in women's restrooms
- Building electrical upgrades and replacements

Governor's Budget. The Governor's Budget proposes \$3,078,000 for maintenance and repairs of the PUC's headquarters building in San Francisco.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

9. AB 2393 – Telecommunications Emergency Services

Background. The increased use of fiber optic cables for telephone service has brought about concerns that during blackouts fiber optic cable telephone customers cannot connect to 911 services. There are backup batteries installed in the homes of fiber optic telephone service customers, however, these customers may not be aware of the need to regularly check these batteries.

AB 2393 (Levine, 2006) requires the PUC to consider the need for performance reliability standards, and to develop and implement performance reliability standards, for backup power systems installed on the property of residential and small commercial customers by a provider of telephone services, upon determining that the benefits of the standards exceed the costs. In response to AB 2393, the PUC is proposing to: 1) conduct an investigation and issue a report on the standards for use of auto-dialers to notify the public of local emergencies; 2) conduct an investigation and issue a report on the reliability of service-provider installed backup power; and 3) conduct an investigation and report on the need for backup telecommunications power to ensure emergency functionality.

Governor's Budget. The Governor's Budget proposes \$596,719 from the Public Utilities Commission Utilities Reimbursement Account for five 1-year limited-term positions to implement AB 2393.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

10. Implement Community Choice Aggregation Programs

Background. AB 117 (2002) created the Community Choice Aggregation (CCA) Program. The CCA allows cities and counties to aggregate the electric load of customers in their respective geographical service areas and purchase electricity on these customers' behalf. CCA allows the aggregators (cities or counties) to take over the energy procurement function from the utilities. This statute does not apply to publicly owned utilities.

To implement AB 117, the PUC will need to review tariff filings, coordinate with other proceedings, review registration and implementation plans, conduct outreach to local governments, and calculate cost responsibility surcharges for each CCA separately.

Governor's Budget. The Governor's Budget proposes \$98,000 from the Public Utilities Commission Utilities Reimbursement Account for one permanent position to implement a new Community Choice Aggregation Program to allow cities and counties to aggregate the electric load of customers in their respective geographical service areas.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

11. Consulting on Water-Energy Linkages

Background. Water usage and energy in California are closely linked in that a large amount of energy is expended in pumping water and treating water for the end-use customer. The Public Utilities Commission (PUC) is proposing to study the amount of energy saved through end-user water conservation efforts.

Governor's Budget. The Governor's Budget proposes \$100,000 from the Public Utilities Commission Utilities Reimbursement Account for consultant fees to understand the impacts of policies under development to encourage the conservation of energy through water conservation.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

12. Electricity Market Design

Background. The California electricity industry was deregulated in 1996. The 2000-2001 electricity crisis prompted the Legislature to pass, and the Governor to sign, emergency legislation AB 1X, which suspended some of the aspects of deregulation. Among the deregulation suspended was the ability of customers to sign up for direct access (competitive retail providers). These regulations will not be reinstated until 2014, when the Department of Water Resources electricity contracts expire.

Since the 2000-2001 crisis, the Public Utilities Commission (PUC) has been working on encouraging a “hybrid” market design. Currently, PUC staff is working on more stringent resource adequacy requirements and a capacity market structure.

Governor’s Budget. The Governor’s Budget proposes \$408,000 from the Public Utilities Commission Utilities Reimbursement Account (\$307,000 one time, \$101,000 on-going) for one permanent position and consultant contracts.

The analyst will be working on a plan to reopen retail electric competition in California.

LAO Recommendation. The LAO thinks it is premature and beyond the jurisdiction of CPUC to begin investigation and evaluation of a market design without further statutory direction from the Legislature. The LAO therefore recommends the Legislature deny the budget request.

Staff Analysis. Reopening the California electric retail market to competition is a policy choice with great financial and market implications for California, electricity providers, and ratepayers. This discussion should take place in the policy process with legislation that could be debated by all Senators.

Staff Recommendation. Staff recommends the Subcommittee reject this budget proposal.

13. Increase Staff to Form a Federally Funded Critical Infrastructure Security Team to Protect California Infrastructure and Key Resources

Background. June 2006, the United States Department of Homeland Security (USDHS) released the National Infrastructure Protection Plan (NIPP). NIPP sets national priorities, goals, and requirements to effectively distribute funding and resources in the event of a terrorist attack or other disaster.

The PUC wants to create a Critical Infrastructure Security team within its Consumer Protection Division. This team would be responsible for ensuring that California utilities, railroads, and rail

transit properties are equitably included in the plan. The NIPP does point out that state public utilities commissions are generally well-placed to handle these responsibilities.

Governor's Budget. The Governor's Budget proposes \$500,000 in Federal Trust Fund for four permanent positions to staff a new critical infrastructure security team.

LAO Recommendation. The LAO finds the proposed duties of the new branch are often very broad, typically vague, and lacking a clear purpose. The PUC has stated that municipal utilities, currently not regulated by the PUC, would be included in this program. The inclusion of municipal utilities is an expansion of authority for the commission.

The LAO also finds that the federal funding proposed to support this new program is highly uncertain. According to the PUC, there is no certainty that federal funds will be allocated to this effort, and those federal funds the PUC has identified as potentially available may require matching state funds. Given the uncertainty of federal funding, the lack of clear duties, and an apparent expansion of the commission's jurisdiction without statutory authorization—the LAO recommends the Legislature deny the request.

Staff Analysis. Staff has requested information from the PUC as to how the department will work with the Department of Homeland Security so as not to duplicate tasks and act with the greatest efficiency possible in time of crisis. The PUC has indicated that it is in the process of drafting a memorandum of understanding (MOU) with the Department of Homeland Security, but that the MOU is not complete. Staff recommends holding this item open to give the PUC more time to respond to these questions.

Staff Recommendation. Hold open.

14. Data Center Restructuring

Background. After four disruptions to its data system over the course of three months, the Public Utilities Commission (PUC) hired TechProse (IT consultants) to investigate the disruptions of service, analyze the underlying causes, and develop an Information Services Branch Information Technology Strategic Plan. The improvements recommended in the plan will be conducted in three phases, the total cost of which is not known to the PUC.

Governor's Budget. The Governor's Budget proposes \$765,000 from various special funds (\$176,000 on-going, \$589,000 one-time) for Phase I of the Information Technology Strategic Plan. Specifically, the funds would be used for:

- \$70,000 – Conduct a data center redesign and expansion study.
- \$25,000 – Perform a full review of the heating/ventilation air conditioning in the data center and closets.
- \$150,000 – Purchase and install a dedicated emergency power backup system to its IT environment.
- \$180,000 – Establish a dedicated development and testing lab.

- \$150,000 – Perform a server/desktop network upgrade at the San Francisco headquarters office.
- \$190,000 – Establish two new positions in the Network Administration Unit. The first position would be a Senior Information Systems Analyst Supervisory to add a mid-management layer and the second would be an Associate Information Systems Analyst to perform change management functions, such as fixes and software upgrades.

Staff Analysis. Many of the requested improvements to the information technology branch are not useful if conducted prior to the study on data center redesign and expansion. The study could recommend different approaches to the data center configuration and technology used that may make some of the upgrades proposed in this budget request outdated.

Also, in another budget request, titled *Infrastructure Improvements and Repairs*, the PUC indicated that they will use alternative funding mechanisms to purchase an \$180,000 backup generator for the entire building. Funding a separate emergency power backup system for the IT environment only would be unnecessary given the other generator that will be purchased.

The PUC today has four fewer IT specialists than it did in 1996. However, the state's reliance on information technology has grown greatly since the 1990s as the public's reliance on the Internet as a source of information grows, and as nearly all agency workers use computers to complete some or all aspects of their job. Thus, increasing the number of IT workers at the PUC is warranted.

Given that many of the proposed repairs are too early to contemplate prior to the completion of the study, staff recommends reducing the funding to the data center redesign and expansion study, the HVAC study, and the two new positions.

Staff Recommendation. Staff recommends the Subcommittee provide \$285,000 from the Public Utilities Commission Utilities Reimbursement Account for the data center redesign and expansion study; for performing a full review of the heating/ventilation air conditioning in the data center and closets; and for the two requested positions.

15. California Alternate Rate for Energy (CARE) Program

Background. The California Alternate Rate for Energy (CARE) Program allows qualifying low-income electricity and natural gas customers to receive a 20 percent discount on their utility bills. The discount is paid for by all other ratepayers. However, tenants of mobile homes and apartment complexes where electricity usage was not metered per customer but rather per complex, were not eligible.

In 2006, AB 2104 (Lieber) expanded the program to make tenants of mobile home and apartment buildings eligible by requiring the PUC to adopt rules by December 31, 2007, to improve the CARE application process for tenants of a mobile homes or apartment building. The application process improvement would take place by developing processes whereby electrical corporations

and gas corporations are able to directly accept CARE applications from those tenants and to directly notify and provide renewal applications to tenants that are existing CARE customers.

Governor's Budget. The Governor's Budget proposes \$189,000 from the Public Utilities Commission Utilities Reimbursement Account for two limited-term positions to develop and adopt new rules required by AB 2104.

Staff Analysis. AB 2104 states that the new CARE rules must be adopted by December 31, 2007 and that the requirements would be repealed on January 1, 2008. The PUC is requesting two-year positions, despite the fact that AB 2104 sets the work timeline as six months.

Staff Recommendation. Staff recommends the Subcommittee direct the PUC to redirect positions internally to cover the workload and reject the Governor's proposal.

16. Budget Bill Provisional Language: California Teleconnect Fund

Background. Public Utilities Code 280 requires the establishment of the California Teleconnect Fund program to provide discounted services to qualifying schools, libraries, hospitals and community-based organizations. For the last two years, the claims against the fund have exceeded revenues.

Proposed Language.

Notwithstanding any other provision of law, upon request of the Public Utilities Commission, the Department of Finance may augment the amount available for expenditure in this item to pay claims made to the California Teleconnect Fund Administrative Committee Fund Program. The augmentation may be made no sooner than 30 days after notification in writing of the committee in each house of the Legislature that considers appropriations and the Chairperson of the Joint Legislative Budget Committee. The amount of funds augmented pursuant to the authority of this provision shall be consistent with the amount approved by the Department of Finance based on its review of the amount of claims received by the Public Utilities Commission from telecommunication's carriers.

Questions:

1. Why has the PUC not raised the teleconnect fee to make up the fund shortfall?

Staff Recommendation. Staff recommends the Subcommittee reject the budget proposal.

17. High Cost Fund B

Background. In October 1996, the PUC established a program to provide subsidies to larger telephone companies serving high cost areas. The purpose of the program was to reduce the disparity in rates charged by these telephone companies. The program is referred to as the

California High-Cost Fund-B Administrative Committee Fund (CHCF-B) Program. The authorizing legislation that established CHCF-B sunsets January 1, 2009, at which time the subsidies would be discontinued.

The CHCF-B is funded by a surcharge on telephone bills collected by telecommunications carriers. Customers who have services (such as “call waiting” or “caller ID”) on their phones pay this charge on their bill. The budgeted surcharge rate—which is set administratively by the commission by resolution—has varied significantly from a high of 3.8 percent on the cost of services in 1999 to a low of 1.4 percent in 2002. Currently, the rate is 2 percent.

Chapter 847, Statutes of 2004 (SB 1276, Bowen), required PUC to conduct a review of the CHCF-B program by January 1, 2006. The review requirement was prompted by concerns of the commission’s Office of Ratepayer Advocates about the program’s cost-effectiveness. Specifically, the review was required to: (1) adjust subsidy payments to carriers to reflect updated operating costs and (2) evaluate whether subsidy levels could be reduced while still meeting the goals of the program. To date, this review has not been completed.

LAO Analysis. The LAO notes that program subsidies have been paid to such service carriers as the currently named Frontier, Verizon, and SureWest, among others. Though it is difficult to evaluate how the subsidies have been used due to a lack of reporting by the commission, the program expenditures continue to serve such areas as Malibu, Roseville, and Elk Grove. While some of the geographic area covered under the program may have been difficult to reach and therefore were considered a higher cost area in 1996, these areas today may no longer be difficult to serve with new technologies.

Revenues and expenditures have varied widely as a result of these rate changes. In the first eight years of the program, over \$3 billion in subsidies were paid to carriers, mostly four companies, to provide affordable rates in hard-to-service areas. In recent years, a substantial fund balance has developed in the program, as revenues have consistently exceeded expenditures. While the budget projects a \$333.5 million balance in the fund at the end of the budget year, the balance would actually be much higher were it not for a \$250 million loan to the General Fund made from the fund in 2002. (There is no specified repayment date for this loan.)

The LAO thinks that the magnitude of the fund balance projected to remain in CHCF-B at the end of the budget year, combined with the impending sunset of the CHCF-B program in 2009, affords the commission an opportunity to eliminate the surcharge that supports the fund for the remainder of the program’s life. The LAO therefore recommends that the commission present a plan to the Legislature at budget hearings to phase out by January 1, 2008, the telephone bill surcharge that supports the fund.

The LAO notes that without the required report, it is difficult for the Legislature to evaluate the appropriateness of the proposed expenditures for subsidies. The LAO recommends PUC report at budget hearings on when it intends to deliver this report. Pending receipt of the report, the LAO recommends the Legislature withhold action on the overall program budget.

Staff Analysis. Staff agrees with the LAO that without the required report it is difficult to evaluate the appropriateness of the proposed expenditures for subsidies. However, staff does not agree with the LAO that the appropriate means for addressing the concern of the missing report is to withhold action on the program budget, as this would place sudden and unexpected monetary costs on the utilities providing phone service in high cost areas.

Staff Recommendation. Staff recommends the Subcommittee direct the PUC to report back on a quarterly basis on their progress toward completing the required report.

18. Division of Ratepayer Advocates – Auditors

Background. The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission. DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, and safety and reliability. Unique to DRA is participation in all PUC proceedings where DRA represents consumer interests. DRA works on energy matters (electric and gas), water rates and services, and telecommunications.

DRA undertakes numerous advocacy activities on behalf of utility consumers. Among these advocacy activities are audits of all proposed utility rate increases and past expenditures by providers.

Staff Recommendation. Staff recommends the Subcommittee increase the DRA budget by \$300,000 for 3 auditors from the Public Utilities Commission Ratepayer Advocate Account. Staff also recommends the Subcommittee adopt the following budget bill language:

The amount of \$300,000 is for auditor positions at the Division of Ratepayer Advocates within the Public Utilities Commission.

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
Darrell Steinberg
Mark Wyland



Monday, April 16, 2007
1:00 p.m.
Room 112

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Resources—Environmental Protection—Energy

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

Overview

1. Secretary for Environmental Protection – Linda Adams

- Secretary Adams will provide an overview of the CalEPA budget

0555 Secretary for Environmental Protection

Background. The Secretary for Environmental Protection heads the California Environmental Protection Agency (Cal-EPA). The Secretary is responsible for overseeing and coordinating the activities of the boards, departments, and office under the jurisdiction of Cal-EPA.

Governor's Budget. The Governor's Budget proposes \$10.7 million to support the Secretary for Environmental Protection. This is a 19 percent increase over estimated expenditures in the current year. General Fund support for the Secretary is proposed to increase by about \$118,000.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Support	\$ 13,279	\$ 15,027	\$ 1,748	13.2
Total	\$ 13,279	\$ 15,027	\$ 1,748	13.2
Funding Source				
General Fund	\$ 1,971	\$ 2,089	\$ 118	5.9
Special Funds	7,036	8,636	1,600	22.7
<i>Budget Act Total</i>	<i>9,007</i>	<i>10,725</i>	<i>1,718</i>	<i>19.1</i>
Reimbursements	1,877	1,904	27	1.1
State Water Quality Control Fund	175	177	2	1.1
Environmental Enforcement and Training Account	2,066	2,066	0	0
Environmental Education Account	155	155	0	0
Total	\$ 13,280	\$ 15,027	\$ 1,747	13.2

1. CalGOLD Permit Information Portal

Background. Public Resources Code section 71040 directs the Secretary for Environmental Protection to establish an electronic online system to provide businesses and other entities with information to assist them in complying with applicable regulation and permit requirements. This system was named the California Government Online to Desktops (CalGOLD). AB 2582 (Mullin, 2006) required the addition of permitting and compliance information regarding emerging, biotechnology, and life sciences industries.

The Legislative Analyst's Office (LAO) conducted an analysis of the CalGOLD system and found that more than 85 percent of the annual workload of the permit assistance centers and the online portal did not relate to state environmental permit requirements. Subsequently, the 14 permit assistance centers were closed. Today, much of the information on the CalGOLD online system is outdated.

The Business, Transportation and Housing Agency is the lead agency for the California Business Portal, also known as CalBiz. This portal includes information about starting, growing, financing, or relocating a business to California.

Governor's Budget. The Governor's Budget proposes \$75,000 General Fund for updating the CalGOLD portal and including information regarding permitting and compliance information for emerging and life science industries.

Staff Analysis. The CalGOLD and CalBiz portals have very similar types of information. The state's efforts in maintaining the CalGOLD portal are duplicative of other state efforts. Also, a member of the public seeking information must visit multiple websites rather than having a single reliable source for government information.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal with the following Supplemental Reporting Language:

On or before January 10, 2009, the Secretary for Environmental Protection shall provide a report to the Legislature (including budget and fiscal committees from both houses) on actions that the Secretary for Environmental Protection is taking to merge or move CalGOLD information to the California Business Portal. The report should include a cost estimate for merging or moving the CalGOLD information.

AB 32 – Global Warming Solutions Act of 2006 Implementation

Overview

1. Secretary for CalEPA – Linda Adams

2. LAO: Recommendations on AB 32 Budget Proposals

- Jay Dickenson for the LAO

Governor's Proposals for AB 32 Implementation

The California Global Warming Solutions Act of 2006 (AB 32, Nunez), requires the reduction of statewide greenhouse gas emissions to 1990 levels by 2020. This is a 25 percent reduction over current levels, or approximately 174 million metric tons of greenhouse gas emissions. The largest greenhouse gas emitters in California are the transportation and energy sectors, while cattle and landfills also contribute significant amounts of greenhouse gases.

The largest single reduction in greenhouse gases is anticipated from the AB 1493 (Pavley, 2002), which mandates reduction of greenhouse gases from vehicles. The Air Resources Board (ARB) adopted regulations relating to AB 1493 in 2004 and expects the greenhouse gas reduction to be around 17 percent of the estimated reduction needed to achieve the 1990 target level of emissions by 2020.

AB 32 Mandated Next Steps

June 30, 2007 – Publicize greenhouse gas “early action measures” that can be implemented prior to the other Air Resources Board (ARB) emissions reduction measures and regulations that will become operative beginning on January 1, 2012.

July 1, 2007 – Convene an environmental justice committee, comprised of representatives of communities most significantly exposed to air pollutants, including communities with minority and/or low-income populations

January 1, 2008 – ARB determines statewide greenhouse gas emissions level in 1990.

January 1, 2009 – ARB prepares and approves “scoping plan” to achieve maximum technologically feasible and cost-effective greenhouse gas emissions reductions by 2020. The Plan will make recommendations on direct emission reduction measures, alternative compliance mechanisms, market-based mechanisms, and incentives.

Governor's Executive Order

In addition to AB 32, the Governor's Executive Order S-3-05 called for the creation of the California Climate Change Advisory Committee. The Governor's Executive Order was already in place by the time AB 32 passed. The Governor's Climate Action Team, in its *2006 Climate Action Team Final Report to the Governor and Legislature*, identified strategies to reduce greenhouse gas emissions to 1990 levels by 2020.

0555 Secretary for Environmental Protection

1. California Global Warming Solutions Act of 2006

Proposed Actions. The Secretary for Environmental Protection is proposing to:

- Coordinate these increased government-wide efforts.
- Ensure that individual program actions are cohesive and consistent.
- Monitor overall progress toward the emission reduction limits.
- Prepare the overarching economic analysis.
- Prepare the multi-state registry framework.
- Prepare the public education campaign.
- Manage the increase administrative workload associated with additional rulemakings, contracts, and procurements.
- Manage out-of-state travel requests.

The \$700,000 for external professional contract resources will support:

- Coordinated economic analysis, including job growth, technology exports, and other aspects.
- Development of the multi-generational public education campaign outlined in the Climate Action Team's report.

Governor's Budget. The Governor's Budget proposes \$1.39 million from the Air Pollution Control Fund for five permanent positions and contract funds (\$700,000) to coordinate climate change efforts.

LAO Recommendation. The LAO believes that the activities described in the proposal – planning, coordinating, monitoring, analyzing, and overseeing greenhouse gas emissions reduction activities at various state departments and agencies – would go beyond coordination, particularly given the types of positions being requested. Specifically, of the five positions requested, three are Air Pollution Specialists, which are highly technical staff typical of those employed by ARB for monitoring and regulating sources of air pollution. A fourth position is for a similarly technical Air Resources Supervisor who would oversee the other three technical positions. The fifth position would help the Secretary with public education and outreach. In addition, the proposal requests \$700,000 to pay for external contracts for such activities as analysis of related job growth, technology exports, and other economic effects.

The LAO finds that the budget proposal does not justify the need for the requested technical positions and contracted services based on its role in coordinating the state's greenhouse gas emission reduction activities. The LAO further finds that the highly technical positions would be more effectively employed at an entity, such as ARB, that directly undertakes technical monitoring and regulation of greenhouse gases and has established programs and technical expertise in the subject area. Similarly, the LAO believes that technical and economic analysis is better performed by or contracted through an entity such as ARB. Finally, the LAO believes it is already within the Secretary's day-to-day duties to coordinate public participation and outreach

and think that such activities could be performed with existing resources. The LAO recommends denying the Secretary's \$1.4 million funding request and associated positions.

Staff Analysis. The Legislature should carefully consider the proper role for the Secretary for Environmental Protection in AB 32 implementation, if any. None of the proposed action for the Secretary for Environmental Protection are mandated by AB 32 to be performed by the Secretary for Environmental Protection, but rather within statute are Air Resources Board responsibilities.

However, the Secretary for Environmental Protection has unique authority to pressure other CalEPA departments to work toward greenhouse gas reductions that the ARB does not have. In addition, the Secretary for Environmental Protection would be a suitable contact point for international parties interested in the work California is performing.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

3900 State Air Resources Board

2. Funding Sustainability

LAO Analysis. AB 32 provides the Air Resources Board with the authority to assess fees for purposes of implementing the California Global Warming Solutions Act of 2006. The Governor's budget does not rely on any increases of existing fees, nor does it propose any new fees. In fact, in the case of funding proposed from Air Pollution Control Fund (APCF), the budget relies on drawing down substantial fund balances carried over from previous years, along with a \$15.2 million loan to APCF from the Motor Vehicle Account—an account with the potential for major future-year pressures—to provide the funding budgeted for 2007-08. This level of funding would not be available from APCF in 2008-09, unless significant fee increases or APCF-funded program reductions in other areas were made.

The budget's funding proposal for AB 32 implementation is clearly not sustainable. However, when asked by the LAO, the administration was unable to specify its long-term funding plan for the state's greenhouse gas emissions reduction activities or whether such a plan would include use of ARB's statutory authority to assess new fees. This lack of planning is particularly problematic given that the activities described in the budget proposal represent only the initial development stages of the state's greenhouse gas reduction programs. The programs that result from this initial ramp-up activity could involve costs well beyond the \$35.8 million included in this year's budget proposal.

LAO Recommendation. The LAO believes it important that the Legislature, in evaluating the administration's proposal, be informed of the administration's long-term plan to fund the state's GHG emissions reduction programs. Therefore, the LAO recommends that the administration report at budget hearings on its long-term funding plan, including its estimate of future-year

costs of the state's greenhouse gas emissions reduction programs, how these future-year costs would be funded, and whether the administration anticipates either increasing existing fees and/or creating new fees to support the identified funding requirements. To ensure that the Legislature is advised of the administration's long-term funding plans for these programs when it evaluates next year's budget, the LAO recommends the adoption of the following supplemental report language:

Item 3900-001-0115. The Air Resources Board shall submit a report to the Legislature, in conjunction with the submittal of the 2008-09 Governor's Budget, on its long-term funding plan to fund the state's greenhouse gas emissions reduction programs, including its estimate of future-year costs of these programs, how these future-year costs would be funded, and whether the administration proposes either increasing existing fees and/or creating new fees to support the identified funding requirements.

Staff Recommendation. Staff recommends the Subcommittee hold this item open and direct staff to propose a funding structure for 2007-08 AB 32 proposals that accounts for fee revenue.

3. Implementation of the California Global Warming Solutions Act of 2006

Proposed Action. There are multiple actions the Air Resources Board intends to undertake. These are as follows:

1. Develop and Implement Inventory and Reporting Programs (19 positions, \$900,000 contracts, \$150,000 equipment)
 - a. Create comprehensive greenhouse gas inventory and establish 2020 limit (9 positions)
 - b. Develop, implement, and enforce mandatory reporting (10 positions)
2. Complete Greenhouse Gas Reduction Plan (12 positions, \$300,000 contracts)
3. Develop and Implement Measures to Reduce California Greenhouse Gas Emissions (64 positions, \$5 million contracts, \$200,000 equipment)
 - a. Develop and implement early action reduction measures (5 positions)
 - b. Develop and implement source-specific measures (17 positions)
 - c. Develop, evaluate, and implement market based compliance system (24 positions)
 - d. Develop protocols for generation of early or voluntary reductions and for emission reduction credits (8 positions)
4. Applied Studies and Scientific Analysis (5 positions, \$1.8 million contracts, \$100,000 equipment)
 - a. Applied studies (4 positions, \$100,000 for equipment)
 - b. Source test method development and emission testing (1 position, \$250,000 equipment)
5. Program Outreach, Oversight, and Support (23 positions, \$200,000 contracts)
 - a. Coordinate with Public Utilities Commission and Energy Commission to reduce greenhouse gases from the electricity sector (2 positions)

- b. Advisory committees (2 positions)
- c. International consultation and outreach (2 positions)
- d. Legislative outreach (2 positions)
- e. Legal support (4 positions)
- f. Information technology support (4 positions)
- g. Administrative support (7 positions)

Governor's Budget. The Governor's Budget proposes \$24,358,000 from the Air Pollution Control Fund for 123 permanent positions and contract funds (\$8.9 million) to implement AB 32 responsibilities. Of the total amount, \$15,179,000 is a loan from the Motor Vehicle Account.

LAO Recommendation. The LAO finds that the budget proposal assumes the inclusion of market-based measures in the state's greenhouse gas emissions reduction regulations. For example, for 24 of its requested 123 permanent positions, ARB's proposal describes tasks involving, in part, the implementation of market-based mechanisms. In addition, ARB's proposal specifies the anticipated use of one particular type of market-based mechanism, known as cap-and-trade. However, when the LAO asked the administration what evaluation led it to assume the inclusion of market-based measures in the state's greenhouse gas emissions reduction efforts, the administration could cite only a bibliography of academic publications and the prevalence of market-based measures as part of greenhouse emissions reduction programs in other jurisdictions.

The use of market-based mechanisms to control greenhouse gas emissions in California involves important policy choices and inherent tradeoffs in which the LAO believes the Legislature should be involved. While all market-based systems have in common some degree of flexibility being granted to regulated sources and the establishment of cost signals, there is substantial variation among potential market-based systems. For example, that variation can include such fundamental issues as whether the government chooses to set the quantity of allowable emission (as in a trading program) or to set the "price" of emissions (as under a fee-for-emitting program); whether such a program will generate revenue and, if so, how to distribute that revenue; and what sectors or entities will bear the costs imposed by such a program.

In addition, the LAO finds that the ARB's budget proposal mentions designing a market-based mechanism to accommodate possible linkages between California's market-based greenhouse gas emissions reduction program and similar programs operating or that may come to operate in other states, regions, and countries. The LAO believes the Legislature should be made aware of, and carefully consider, any such system before California joins its regulatory efforts to those of jurisdictions over which the state has no authority. Given the major policy implications, any linkages with other jurisdictions should be ratified in a policy bill.

AB 32 specifies evaluations that ARB must complete before it includes market-based mechanisms in its greenhouse gas emissions regulations. The LAO notes that as ARB has yet to conduct these evaluations, the Legislature therefore lacks information that it thought important to an assessment of any proposed market-based regulatory system to control greenhouse gas emissions. In addition, it is premature to authorize funding and positions to implement a very

specific market mechanism (namely, cap-and-trade), until these evaluations have been conducted.

The LAO further recommends that the Legislature approve the 24 positions working on developing market based mechanisms as three-year, limited-term positions only. The LAO thinks this three-year period will give ARB staff sufficient time to develop and evaluate various market-based mechanisms, but prevent it from undertaking implementation activities.

Staff Recommendation. Staff recommends the Subcommittee hold this item open and direct staff to work with the LAO and ARB to draft budget bill language specifying that market-based mechanism implementation activities will not be started prior to submittal of a report to the Legislature analyzing all feasible market-based options.

4. Climate Change Litigation Expense

Background. AB 1493 (Pavley, 2002) required the Air Resources Board (ARB) to adopt regulations to achieve the maximum feasible and cost effective reduction of greenhouse gas emissions from motor vehicles manufactured in model year 2009 and later. The ARB adopted the regulations in 2004.

Immediately following the motor vehicle regulation adoption, three separate lawsuits were filed against the ARB. The Department of Justice is representing the State. The first case was supposed to start in January 2007, but was placed on hold by the judge due to a similar case in front of the United States Supreme Court. (It is worth noting that the federal case, involving the United States Environmental Protection Agency's (USEPA) ability to regulate greenhouse gasses, was won by the USEPA). The other two cases against the ARB are expected to proceed to trial during fiscal year 2007-08.

Governor's Budget. The Governor's Budget proposes an augmentation of \$1 million General Fund to cover litigation expenses related to the State's defense of AB 1493.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal with the following budget bill language:

Of this amount, \$1,000,000 is to cover litigation expenses associated with the State's defense of AB 1493 only.

5. Forestry Protocols

Background. The potential of forestlands to prevent carbon dioxide emissions to the atmosphere and to remove carbon in the atmosphere is widely accepted and scientifically proven. The forestry protocols statute provided a mechanism for the voluntary reporting and management of forestlands in an effort to increase the potential to sequester carbon. The forestry protocols

were developed over a four-year period that involved numerous stakeholders and that were unanimously ratified by the California Board of Forestry. In the *2006-07 Budget Act*, the Legislature sunset in a trailer bill a 2000 statute that created the California Climate Action Registry and that action also caused a simultaneous sunset of a 2002 statute that provided the statutory foundation for the forestry protocols.

The forestry protocols provided for the voluntary reporting, monitoring, and verification guidance for landowners who chose to manage their lands consistent with those protocols. The forestry protocols, and other industry protocols, are now assigned to the Air Resources Board (ARB) through a provision in AB 32. The forestry protocol, and other industry protocols, may be amended to reflect new conditions and new information.

Staff Recommendation. The Subcommittee may want to direct staff to write trailer bill language requiring the ARB to adopt the currently sunset forestry protocols and the language that originally established them. Such trailer bill language should not limit the ability of future ARB actions to incorporate the best available scientific information.

3910 California Integrated Waste Management Board

6. Implementation of the California Global Warming Solutions Act

Background. The California Integrated Waste Management Board (CIWMB) has jurisdiction over solid waste landfills, which are one of the largest sources of greenhouse gases in the state. Organic materials, such as yard trimmings and wood debris, comprise 30 percent (12 million tons) of what is landfilled, and paper alone comprises another 21 percent (over 8 million tons). These materials generate methane, which has 23 times the greenhouse gas effect as carbon dioxide.

Proposed Actions. The CIWMB intends to implement both solid waste landfill gas and reduced waste strategies to meet the statutory year 2020 greenhouse gas emissions limit. The three strategies that the CIWMB intends to undertake are:

1. Increasing recovery of recyclables to achieve and maintain the 50 percent statewide diversion goal.
2. Implementing additional recycling, composting, and other technologies to move towards zero waste.
3. Improving landfill gas (methane) recovery.

The requested position would:

- Staff the Climate Action team and its subgroups established to conduct economic analyses and market based options.
- Identify and quantify strategies.

- Coordinate the development of work plans, timelines, and cost-benefit analyses.
- Aide in the establishment of priorities and coordinate research activities.
- Work through legislative changes that are required.
- Coordinate with the Air Resources Board in the development of a mandatory reporting system, measures, and regulation to achieve greenhouse gas reductions.
- Monitor and report on progress.
- Facilitate the implementation of diversion solutions that achieve the greenhouse gas emission reduction targets.

The contract funding will be used to conduct research for life-cycle assessment, detailed economic and market analyses, and analysis of landfill gas recovery technologies and efficiencies.

Governor's Budget. The Governor's Budget proposes \$618,000 from the Integrated Waste Management Account for one permanent position to work on AB 32 implementation and contract funds (\$500,000).

Staff Analysis. The main strategies that CIWMB intends to pursue to reduce greenhouse gases lack detail. The CIWMB clarified direction verbally at a meeting with staff, but the more focused direction should be written in budget bill language. As explained to staff, the CIWMB intends to examine waste stream diversion possibilities and analyze the precise greenhouse gas emissions from landfill waste.

The proposal leaves the most important component, landfill gas recovery, to consultant work. The CIWMB should report to the Subcommittee on whether or not it has the intent to develop in-house expertise on landfill gas recovery.

Staff Recommendation. Staff recommends the Subcommittee hold this item open and direct staff, the Legislative Analyst's Office, the Department of Finance, and the agency to work on a revised work plan for the California Integrated Waste Management Board.

3960 Toxic Substances Control

7. Achieving California Global Warming Solutions

Background. The Department of Toxic Substances Control (DTSC) is responsible for permitting and authorizing the treatment of hazardous waste facilities. There are 130 permitted and/or authorized hazardous waste facilities in the state. In addition, there are approximately 20 closed hazardous waste landfills that received mixed wastes during operations.

There are three primary sources of air emissions at hazardous waste facilities: 1) processing units, 2) equipments leaks, and 3) tanks, surface impoundments, and containers.

Since 1990, the United States Environmental Protection Agency (USEPA) has mandated through the Resource Conservation and Recovery Act that organic air emissions from hazardous waste be controlled. The DTSC has received authorization from the USEPA to administer the State Hazardous Waste Program in lieu of the Resource Conservation and Recovery Act.

Under the existing law, large quantity generators and owner/operators of hazardous waste treatment, storage, and disposal facilities must monitor and control the release of air emissions from volatile organic hazardous wastes. Current law requires process unit vents for units that manage hazardous waste that has an annual average total organic concentration of ten parts per million by weight or greater. Also, if a facility manages hazardous waste that contains organic concentrations of ten percent by weight then equipment leak standards apply. Also, under current law, if the hazardous waste contains greater than 500 parts per million by weight, then the facility must control volatile organic compounds air emissions from containers, surface impoundments, and tanks using either engineering controls, vapor collection systems, and/or management approaches. These requirements do not apply to small quantity generators and conditionally exempt small quantity generators.

Proposed Actions. DTSC is anticipating that the Air Resources Board (ARB) will develop new regulations that will apply to hazardous waste facilities emissions. If so, the hazardous waste facilities not meeting the new criteria will require equipment upgrades and/or changes to their operations to comply with the requirements, and DTSC must modify their permits.

DTSC is proposing to carry out life-cycle analyses to identify potential toxic releases or unintended environmental consequences. DTSC is also proposing to assist in carrying out multi-media assistance to California businesses on greenhouse gas reducing processes that consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

Specifically, DTSC will:

- Identify lead staff to establish contact with ARB and the California Integrated Waste Management Board staff working on implementation of AB 32
- Form an internal workgroup with technology and air emission expertise to oversee permit conditions and provide input as needed.
- Evaluate and modify existing permit conditions at facilities that are likely contributors and/or precursors to greenhouse gases.
 - Prioritize facilities by their potential greenhouse gas impact and inspect each facility.
 - Gather and evaluate monitoring data.
 - Identify immediate corrections.
 - Develop good practices guidance.
 - Modify permit conditions as required.
- Evaluate closed hazardous waste landfills.
- Identify remediation technologies with potential to reduce or contain emissions from sites during and after closure and/or remediation.

Governor's Budget. The Governor's Budget proposes \$115,000 from the Hazardous Waste Control Account for one position to support the development and implementation strategies towards achieving the goals of reducing greenhouse gas emissions.

Staff Analysis. The proposal is to reexamine existing practices for effectiveness, not to develop new practices or to expand enforcement activities. The DTSC should provide a report on January 10, 2008, explaining what potential steps the department could take to further reduce greenhouse gas emissions from hazardous waste facilities.

Staff Recommendation. Staff recommends the Subcommittee hold this item open and direct staff to write Supplemental Reporting Language as discussed in the staff analysis.

8570 Department of Food and Agriculture

8. Implementation of the Global Warming Solutions Act of 2006

Background. Enteric fermentation is the process of feed digestion by ruminant animals, primarily dairy and beef cattle. This process results in methane emission from the animals. Methane is a greenhouse gas and the cattle emit large quantities of methane. Feed rations are a complex system that not only provides nutrition to the animal, but also provides cost-effective and efficient use of other agricultural byproducts including food processing residuals, fruit culls, almond hulls, cotton seed, and even rice straw. It is currently not known how the various diets influence emissions from cattle.

Different soils and plants are able to sequester carbon at different levels. California has over 300 different soil types. For farmers to accept conservation tillage techniques and cover crops there would need to be demonstration of cost, yield, quality, pest management, and other factors.

Proposed Actions. The California Department of Food and Agriculture (CDFA) is proposing to support directed scientific and economic studies necessary to identify, demonstrate, and quantify performance of specific greenhouse gas emissions reduction strategies. These studies will focus on enteric fermentation (or direct greenhouse gas emissions from animals) and soil carbon sequestration in the agricultural sector.

For enteric fermentation, CDFA would establish a research initiative to quantify emission changes from enteric fermentation resulting from changing feed regimens versus productivity impacts.

For soil carbon sequestrations, CDFA would study the benefits from implementing conservation tillage and cover crops for the various California soil types.

Governor's Budget. The Governor's Budget proposes \$331,000 in reimbursements for two permanent positions to study reduction in enteric fermentation and increases in soil carbon sequestration.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

3860 Department of Water Resources

9. Proposition 84 Multi-Benefit Planning and Feasibility Studies

Background. Department of Water Resources (DWR) intends to initiate two specific types of on-going studies, in cooperation with other State agencies to evaluate, in greater detail, the anticipated effects of climate change on California rivers and waterways. DWR intends to use the information from the studies to redesign existing systems to minimize flood impacts, maintain water supplies, and minimize environmental impacts to fish and to riparian habitats. Coastal waterways and inland estuaries, such as the Delta, will also be studied to identify impacts from rising sea levels, so that recommendations can be developed to address specific problems. These studies are:

- Promotion of Urban and Agricultural Water Conservation
- Completion of CALFED Surface Storage Studies
- Integration of Flood Management and Water Supply Systems
- Implementation of the California Water Plan Recommendations
- Development of a Delta Vision and Strategic Plan

Proposed Actions. The five positions requested would work on reducing greenhouse gas emissions from water management activities, including increasing hydropower production, increasing water use efficiency, and reducing water use.

Governor's Budget. The Governor's Budget proposes \$64,725,000 in Proposition 84 bond funds for the Department of Water Resources to conduct studies on global climate change, water storage, water conservation, and the Delta Vision.

A spring Finance Letter amends the Governor's proposal to further request five new positions to work on climate change-related water issues at the DWR.

Staff Recommendation. Hold open for May hearing on Proposition 84 bond funded issues.

3360 Energy Commission

10. Energy Related Climate Strategy Analysis

Background. The California Energy Commission (CEC) has jurisdictional authority over energy efficiency and renewable energy in publicly owned utilities. The CEC also has experience with activities related to climate change, such as reports on emission reduction strategies, creation of a climate change research and development program, and incorporation of climate change in the state's energy planning documents.

Proposed Actions. The CEC is proposing to:

- Provide technical support to the Air Resources Board (ARB) in the establishment of 1990 emissions levels and evaluation of energy-related emission reduction measures for early action and the scoping plan.
- Acquire and provide data and information on maximum technical feasibility of greenhouse gas emission reduction associated with energy demand and energy supply.
- Provide technical assistance, information outreach, and feasibility assessment funding to local governments, industry owners, and other entities to facilitate development of energy-related projects that reduce greenhouse gas emissions.
- Support activities of the Climate Action Team.
- Provide technical guidance to the ARB on a broad range of provisions in the statute related to the California Climate Action Registry.
- Coordinate with the ARB on all relevant plan elements as directed in the statute.
- Support the ARB in development and operation of an Economic and Technical Advancement Advisory Committee.
- Assist the ARB in development of market-based mechanisms, alternative compliance mechanisms, regulatory programs, and voluntary actions.

The contract funds will be used for technical support on strategy development, identification and evaluation of implementation mechanisms, data and information sources, economic impacts, and interaction effects among related strategies. Once specific energy-related strategies have been adopted by the Climate Action Team and ARB, the contractor support would be shifted towards design and implementation issues.

Governor's Budget. The Governor's Budget proposes \$1,110,000 from the Energy Resources Programs Account for five permanent positions and contract funds (\$500,000) for analytical work to support the implementation of emissions reduction strategies in the energy sector.

Staff Analysis. The CEC is proposing five new permanent positions, one of which would be responsible for greenhouse gas analysis related to the strategies proposed for alternative fuels. However, the CEC is requesting positions to study the use of alternative fuels in item #10. Thus, it may be prudent to consider changing the one position dedicated to alternative fuels in this proposal to a position dedicated to researching land-use policy and energy linkages.

It may be prudent to approve the five permanent positions with one position dedicated to land-use and energy policy research. Also, the Subcommittee may wish to consider approving the \$500,000 in contract funds as two-year limited funds.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

11. Climate Change: Increasing the Use of Alternative Fuels

Background. The transportation sector is the largest source of greenhouse gases in California. In its 2003 Energy Report, the California Energy Commission (CEC) adopted a specific non-petroleum fuel use goal to increase the use of non-petroleum fuel to 20 percent by 2020.

AB 1007 (Pavley, 2005) requires that, not later than June 30, 2007, the CEC in partnership with the Air Resources Board (ARB) and in consultation with relevant state agencies, develop and adopt a state plan to increase the use of alternative transportation fuels. According to AB 1007, the CEC is supposed to provide administrative and technical support to ARB in the areas of alternative fuel refueling stations, biofuels production incentives, and transportation research and development.

Proposed Actions. To develop the plan required by AB 1007 and the Governor's alternative fuel directives, the CEC will have to expand its alternative fuels work to include: 1) updating and expanding fuel-cycle analyses, 2) ensuring no net emissions increase, 3) researching options for maximizing in-state alternative fuel production, 4) encouraging consumer use of alternative fuels, and 5) evaluating incentives and other means for increasing the siting of alternative fuel refueling stations throughout California.

Specific tasks the CEC would undertake are:

- Identify the market potential for alternative fuels and recommends those alternative fuels for financial support.
- Develop criteria for locating refueling stations at selected sites throughout California for the best candidate fuels.
- Recommend criteria for awarding fuel production incentives to producers of clean, renewable transportation fuels.
- Manage specific projects that result from grants or loans awarded by ARB for refueling stations and technology development projects.
- Develop a consumer education and public outreach program to publicize the availability of state funding.
- Develop a joint strategic research plan to guide transportation research and development.
- Establish stakeholder advisory committees to provide advice and input to develop an aggressive alternative fuels program.

Governor's Budget. The Governor's Budget proposes \$466,000 from the Energy Resources Program Account for four permanent positions to support a joint CEC-ARB 5-year plan to increase the use of alternative fuels in California.

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

8660 Public Utilities Commission

12. AB 32 – Climate Change Activities

Background. Currently, the Public Utilities Commission (PUC) Administrative Law Judge Division has eight full-time employees assigned to major energy proceedings, including long-term procurement, energy efficiency, and the implementation of renewable energy initiatives. During 2006-07, the Legislature authorized six positions to research climate change at the PUC. Of those six positions, the PUC has filled five.

Proposed Actions. The positions requested are one Administrative Law Judge and two legal analysts. The senior level Administrative Law Judge would oversee the climate initiatives and integrate that work with the ongoing energy proceedings of the PUC. The legal analysts would provide paralegal support.

Consultant would be used for: 1) assistance with modeling the costs and benefits of various greenhouse gas emissions cap scenarios to the power sector in California, and 2) funding for protocol development for measuring and verifying greenhouse gas emissions reductions in the power sector.

Governor's Budget. The Governor's Budget proposes \$1,272,000 from the Public Utilities Commission Utilities Reimbursement Account for three permanent positions for legal support in major climate change-related proceedings and contract funds (\$1 million).

LAO Recommendation. The LAO notes that during a recent PUC hearing on climate change, the PUC publicly stated its intent to establish a cap-and-trade market mechanism on emissions for investor-owned utilities (currently regulated by the PUC) and publicly owned utilities (currently not regulated by the PUC). The PUC also stated its intent to conduct a proceeding to determine the base year for the cap-and-trade program. (In cap-and-trade programs that have been established elsewhere, the government sets a limit on, or "caps" emissions, issues a limited number of emissions allowances, and allows regulated sources to buy and sell, or "trade" those emissions allowances.)

The LAO finds PUC's intention to hold climate change-related proceedings, and in particular its intention to move ahead with a very specific market mechanism, contrary to the intent of AB 32. This is because the act charges Air Resources Board (ARB) with identifying and establishing greenhouse gas emission reduction measures, and with determining whether those measures will include market-based mechanisms. AB 32 also clearly established a greenhouse gas emissions base year of 1990, making the PUC's determination of a baseline unnecessary.

Given that the PUC's budget request inappropriately moves ahead of the statutorily directed effort at ARB, the LAO recommends that the Legislature deny the request for \$1.3 million for the PUC. The LAO also recommends adoption of budget bill language to prohibit the PUC from spending resources to develop and/or implement market mechanisms:

Item 8660-001-0462. Of the funding appropriated in this or any other item, no funds may be expended by the commission in connection with the implementation of market mechanisms as a greenhouse gas (GHG) emission reduction strategy until the Air Resources Board has completed its statutorily required statewide GHG emissions reduction plan, has included these mechanisms in the plan, and has directed the commission to begin to implement them.

Staff Analysis. In addition to the concerns raised by the LAO, the proposal would make the \$1 million for consultants a part of the PUC's baseline budget for climate change. Since the tasks the consultants would work on will not last indefinitely, it is appropriate to augment the consultant fees as two-year limited funds (\$1 million annually for the next two years).

Staff Recommendation. Staff recommends the Subcommittee hold this item open to allow the LAO and PUC to draft budget bill language to prohibit the PUC from implementing market based mechanisms without Legislative approval.

3900 State Air Resources Board

Background. The Air Resources Board (ARB), along with 35 local air pollution control and air quality management districts, protects the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

Governor's Budget. The Governor's Budget proposes \$375 million to support the ARB in 2007-08. This is a 23 percent increase from estimated expenditures in the current year due to an increase in available bond funds. General Fund support for the ARB is also increasing by over 50 percent.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Mobile Source	\$ 269,938	\$ 330,468	\$ 60,530	22.4
Stationary Source	43,803	53,033	9,230	21.1
Subvention	10,111	10,111	0	0
Capital Outlay	120	1,000	880	733.3
Administration	11,960	13,926	1,966	16.4
<i>less distributed administration</i>	<i>-11,960</i>	<i>-13,926</i>	<i>-1,966</i>	<i>16.4</i>
Total	\$ 323,972	\$ 394,612	\$ 70,640	21.8
Funding Source				
General Fund	\$ 2,280	\$ 3,435	\$ 1,155	50.7
Special Funds	302,913	275,639	-27,274	-9
Bond Funds	0	96,500	96,500	100
<i>Budget Act Total</i>	<i>305,193</i>	<i>375,574</i>	<i>70,381</i>	<i>23.1</i>
Federal Trust Fund	13,778	13,963	185	1.3
Reimbursements	5,002	5,075	73	1.5
Total	\$ 323,973	\$ 394,612	\$ 70,639	21.8

Vote-Only Items

1. Mobile Source Certification Augmentation and Compliance Validation

Background. Recently passed statutes going into effect in 2007 will regulate mobile source pollution. These multiple statutes deal with criteria pollutants, such as hydrocarbons, oxides of nitrogen, and carbon monoxide, as well as toxic air contaminants, such as diesel particulates and formaldehyde. AB 32 (Nunez, 2006) also regulates greenhouse gases for the first time ever. In addition to these new statutes, the Governor's Environmental Action Plan calls for a reduction in air pollution by 50 percent.

The Air Resources Board (ARB) has the responsibility of certifying all new vehicles and engines (for both on-road and off-road applications) for emission compliance. Over the past ten years, the number of mobile source categories certified by the ARB has more than doubled, while the number of Executive Orders has tripled.

In addition to testing prior to introducing a vehicle to the market, manufacturers of light- and medium-duty vehicles and trucks, as well as recreational marine engines, are required to conduct emission testing of vehicles and engines after 3-5 years of use to validate their emissions performance. To streamline the certification process, the ARB has implemented a pilot document management system, an electronic certification application system that allows manufacturers to submit application documents and data via the Internet.

Governor's Budget. The Governor's Budget proposes \$1,190,000 from the Motor Vehicle Account for 9 permanent positions to maintain and augment the mobile source certification programs and to validate the in-use emissions compliance of these vehicles and engines. Specifically, these positions would:

- Augment the certification programs for on- and off-road vehicles and engines due to increased certification requirements – 5 positions.
- Administer the division's electronic certification application system (Document Management System) that responds to manufacturers' needs for streamlined certification process – 2 positions.
- Audit emissions testing of in-use vehicles and engines that manufacturers are required to test to validate compliance with the emission standards – 2 positions.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Implementation of the Diesel Health Risk Management Program

Background. In 2000, the Air Resources Board (ARB) adopted a Diesel Health Risk Management Plan, which calls for reducing diesel particulate matter levels by 75 percent from

2000 baseline levels by 2010, and by 85 percent by 2020. The Diesel Health Risk Management Plan is a multi-faceted plan that included verification of newly developed diesel emissions control strategies, incentive funding, and regulations requiring diesel emission reductions from existing fleets.

In 2004 and 2005, the ARB adopted three regulations that affect public transit, solid waste collection, and public and utility fleets. These new regulations mandate reducing diesel emissions from over 50,000 heavy-duty diesel vehicles and require over 1,200 transit, city, county, special district, state, federal, solid waste, and utility fleet operators to comply with the newly-developed regulations.

In addition to these existing regulations, the ARB intends to initiate the implementation of new in-use vehicle control measures applicable to all mobile off-road diesel equipment 25 horsepower and greater, and on-road heavy duty vehicles owned by private fleets. These new regulations would mainly impact the construction and trucking sectors.

Governor's Budget. The Governor's Budget proposes \$1,259,000 (\$917,000 on-going, \$342,000 one-time) from the Motor Vehicle Account for seven permanent positions and equipment for implementation of regulations adopted to reduce risk from diesel particulate matter. Specifically, these positions would:

- Enforce the Fleet Rule for Public Fleets – 3 positions.
- Work on the existing Periodic Smoke Inspection Program – 2 positions.
- Conduct in-use compliance testing using Portable Emissions Monitoring Systems – 2 positions.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Regulation of Indoor Air Cleaning Devices

Background. AB 2276 (Pavley, 2006) requires the Air Resources Board (ARB) to develop and adopt regulations by December 31, 2008, to protect public health from ozone emitted by indoor air cleaning devices used in occupied spaces. Ozone is the main component of smog, and has extensive harmful health effects on humans, including permanent lung damage. The ARB and others have tested some indoor air cleaning devices and found that they produce concentrations of ozone several times higher than health-based standard levels.

Developing the new regulations will require the ARB to review existing test methods, hold public workshops with stakeholders, meet with affected industries, and review initial test data from manufacturers.

Governor's Budget. The Governor's Budget proposes \$94,000 General Fund for 0.8 permanent positions to implement AB 2276, and enforce and update the regulations.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Implementation of AB 679

Background. AB 679 (Calderon, 2005) requires the Air Resources Board (ARB) to not prohibit importation of diesel fuel into California that meets the California diesel fuel blends being certified for sale in California. AB 679 also requires the ARB to convene a panel of interested parties to develop a test protocol for the evaluation of ARB diesel fuel, and to recommend to the executive officer of the state board a subsequent test program that measures the emissions benefits of ARB diesel fuel. The test protocol must be completed by December 31, 2007.

Governor's Budget. The Governor's Budget proposes \$1 million in one-time funds from the Motor Vehicle Account for contracts to develop a test protocol for the evaluation of California diesel fuel and to conduct a test program that measures the emissions benefits of California diesel fuel.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Zero-Emission Vehicle and Infrastructure Implementation Support Program

Background. Transportation is California's largest source of carbon dioxide, with passenger vehicles and light duty trucks creating more than 30 percent of total climate change emissions. The Air Resources Board (ARB) began controlling emissions from vehicles in the 1960s, but gains in emissions reductions have been negated through continued growth in the state's vehicle population and the number of miles being driven by each vehicle. In their 2003 Petroleum Dependence Report, the California Energy Commission and the ARB stated that to provide the greatest social benefit from reduced pollution at a cost savings it would be necessary to achieve a 20 percent utilization of alternative fuels by 2020 and 30 percent utilization by 2030.

The Zero Emission Vehicle (ZEV) regulation requires automakers to demonstrate and commercialize zero emission vehicles. The ZEV regulation also allows automakers to comply with a portion of their obligation with ZEV enabling technologies, such as hybrid vehicles, plug-in hybrid electric vehicles, hydrogen internal combustion engine vehicles and compressed natural gas vehicles. The Hydrogen Highway is one way of working toward the ZEV effort. Currently, there is no regulation requiring energy suppliers to build hydrogen stations.

Past co-funding for the establishment of public hydrogen refueling stations were awarded to San Diego City Schools, Pacific Gas and Electric, and California State University Los Angeles.

Governor's Budget. The Governor's Budget proposes \$6,033,000 (\$1,033,000 on-going, \$5 million one-time) from the Motor Vehicle Account for continued implementation of the Hydrogen Highway Blueprint Plan, making six temporary positions permanent, and adding two permanent positions.

The \$5 million in one-time funds would be used for up to 50 percent matching funding for up to eight hydrogen fueling stations. This proposed funding would target placement of four small-

scale stations utilizing flexible “drop and swap” strategies. This proposal would also target installation of up to four hydrogen refueling stations demonstrating promising and innovative renewable hydrogen production pathways such as biomass conversion, advanced photovoltaic and wind energy.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

6. Lower-Emission School Bus Program

Background. In 1998, following a ten-year study, the Air Resources Board (ARB) identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. The ARB 2003 Children’s School Bus Exposure Study indicates that children who ride school buses likely have increased exposure to diesel PM, as diesel exhaust levels inside the bus are higher than those in passenger cars on the road. The exposure was highest in school buses.

Currently, there are about 27,000 school buses in California. Of these, approximately 4,000 public school buses use engines built before 1987 and are extremely high-polluting. It is difficult to retrofit pre-1987 school buses because in 1987 new vehicle emissions standards went into effect that changed how the engines were built.

Pre-1977 school buses are of special concern because they do not meet the 1977 minimum federal motor vehicle safety standards. The state has already spent approximately \$100 million to replace pre-1977 school buses, but 210 such buses remain in service.

Governor’s Budget. The Governor’s Budget proposes \$96.5 million from Proposition 1B for two years to replace and retrofit diesel school buses. With these funds, 535 pre-1987 school buses would be replaced each year and 1,500 diesel school buses would be retrofitted with devices that reduce PM emissions by 85 percent. As part of the school bus replacement, all pre-1977 school buses would be replaced.

Staff Recommendation. Hold open until vote on November bond fund items in May.

7. Environmental Enforcement – Informational Issue

Background. In the *2006-07 Budget Act*, the Legislature provided the Air Resources Board \$4 million for increased enforcement presence and for improving the effectiveness of the ARB’s existing enforcement programs.

Questions:

1. What steps has ARB taken to strengthen its existing enforcement programs?

3910 California Integrated Waste Management Board

Background. The California Integrated Waste Management Board (CIWMB), in conjunction with local agencies, is responsible for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. The CIWMB administers various programs that promote waste reduction and recycling, with particular programs for waste tire and used oil recycling. The board also regulates landfills through a permitting, inspection, and enforcement program that is mainly carried out by local enforcement agencies that are certified by the board. In addition, CIWMB oversees the cleanup of abandoned solid waste sites.

Governor's Budget. The Governor's Budget proposes \$198.4 million to support CIWMB in the budget year. This is nearly the same level of support as in the current year. The board does not receive any General Fund support.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Waste Reduction and Management	\$ 201,188	\$ 201,169	-\$19	0
Administration	9,195	9,195	0	0
<i>less distributed administration</i>	<i>-9,195</i>	<i>-9,195</i>	<i>0</i>	<i>0</i>
<i>less loan repayments</i>	<i>-2,042</i>	<i>-2,042</i>	<i>0</i>	<i>0</i>
Total	\$ 199,146	\$ 199,127	-\$19	0
Funding Source				
Special Funds	\$ 198,218	\$ 198,485	\$ 267	0.1
Bond Funds	150	0	-150	-100
<i>Budget Act Total</i>	<i>198,368</i>	<i>198,485</i>	<i>117</i>	<i>0.1</i>
Federal Trust Fund	91	0	-91	-100
Special Deposits Fund	351	307	-44	-12.5
Reimbursements	336	335	-1	-0.3
Total	\$ 199,146	\$ 199,127	-\$19	0

Vote-Only Items

1. Education and the Environment Initiative

Background. SB 926 (Torlakson, 2001) created the Office of Education and the Environment within the California Integrated Waste Management Board (CIWMB). AB 1548 (Pavley, 2003) directed the development of the Education and the Environment Initiative (EEI) model curriculum, obtain approval of the EEI model curriculum from the State Board of Education, and make the EEI model curriculum available to California's K-12 public schools.

The Office of Education and the Environment is required to comment on any regulatory or enforcement actions taken by CalEPA, Resources Agency boards, departments, or offices that require the development of or encourage the promotion of environmental education for elementary and secondary school pupils. The Office of Education and Environment must also ensure materials produced and distributed in public schools are aligned to the Education Principles and Concepts, and coordinate with all state agencies to develop and distribute environmental education materials.

The *2005-06 Budget Act* provided CIWMB \$7 million and 5.5 permanent positions for the EEI program.

Governor's Budget. The Governor's Budget proposes \$695,000 from the Integrated Waste Management Account to make 5.5 limited-term positions permanent for the support of the Education and Environment Initiative.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Medical Waste Management Act Implementation

Background. SB 1305 (Figueroa, 2006) amended the existing Medical Waste Management Act to exclude home-generated sharps waste (needles) from the definition of medical waste. In addition, SB 1305 prohibits by September 1, 2008, the placement of sharps waste into containers used to collect solid waste and other recyclable materials. Due to the change in sharps waste definition, the management and implementation of SB 1305 is the responsibility of the California Integrated Waste Management Board (CIWMB).

Sharps waste is generated when people inject themselves with medications. It is estimated that three percent of the general population inject medications outside traditional health care facilities. Health officials estimate that in California there are approximately 389 million units of home-generated sharps waste annually. This sharps waste poses a health risk to workers collecting solid waste.

Sharps waste will now have to be taken to household hazardous waste facilities or designated drop-off points. Currently, there are 190 home-generated sharps consolidation points located in 26 counties.

Governor's Budget. The Governor's Budget proposes \$129,000 from the Integrated Waste Management Account for one permanent position to train local enforcement agencies and solid waste facility operators; inspect facilities; take appropriate enforcement actions; develop information for and conduct public education activities; collect, review, and analyze data from household hazardous waste facilities; and monitor the development of sharps collection infrastructure.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Auditor Positions

Background. Currently, the California Integrated Waste Management Board (CIWMB) has two auditors and uses the Department of Finance Audit Services to conduct audits. Over the last seven fiscal years, CIWMB's budget has grown from \$72 million to \$190 million. Despite the increase in the department's budget, the audit staff did not grow during that time period.

During 2005-06, the CIWMB awarded over 500 grants and about 90 contracts. Currently, with existing resources, the CIWMB is able to audit less than one percent of these contracts and approximately five percent of grants awarded.

Currently, CIWMB relies on the Department of Finance auditing services to conduct some of their audits. Existing statute requires that the CIWMB have an outside audit of their accounting, so some reliance on consultants will remain even if the Legislature approves additional auditor positions for the CIWMB.

Governor's Budget. The Governor's Budget proposes \$518,000 from various special funds for five permanent auditor positions to conduct financial, performance, and other service audits.

The funding for these positions will come from:

- Integrated Waste Management Account – \$155,000
- California Used Oil Recycling Fund – \$155,000
- California Tire Recycling Management Fund – \$155,000
- Electronic Waste Recovery and Recycling Account – \$53,000

The additional auditors would allow the CIWMB to raise their audits to five percent of contracts and ten percent of grants.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Increase Household Hazardous Waste Grant Appropriation to Include Universal Waste Information and Collection Infrastructure Enhancements

Background. Household Hazardous Waste (HHW) includes such items as batteries, mercury thermostats, fluorescent lights, and electronic devices. HHW is not supposed to be disposed of in the regular waste disposal bins.

There are 109 permanent HHW facilities and 120 recycle-only universal waste and HHW facilities in the state. To contrast, there are 2,800 facilities that collect and recycle oil. Approximately 80 percent of used oil is recycled, while about five percent of the HHW generated in the state is collected at facilities intended to receive HHW.

The HHW grant program provides local governments with grants to develop or expand their HHW facilities. The average grant is \$59,200. The requested increase in funds would fund an additional eight grants.

Governor's Budget. The Governor's Budget proposes \$716,000 from the Integrated Waste Management Account for local assistance grants and two permanent positions for the Household Hazardous Waste grant program.

The requested staff would work on the Universal Waste Team, CIWMB information coordination, data collection and infrastructure assessment, stakeholder partnership development, infrastructure development, and publicity and education.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. General Information Technology Support Redirection

Background. The California Integrated Waste Management Board (CIWMB) Information Management Branch (IMB) has experienced a large work-load growth in the last ten years. The number of automated systems (such as databases) the IMB maintains has grown from 46 in 1998 to 72 in 2006 (60 percent increase). Though the overall IMB staff grew during that time, the current staffing level of 30.5 PYs is below the 2001 staffing level of 33.5 PYs.

As the technology and services managed by IMB have grown, the CIWMB has become more reliant on outside consultants to complete work. These consultants are paid at a higher rate than state workers performing the same tasks. For example, a junior programmer with the state earns \$33-40/hour, while a junior level consultant will earn \$40-55/hour.

Governor's Budget. The Governor's Budget proposes a redirection of \$351,000 from Consulting and Professional Services to Distributed Administration. 3.5 positions would be established with the redirected funds to reduce the backlog of application development projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Fraud Prevention and Payment System Enhancement in Electronic Waste Recycling Program

Background. SB 20, the Electronic Waste Recycling Act of 2003 (Sher), as amended by SB 50 (Sher) and SB 575 (Wolk), provides a comprehensive financing system for the collection, handling and proper recycling of certain electronic devices.

The California Integrated Waste Management Board (CIWMB) is in charge of administering the Act's cost determination, payment system documentation, claims processing, recycling rates and manufacturer reporting. CIWMB administers a payment system to disburse funds to authorized electronic waste collectors and recyclers for the handling and processing of certified electronic waste. The Program went into effect in 2005, and received about \$31 million in payment claims during 2005. During 2006, the payment claims were about \$61 million.

Governor's Budget. The Governor's Budget proposes \$435,000 from the Electronic Waste Recovery and Recycling Account for five permanent positions to implement the Electronic Waste Recycling Act. These positions would be:

- 3 Integrated Waste Management Specialist positions to implement fraud prevention and compliance assistance
- 2 Associate Governmental Program Analysts positions to implement and enhance the recovery and recycling payment system

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Landfill Closure and Post-Closure Maintenance

Background. AB 2296 (Montanez, 2006) requires the California Integrated Waste Management Board (CIWMB) to conduct a study by January 1, 2008, to define conditions that could potentially have long-term effects on solid waste landfills and to examine financial assurance mechanisms to protect the state from long-term post-closure maintenance and corrective action costs at these facilities. AB 2296 also requires the CIWMB to adopt regulations and develop recommendations for legislation based upon the study results by July 1, 2009.

Governor's Budget. The Governor's Budget proposes \$552,000 (\$318,000 on-going, \$234,000 one-time) from the Integrated Waste Management Account for two permanent positions and contract funds to meet the requirements of AB 2296.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

8. Tire recycling

LAO Analysis. Waste tires are diverted for a number of productive end uses, such as crumb rubber—wire-free tire shreds of varying sizes—and rubberized asphalt concrete (RAC)—paving material that is a blend of crumb rubber, asphalt, and other materials. In 1990, the Waste Tire Recycling Management Program was created. At the program's inception, the state diverted 34 percent of waste tires from landfills to other productive end uses. As of 2005 (the last year for which data are available), the rate of waste tire diversion was 75 percent, or 30.6 million tires diverted out of 40.8 million tires generated.

At the program's inception, there were many large, preexisting piles of illegally stored waste tires throughout the state. The CIWMB reports that between 1994 and 2002, it identified 894 illegal tire sites that collectively held 6.1 million waste tires.

Through the CIWMB's enforcement efforts, it has been able to bring about the cleanup and/or proper storage of waste tires at nearly all of the 894 illegal tire sites, including the Tracy and Westley tire piles—sites of large, long-burning tire fires that occurred in the late 1990s. In recent years, the CIWMB has contracted with the California Highway Patrol for use of its helicopters to identify remote tire piles. The CIWMB newly identifies fewer large, illegal tire piles every year.

The waste tire recycling program is supported entirely by fees. Currently, the fee is \$1.75 per tire, collected when the tire is purchased. The CIWMB's portion of the fee was statutorily set to decrease from \$1.00 to 75 cents on December 31, 2006. However, at hearings on the 2006-07 budget, the Legislature revised statute so that CIWMB's portion of the fee remains at \$1.00. In retaining the higher fee, the Legislature recognized an opportunity for the board to expand efforts to divert the roughly 10.2 million waste tires disposed of in California landfills each year. However, the Legislature did not give specific direction regarding which board activities to increase waste tire diversion it wanted CIWMB to expand

LAO Recommendation. The LAO thinks that the CIWMB is best positioned to identify those additional efforts most likely to increase the number of waste tires diverted from the state's landfills, as well as to advise the Legislature of the policy choices that may be inherent in such efforts warranting legislative evaluation. Therefore, the LAO recommends the adoption of the following supplemental report language:

Item 3910-001-0226. The California Integrated Waste Management Board shall submit a report to the Legislature by July 10, 2008, that identifies the following:

1. A history of revenues, expenditures, and balances of the California Tire Recycling Management Fund since its inception, and projection of such information for 2008-09 and the subsequent two fiscal years.
2. A history of waste tire diversion rates and end uses, and projection of such rates and uses for 2007 and the subsequent three years.

3. Identification and assessment of the costs and effectiveness of options to increase the rate of diversion of waste tires from disposal in landfills.
4. Any statutory changes that would assist the board's efforts to increase the diversion rate.

Staff Recommendation. Staff recommends the Subcommittee adopt the Supplemental Report Language proposed by the LAO.

3930 Department of Pesticide Regulation

Background. The Department of Pesticide Regulation (DPR) administers programs to protect the public health and the environment from unsafe exposures to pesticides. The department: (1) evaluates the public health and environmental impact of pesticides use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by an assessment on the sale of pesticides in the state.

Governor's Budget. The Governor's Budget proposes \$65.8 million to support the DPR in 2007-08, which is a four percent increase over the level of expenditures as in the current year. The department does not receive any General Fund support.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Pesticide Programs	\$ 65,855	\$ 68,884	\$ 3,029	4.6
Administration	9,342	9,368	26	0.3
<i>less distributed administration</i>	<i>-9,342</i>	<i>-9,368</i>	<i>-26</i>	<i>0.3</i>
Total	\$ 65,855	\$ 68,884	\$ 3,029	4.6
Funding Source				
Special Funds	\$ 63,048	\$ 65,849	\$ 2,801	4.4
<i>Budget Act Total</i>	<i>\$ 63,048</i>	<i>\$ 65,849</i>	<i>\$ 2,801</i>	<i>4.4</i>
Federal Trust Fund	2,200	2,229	29	1.3
Reimbursements	606	806	200	33
Total	\$ 65,854	\$ 68,884	\$ 3,030	4.6

Vote-Only Items

1. Pesticide Pollution Prevention Grant Program

Background. The Department of Pesticide Regulation (DPR) has regulatory authority to protect the environment and human health from potential adverse impacts due to pesticide use. Pesticides are used in agriculture, as well as in and around homes, hospitals, and other buildings.

The DPR had a successful grant program that promoted the development of integrated pest management systems that reduced or completely eliminated environmental pollution from pesticides. The integrated pest management systems looked for alternatives to pesticides. From 1995 to 2003, the DPR awarded approximately \$8 million for projects conducted in over 38 counties, with emphasis on reducing worker exposure, protecting surface and ground water, and alternatives to highly toxic pesticides and fumigants. Then in 2002-03, the program was suspended due to lack of funding.

Governor's Budget. The Governor's Budget proposes \$780,000 from the Pesticide Regulation Fund for two limited-term positions and contract funds to re-start a pesticide pollution prevention grant program. These funds would be for 2007-08 and 2008-09 only.

Staff Recommendation. The staff recommends the Subcommittee approve the budget proposal.

2. Collapse Food Safety Account within the Department of Pesticide Regulation Fund

Background. The Food Safety Account was created in 1990 to provide funding for a number of pesticide programs related to food safety. The Food Safety Account revenue streams have been diverted by legislation to other accounts. Currently, the Food Safety Account is funded solely by a transfer from the Department of Pesticide Regulation Fund. Eliminating the Food Safety Account and moving its responsibilities to the Department of Pesticide Regulation Fund would present minor administrative savings.

Governor's Budget. The Governor's Budget proposes to move the funds within the Food Safety Account to the Department of Pesticide Regulation Fund and end the Food Safety Account as a separate account. Currently, the Food Safety Account has \$316,000 in it.

The Governor has submitted trailer bill language to move the funds from the Food Safety Account to the Department of Pesticide Regulation Fund by June 30, 2009. The statutory funding for programs from the Food Safety Account will become the responsibility of the Department of Pesticide Regulation Fund.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Increase Temporary Help Authority

Background. The Department of Pesticide Regulation (DPR) is facing an aging work force. Currently, 45 percent of DPR's permanent employees are at or above minimum retirement age. Leave credits are unused vacation time an employee has accrued. As permanent employees get ready to retire, some choose to cash out their leave credits by going on an extended vacation prior to actual retirement, rather than requesting a cash payment for their accrued vacation.

While permanent employees are on an extended vacation, the tasks those employees work on are not completed or are shifted to other employees.

During 2003-04 the DPR had three employees retire, but in 2005-06 that number had risen to 12 retirements. During this time DPR has had authority for 6.7 temporary positions. Temporary positions allow the DPR to hire replacement staff for a retiring staff's position, and bring the new person to the workplace for training while the retiring staff is still an employee. This practice is especially helpful when retiring employees choose to take extended vacation prior to leaving state service and a staff member is needed to complete their work.

Governor's Budget. The Governor's Budget proposes to shift \$472,000 in salary savings to 6.2 temporary help positions within the Pesticide Regulation Fund. The net budget impact of this proposal is zero dollars.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Expand the Healthy Schools Act to Private Child Day Care Centers

Background. The Healthy Schools Act of 2000 requires public schools to post notifications about pesticide use and to receive Department of Pesticide Regulation (DPR) training on integrated pest management methods. The school integrated pest management programs focus on long-term prevention or suppression of pest problems through a combination of techniques, including use of nonchemical practices, to make habitat less conducive to pest development, improve sanitation, and employ mechanical and physical pest controls.

AB 2865 (Torrico, 2006) expands the Healthy Schools Act of 2000 to apply to private child day care centers. There are 57,000 child day care facilities in the state, but only 15,000 of them are covered by this law (family child day care homes are exempt). AB 2865 requires licensed pest control businesses to annually submit a pesticide use form to DPR for all pesticide application they make at private child day care facilities; for DPR to promote and facilitate the voluntary adoption of school integrated pest management in child day care facilities; customize materials and make them available to child day care facilities; and provide training to child day care facilities by participating in existing workshops and conferences that provide opportunities to disseminate program information regionally. Participation in the program by child day care facilities is voluntary.

Governor's Budget. The Governor's Budget proposes \$149,000 from the Pesticide Regulation Fund for one permanent position and contract funds to provide outreach materials and presentations to private child day care centers on integrated pest management control.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Pesticide Mitigation Reimbursement

Background. Department of Pesticide Regulation (DPR) is the lead agency for regulating the registration, sale, and use of pesticides. If a pesticide is deemed to pose an unacceptable risk, DPR must impose mitigation measures via regulations, permit conditions, or pesticide product actions. Recently, a study by University of California, Berkeley, found that pyrethroid pesticides pose a significant adverse effect. As a result of the UC Berkeley study, and DPR's own monitoring data, DPR has placed approximately 600 pesticide products containing pyrethroid into reevaluation. In addition to pyrethroid, the DPR is already reevaluating pesticide products containing Chlorpyrifos.

The Coalition for Urban and Rural Environmental Stewardship (CURES), a non-profit coalition of growers, received a grant from the State Water Resources Control Board to evaluate best management practices to reduce the impact of pyrethroids and chlorpyrifos in surface water. CURES has requested to pay the DPR with the grant funds to provide guidance and assist in the evaluation of potential mitigation measures.

Governor's Budget. The Governor's Budget proposes \$255,000 in reimbursement authority for one limited-term position to participate in a project to evaluate mitigation measures for chlorpyrifos and pyrethroid pesticides.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Mitigation of Pesticide Impacts

Background. The Department of Pesticide Regulation (DPR) has programs to evaluate and control pesticide use. DPR has traditionally focused its risk assessment and mitigation measures on highly toxic pesticides with acute adverse health effects, but is now moving toward mitigation measures for other pesticides with longer exposure durations. DPR thinks that to address the risks that have been identified, it will need to develop and evaluate mitigation measures, adopt statewide rules, develop better worker and physician outreach programs, and take additional pesticide product registration actions.

DPR is proposing to complete the following additional tasks with the five requested positions:

- Initiate the reevaluation process to require pesticide registrants to submit additional data, including mitigation measures, for one pesticide active ingredient.
- Complete one reevaluation.
- Develop one-to-two mitigation measures to reduce exposure to workers and others.
- Develop two mitigation measures to reduce emissions from volatile organic compounds and toxic air contaminants.
- Expand worker and physician outreach efforts to key parts of California that have large migrant farmworker communities by participating in an additional three or four regional work groups targeted at worker health.
- Provide 25 training sessions to migrant farmworkers or people who serve migrant farmworkers.

Governor's Budget. The Governor's Budget proposes \$634,000 from the Department of Pesticide Regulation Fund for five permanent positions to develop and evaluate mitigation measures through the adoption of statewide rules, improved occupational outreach programs, and action on pesticide product registrations.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

7. Pesticide Enforcement and Compliance Improvements

Background. The Department of Pesticide Regulation (DPR) regulates pesticide sales and use. The County Agricultural Commissioners (CAC) have joint authority with DPR to enforce pesticide laws and regulations. The CACs carry out local level enforcement, under the supervision of DPR.

To create consistent enforcement of pesticide regulations in the state, the DPR developed the Enforcement Response Policy, which became formal regulation in 2006. Preliminary reports show that the number of enforcement actions in 2005-06 were more than double of those in 2003-04.

When a proposed fine from an enforcement action is appealed, the CACs are in charge of the administrative appeals hearings. The DPR provides oversight and training through its three regional offices to the approximately 600 CAC staff in the state.

Governor's Budget. The Governor's Budget proposes \$667,000 from the Department of Pesticide Regulation Fund for six permanent positions to provide additional state oversight of field enforcement activities carried out by the county agricultural commissioners and to establish a training program for conducting county agricultural commissioner hearings.

These additional resources would shift the current ratio of one DPR oversight staff for every 38 CAC staff to one DPR staff for every 32 CAC staff.

Staff Recommendation. Staff recommends the Subcommittee reject the budget proposal.

8. Mill Fee on Non-Agricultural Sales

Background. The Mill fee is an assessed fee on all pesticides (agricultural and nonagricultural) at the point of first sale in the state. This fee is paid either by the pesticide manufacturer,

distributor, or retailer. The current mill assessment rate is 21 mills (2.1 cents per dollar of sales). Mill assessment revenues are deposited into the Department of Pesticide Regulation Fund and are the major source of funding for the state's pesticide regulatory programs.

The Department of Pesticide Regulation (DPR) conducted an audit of a statewide retail chain that sells consumer pesticides found substantial sales of pesticide products without the mill assessment being paid. The DPR findings led to the passage of a bill, which required assessment of the mill fee from all sellers of pesticides.

LAO Analysis. The LAO pointed out that there are departments other than DPR that deal with pesticides in some manner, but have not in the past received a portion of the mill fee. These are:

1. **State Water Resources Control Board** – Tasks include: development of total maximum daily loads; aquatic pesticide activity; water monitoring; and impaired water body listings
2. **Office of Environmental Health Hazard Assessment** – Tasks include: community health investigations; medical supervision and physician training; pesticide illness reporting; toxicology and risk assessment; and occupational health and safety
3. **Department of Fish and Game** – Tasks include: aquatic bio-assessment laboratory; emergency response and analysis; and planning and permitting related to fish and wildlife habitat
4. **Department of Health Services** – Tasks include: laboratory work for pesticide illness survey; analysis of pesticide exposure; Environmental Laboratory Accreditation Program; and Sentinel Event Notification of Occupational Risk (SENSOR) pesticide poisoning

Questions:

1. What is the total amount of mill fee that the DPR has collected since the passage of the bill?
2. What estimated amount remains to be collected?
3. How are these funds being used by the DPR?
4. Have any of these funds gone agencies other than DPR?

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
Darrell Steinberg
Mark Wyland



Monday, April 23, 2007
1:00 p.m. or upon adjournment of session
Room 113

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Resources—Environmental Protection—Energy

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

3940 State Water Resources Control Board

Background. The State Water Resources Control Board (SWRCB), in conjunction with nine semi-autonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The board carries out its water quality responsibilities by: (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement actions when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

Governor's Budget. The Governor's Budget proposes \$657 million to support the SWRCB in the budget year. This proposal is approximately \$112 million less than current year expenditure levels, mainly due to a reduction in bond funding. General Fund appropriation is expected to stay nearly the same.

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Water Quality	\$ 927,734	\$ 823,408	-\$104,326	-11.3
Water Rights	13,642	11,137	-2,505	-18.4
Administration	18,950	18,890	-60	-0.3
<i>less distributed administration</i>	<i>-18,950</i>	<i>-18,890</i>	<i>60</i>	<i>-0.3</i>
Total	\$ 941,376	\$ 834,545	-\$106,831	-11.4
Funding Source				
General Fund	\$ 39,091	\$ 39,102	\$ 11	0
Special Funds	362,715	362,980	265	0.1
Bond Funds	367,641	254,966	-112,675	-30.6
<i>Budget Act Total</i>	<i>769,447</i>	<i>657,048</i>	<i>-112,399</i>	<i>-14.6</i>
Federal Trust Fund	128,877	128,578	-299	-0.2
Reimbursements	9,999	9,999	0	0
State Water Quality Control Fund	23,309	29,495	6,186	26.5
State Water Pollution Control Revolving Fund	-2,682	-2,682	0	0
Petroleum Underground Storage Tank Financing Account	12,426	12,107	-319	-2.6
Total	\$ 941,376	\$ 834,545	-\$106,831	-11.4

Vote-Only Items

1. Brownfields Funding Initiative

Background. The Porter-Cologne Water Quality Control Act mandates that the State Water Board and the nine regional boards ensure that polluted groundwater is restored for beneficial uses, including drinking water. The Water Code requires that any person who has discharged waste to pay for the cleanup or abate the effects. This provides the Regional Water boards with the power to demand an investigation and cleanup, as well as recovery of costs incurred in overseeing the work.

Brownfields are lands where productive use of the property is hindered by environmental contamination or perceived contamination of the buildings, equipment, and surrounding land and water. Brownfields are known to contain volatile organic compounds, chromium, solvents, acids and other hazardous substances. Brownfields can leak contaminants into the groundwater. Brownfields are particularly relevant to environmental justice because the businesses and industries that closed their doors and contaminated the land and groundwater tend to impact low-income communities disproportionately.

Currently, in California, there are 1,716 sites undergoing cleanup and a backlog of another 1,700 awaiting oversight. The State Water Resources Control Board has 60 positions working on the Spills, Leaks, Investigation, and Cleanup Program for brownfields.

Governor's Budget. The Governor's Budget proposes \$3,122,000 from the State Water Quality Control Fund for 25 positions to increase oversight of the Spills, Leaks, Investigation, and Cleanup Program sites including underutilized properties and converting backlogged sites to cost recovery. These new positions are expected to address 400-600 site cleanups.

The funding for this program comes from property owners who pay the state to work on supervising the cleanup of privately owned brownfields.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Regulating Confined Animal Facilities

Background. Confined animal facilities include dairies, swine facilities, and poultry facilities, among others. There are many of these facilities in the Central Valley. For example, over 1,500 dairies are located in the Central Valley, and they pose significant treats to surface water quality. A single dairy with 1,000 cattle can annually produce as much waste as a city with 20,000 residents. Most of the waste from these facilities is untreated.

The Central Valley Regional Water Quality Control Board has directed its staff to develop General Order Waste Discharge Requirements (WDR) to handle permitting of confined animal facilities. Implementation of the new General Order WDR will provide a unified permitting approach for the existing dairies, and provide more oversight and enforcement than the past waiver programs.

In addition, the United States Environmental Protection Agency has issued revisions to the proposed federal Concentrated Animal Feeding Operations regulations. These revisions will include confined animal facilities, such as swine facilities, to the list that already included dairies.

Governor's Budget. The Governor's Budget proposes \$1,053,000 from the Waste Discharge Permit Funds for seven redirected permanent positions to handle water discharge permitting of confined animal facilities.

Of this amount, \$300,000 would be used to fund contracts for studies to provide scientific data on the impact of animal waste and associated waste chemicals on ground and surface water from confined animal facilities.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Sanitary Sewer Overflow Reduction Program

Background. Dilapidated infrastructure and lack of sanitary sewer system management by local agencies is causing numerous sanitary sewer overflows throughout the state. These sanitary sewer overflows contain high levels of pathogenic organisms and toxic pollutants. These spills can pollute surface and ground waters, threaten public health, adversely affect aquatic life, and impair the recreational use and aesthetic enjoyment of surface waters. Between 2000 and 2002, there were 240 beach closures due to such spills.

In California, water quality protection is provided through the issuance of waste discharge requirements. These requirements contain limitations on discharges to ensure that the beneficial uses of the State's waters are protected. In May 2006, the State Water Board adopted Resolution No. 2004-0080 (Order). The Order requires public agencies that own a sanitary sewer system to develop sanitary sewer management plans.

The Sanitary Sewer Overflow Reduction Program (SSORP) is an administratively created program without budgetary authority. SSORP would work with local agencies to collect data on spills, and analyze that data for possible ways to prevent or limit spills. Also, SSORP will work on outreach to local agencies and on sanitary sewer management plan implementation.

Governor's Budget. The Governor's Budget proposes \$384,000 from the Waste Discharge Permit Fund for three redirected permanent positions to administer the Sanitary Sewer Overflow Reduction Program.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Underground Storage Tank Cleanup Fund Augmentation

Background. The Underground Storage Tank Cleanup Fund (USTCF) is intended to distribute funds for cleanup of environmental contamination caused by leaks from underground storage tanks. Funds for the USTCF are derived from a fee on gasoline, set currently at \$0.014/gallon, which generates approximately \$220 million per year. The program is scheduled to sunset on January 1, 2011.

The USTCF acts like an insurance program for underground storage tank owners who pay a fee on each gallon of gasoline they store. The USTCF provides up to \$1.5 million in reimbursements per occurrence to petroleum underground storage tank owners and operators.

These funds are used to pay for the investigation and cleanup of unauthorized petroleum releases, and for liability to third parties for damages caused by such releases. Since 1992, USTCF has received about 18,000 claims, of which 10,000 have been funded for \$1.9 billion. There are an additional 4,700 claims waiting to be funded.

Orphan sites are sites for which the owner of the property cannot be located or cannot pay for the cleanup, such as businesses that have gone bankrupt.

Governor's Budget. The Governor's Budget proposes \$12.9 million in one-time funds from the Underground Storage Tank Cleanup Fund for underground storage tank cleanup costs. Of this amount, \$2.9 million would be used for the Orphan Site Cleanup Program.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Leviathan Mine Pollution Abatement Fund

Background. The Leviathan Mine is a superfund site owned by the State of California. In 1984, the state purchased Leviathan Mine to initiate work to abate pollution caused by historic mining for sulfur at the site. At the time of the land purchase, the site was believed to have very little contamination that could be addressed with approximately a \$4 million investment. Today, cleanup cost for the site exceeds \$100 million.

Mining at the Leviathan Mine resulted in exposure of certain minerals, such as pyrite, to air and water. This exposure triggered a series of chemical reactions that caused the ground water to become acidic. As the acidic ground water moves through the soil and around rocks, it dissolves metals in the ground. Eventually, the acidic ground water can seep out of the ground and into nearby creeks, as it has already entered the Bryant Creek watershed.

The United States Environmental Protection Agency (USEPA) has issued an Administrative Abatement Action to the Lahontan Water Board (one of the nine regional water boards), thereby directing pollution abatement activities at Leviathan Mine.

Governor's Budget. The Governor's Budget proposes \$582,000 from General Fund and \$2.9 million of one-time funding from the Water Quality Control Fund for a total request of \$3,482,000. The General Fund would pay for 1.9 limited-term positions and contract funds. These funds would be used for ongoing operations at Leviathan Mine, including pond water treatment, removal and disposal of sludge, and water monitoring.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Reduction of the Water Rights Backlog

Background. The State Water Board issues all permits for water takes from California's surface and ground waters. Water right permits are issued conditionally, and include terms to guard against impacts to other legal water users and mitigate for environmental effects of water supply projects. When unregulated diversions occur, water supplies to legal users are reduced, and adverse environmental impacts can occur.

In 2003-04, the State Water Board's Division of Water Rights main source of funding, the General Fund, was replaced with fee-based funding. These new fees include filing fees for all applications and petitions, and annual fees for certain pending applications and petitions. However, processing the fees has taken staff time away from processing applications.

The State Water Board has approximately 567 pending water right applications and 630 petitions requesting approval to amend applications that have already been publicly noticed, or to change the conditions of existing water right permits.

Governor's Budget. The Governor's Budget proposes \$693,000 from the General Fund for 6.3 positions for water rights application and change petition processing.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. SB 729 Implementation: Water Quality Enforcement Assurance and Transparency of Action

Background. AB 729 (Simitian, 2006) authorizes the State Water Board to act under the same authority as the Regional Boards to conduct water quality investigations and administratively impose civil liability for violations of certain water quality requirements. SB 729 also requires each Regional Board to coordinate with the State Water Board and other state agencies with respect to water quality matters and report rates of compliance with water quality requirements.

Governor's Budget. The Governor's Budget proposes \$74,000 from the Waste Discharge Permit Fund for 0.5 positions to implement SB 729.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

8. Proposition 13 and Proposition 50 Funding

Background. The State Water Board has adopted guidelines for the implementation of Proposition 13 and Proposition 50 local assistance grant funds. The guidelines establish a competitive process and criteria for selecting projects. State Water Board staff inspects projects during and after construction and reviews progress reports and invoices.

According to the California State Treasurer's Office, as of June 1, 2006, there are still \$27.6 million in unissued general obligation bonds for the Water Conservation and Water Quality Bond Law of 1986. The State Water Board informs staff that this is because these bond funds are specified to be loans, and the board has trouble finding interested applicants (most local agencies prefer grants).

Governor's Budget. The Governor's Budget proposes a total of \$132,542,000 from Proposition 13, Proposition 50, and 1986 Bond funds. Of these funds, \$35,552,001 is a reappropriation and \$96,991,000 is new funding. The funds are proposed as follows:

- 1986 Water Quality Bond – \$2.2 million local assistance reappropriation for agricultural drainage loans
- 1986 Water Quality Bond – \$4.6 million local assistance appropriation for agricultural drainage loans
- Proposition 13 – \$7,464,507 local assistance reappropriation for wastewater construction, coastal non-point source pollution control, and Southern California Integrated Watershed Program
- Proposition 13 – \$1,036,000 local assistance appropriation for water recycling
- Proposition 50 – \$25,887,494 local assistance reappropriation for water recycling and Integrated Regional Water Management
- Proposition 50 – \$91,355,000 local assistance appropriation for water recycling and Integrated Regional Water Management

Projects Ready for Funding. The \$82 million for Integrated Regional Water Management projects would be provided to projects that have already been approved by the State Water Board. These projects represent \$75 million in funding. The rest of the funds would be granted to projects that have not yet been approved by the State Water Board. The approved projects are:

- \$25 million – Santa Ana Watershed Project Authority
- \$12.5 million – Tahoe Resource Conservation District
- \$12.5 million – Contra Costa Water District
- \$12.5 million – Monterey County Water Resources Agency
- \$12.5 million – Community Foundation of Santa Cruz County

Staff Recommendation. Staff recommends the Subcommittee hold this item open.

9. Wastewater Regulatory Programs Funding

Background. Under the Porter-Cologne Act, the State Water Board is responsible for preserving, protecting, and enhancing the quality of the waters of the state. The State Water Board is also responsible for implementing the Clean Water Act.

In 1989, the United States Environmental Protection Agency and the State Water Board signed an MOU that required the State Water Board to administer the National Pollutant Discharge Elimination System (NPDES) program in accordance with federal and state laws, regulations, and policies. The NPDES issues wastewater permits.

In the *2006-07 Budget Act*, rather than increase fees to support the NPDES program, the Governor and the Legislature provided NPDES with \$4 million in one-time general fund monies.

Governor's Budget. The Governor's Budget proposes \$1.3 million from General Fund and \$2.7 million from the Waste Discharge Permit Fund to continue support for existing staff in the NPDES program.

Staff Analysis. In last year's budget, the Governor proposed and the subcommittee supported using the \$4 million increase to the National Pollutant Discharge Elimination System (NPDES) permit fees provide for the costs of this program. In the final budget, this funding source was substituted with general fund on a one-time basis. In this proposal, the administration is proposing to maintain funding levels for this program and continue supporting staff from the general fund on an ongoing basis.

While staff generally agrees with the administration that these programs serve the overall public good and do merit general fund support, it is also appropriate that a percentage of the costs of monitoring discharged pollution be supported by those that discharge into public waterways. Staff suggests that the subcommittee look again at the feasibility of using fee revenue to support some if not all of these programmatic costs

Staff Recommendation. Staff recommends the Subcommittee hold this item open to allow for the public to submit comments on whether or not the permit fee should be raised in order to fund program costs.

10. SB 1070, Water Quality Information

Background. The State Water Board Surface Water Ambient Monitoring Program (SWAMP) would administer the requirements of SB 1070. SB 1070 (Kehoe, 2006) requires the State Water Board to:

- Place on its web site a public information file on water quality monitoring, assessment, research, standards, regulation, and enforcement.
- Administer the California Water Quality Monitoring Council.
- Develop a strategy for a comprehensive monitoring program that utilizes and expands upon the state's existing statewide, regional, and other capabilities.

- Identify the full cost of the implementation of the comprehensive monitoring program strategy and identify proposed sources of funding for implementation of the strategy.

Governor's Budget. The Governor's Budget proposes \$113,000 from the Waste Discharge Permit Fund for 1.4 positions to implement SB 1070.

Staff Analysis. The SWAMP program received a \$4 million redirection of funding in 2006-07 for new positions. The department has not demonstrated why some of those positions could not be used to cover the responsibilities identified in SB 1070.

Staff Recommendation. Staff recommends the Subcommittee hold this item open to allow the State Water Board to provide staff with information as to how the \$4 million from 2006-07 was allocated and why none of those funds can be directed toward the SB 1070 tasks.

11. Agricultural Waiver Program

Background. In areas where polluted wastewater is discharged into surface waters, the Regional Boards establish waste discharge permit requirements which put restrictions on the kinds of waste and the amounts that may be discharged. State law allows regional boards to waive the waste discharge requirements if it is in the public interest, typically because the amount of discharge is insignificant. The Regional Boards typically make the grant of a "waiver" to the discharger subject to some conditions, such as requiring the discharger to monitor its discharges. Historically, the Regional Boards have regulated runoff from agriculture under conditional waivers.

The Central Coast, Los Angeles, and Central Valley Water boards have adopted conditional waivers for discharges from irrigated lands that require dischargers to monitor water quality and to take corrective actions if water quality impairments are found. Implementing this waiver will require the Regional Boards' staff to review monitoring plans and reports, work with discharger groups, and make recommendations to the Regional Boards on how the conditional waiver may need to be modified, based on information found.

Applying for an agricultural waiver is voluntary. If a land owner does not apply for the waiver, they have to meet all other clean water regulations without monitoring their own discharges.

Funding History. In 2005, the State Water Board adopted a fee schedule for the agricultural waivers program, which was anticipated to raise \$1.9 million in annual revenues. However, due to low enrollment rates and confusion over what acreage is actually covered by the program, the agricultural waiver fee only generated about \$570,000 in 2005-06 and is expected to generate \$600,000 in 2006-07. Rather than raise the fee, the Legislature provided the program with a one-time appropriation of \$1.6 million General Fund in 2006-07.

Governor's Budget. The Governor's Budget proposes \$1,635,000 General Fund to support 21.2 existing positions in the agricultural waiver program.

Staff Recommendation. Staff recommends the Subcommittee hold this item open to allow for the public to submit comments on whether or not the permit fee should be raised in order to fund program costs.

12. Proposition 84 Water Programs

Governor's Budget. The Governor's Budget proposes \$105.3 million in Proposition 84 bond funds for 18.2 positions and local assistance grants for water pollution control, agricultural water quality, urban storm-water runoff reduction, and the clean beaches program. Of the total amount, \$4.1 million would be for state operations and \$101.2 million for local assistance grants. The funds would be spent on:

- **State Water Pollution Control Revolving Fund - \$73.2 million (\$80 million - total authorized)** – Funding provides a match for federal capitalization grants that provide financial assistance in the form of low interest loans for the construction of publicly owned wastewater treatment facilities, stormwater pollution control projects, nonpoint source pollution control projects and estuary enhancement projects.
- **Agricultural Water Quality Grant Program - \$6 million (\$15 million – total authorized)** – Funding provides grants awarded to public agencies or nonprofit organizations for the purposes of improving agricultural water quality through demonstration projects, research, construction of agricultural drainage improvements, and for projects to reduce pollutants in agricultural drainage water through reuse, integrated management, or treatment.
- **Urban Stormwater Grant Program - \$14 million (\$90 million – total authorized)** – Funding provides grants to local public agencies for projects designed to implement stormwater runoff pollution reduction and prevention programs, including diversion of dry weather flows to publicly owned treatment works and acquisition and development of constructed wetlands.
- **Clean Beaches Grant Program - \$6.4 million and Santa Monica Bay Restoration Commission - \$1.6 million (\$90 million – total authorized)** – Funding provides grants to public agencies for projects in coastal waters, estuaries, bays and near shore waters that are intended to improve coastal water quality at public beaches, upgrade existing sewer collection or septic systems, and implements stormwater pollution reduction programs and best management practices.

Staff Analysis. Staff recommends the Subcommittee hold this item open until the Governor's May Revise Budget is released and the Subcommittee hears all other Proposition 84 items.

13. Watershed Protection and Basin Planning

Background. The State Water Board works to improve water quality by regulating individual industries and sewage treatment facilities. However, local agencies have the authority to encourage and regulate land use practices that cumulatively make the difference in determining whether water quality is met or not. Local water quality and planning efforts can assist in planning for long-term water quality sustainability. Regional planning coalitions offer economies of scale and regional cooperative scenarios that the state cannot necessarily capture.

Current law requires cities and counties to adopt a general plan with mandatory elements including land use, housing, conservation, open space, noise, and safety. Water is an optional element in local planning. Many general plans are out of date and virtually none include a comprehensive water element that coordinates consideration of water issues with other elements.

The California Water Plan is intended to be a guiding document for the State's water quality and priorities for water quality attainment. The water quality control plans contribute to the California Water Plan, but many of those documents have not been revised since they were first developed 35 years ago.

Governor's Budget. The Governor's Budget proposes \$6.1 million in Proposition 84 bond funds for 11.9 positions and local assistance. The funds would be used toward a pilot grant program for local agencies to update their general plans to incorporate watershed protection efforts into their land use policy. In addition, the funds would be used for scientific contracts to incorporate water quality basin plans into the next update of the California Water Plan.

- **Watershed protection.** \$1.8 million to implement a pilot grant program for local agencies to update their general plans to incorporate watershed conservation strategies into land use policy in order to minimize water quality impacts of conventional land development on California's water resources.
- **Water Basin Plans.** \$3.2 million and 10.9 PYs to incorporate the State Water Board's water quality basin plans into the next update of the California water plan. California's Water Basin Plans assess regional water quality and water supply and act as guiding documents for the expenditure of Regional Water Management funding. The State Water Board reports that many of California's regional Water Basin Plans are out of date with many standards, as they have not been revised since their original development 35 years ago.

Staff Analysis. The funding requested in this proposal would be allocated out of a \$90 million allocation from Chapter 9 of Proposition 84 for a wide variety of grants, loans, and incentives to encourage environmentally focused land use planning. This section of the bond is very broad and requires implementing legislation.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until the Governor's May Revise Budget is released and the Subcommittee hears all other Proposition 84 items.

14. Data Management IT Systems

LAO Analysis. Like any modern organization, the State Water Board and the nine regional water boards rely upon IT for many of their core business functions. The SWRCB IT systems serve a variety of purposes, including administrative functions, permitting and enforcement systems, water quality monitoring, and providing public access to water quality and enforcement data (through the Internet). The boards are constantly revising, updating, and adding to their IT systems. Currently, at least five separate IT projects are currently in progress, with one-time development costs projected to total about \$3.7 million for these projects.

On numerous occasions, the Legislature has stressed the fundamental role that management of data—including permitting, enforcement, and water quality—at the boards plays in assisting the board to carry out its mission. This is critical to informing the board’s decision making, and the public-at-large, and in effectively targeting resources to program areas most in need.

Strategic Plan Needs Update. Every state department is required to have a strategic plan to guide its IT activity, known as an Agency Information Management Strategy (AIMS) report. The purpose of this strategic plan is to ensure that departments have a clear direction with respect to IT, including identification of priorities. Along with its use internally to state departments, the plan is submitted to the Department of Finance to assist in its review of the budget. The board has indicated that its AIMS is outdated, and that a new IT plan is needed. Furthermore, the LAO notes, the board has changed its IT strategy and a revised AIMS report must be prepared when there is a significant change in IT strategy. This plan is particularly important at SWRCB because, as the board adopts IT systems pursuant to the plan, the nine regional boards are then required to use these IT systems to accomplish their goals.

Legislative Oversight Circumvented. In past years, the Legislature, through the budget process, has reviewed IT proposals from the water boards. Most notably, a proposal for an upgrade to the core permitting and enforcement database was presented at hearings on the 2002-03 budget but was rejected by the Legislature for funding based on the design of the system. Shortly thereafter, the board developed a contract with the federal government, wherein a system similar to the one rejected by the Legislature would be designed by the board under federal contract with certain development costs to be paid directly by the federal government. In other words, the board proceeded with an IT project that the Legislature rejected by going outside the budget process. In subsequent years, the board administratively directed program funds to continue the project, making legislative review difficult.

The original purpose of this IT system—referred to as CIWQS—was solely to automate federal permitting for pollution discharges. (The state is delegated responsibility for issuing and enforcing federal water quality permits.) The project, however, has expanded significantly over time. The LAO identified total costs of about \$4.6 million to develop and maintain CIWQS at the state board, of which only \$1.7 million has been paid for by the federal government. Ongoing maintenance and operation costs are being paid by the state from special funds (mainly fees) as part of the board’s permitting and enforcement activities. The LAO estimates \$738,000 would be used to maintain the system in the budget year.

Data Entry Backlog. The original scope of the CIWQS project was to automate the federal permitting process. However, the state board has expanded the scope of CIWQS by beginning to link various other existing data management programs, including those used by regional boards, to the CIWQS system. For example, data entry related to state water quality permits issued at the regional board level must now tie into CIWQS. Moreover, the board has a number of new IT projects under development, each of which is specifically designed to link with CIWQS and will generally require the regional boards to change the way they conduct data entry.

While some regional boards have integrated well with the new scope of the program, others have struggled. For example, one regional board halted all data entry into the new system for six months because it was unsure of how the system would be used in the future. This board still uses a duplicate paper-trail system in addition to the new automated system for day-to-day activities, which is inefficient and adds unnecessarily to costs.

The ongoing expansion of the scope of CIWQS exacerbates backlogs in data entry that have developed at the regional board level, particularly related to permitting, enforcement, and water quality monitoring data. Because of backlogs in data entry that would otherwise provide regional board staff with a picture of the state of water quality in their areas, they may not be targeting their resources as effectively as possible. This data backlog is also problematic because it creates the potential for the public to be misled as it uses the Internet to seek water quality-related information. For example, where backlogs occur with only partial data being put on the Internet, it would not be clear to the public that the information they are viewing contains gaps or is outdated.

LAO Recommendation. The LAO finds that the board's basis for adopting new IT projects is unclear and the Legislature has no basis on which to review how new IT projects fit into the board's overall IT strategy. Based on this, the LAO recommends the adoption of budget bill language requiring the board to update its AIMS report and prohibiting expenditures for new IT projects until the report is updated and submitted for legislative review. The LAO recommends:

Item 3940-001-0001. No money appropriated in this item or any other items appropriating funds to the State Water Resources Control Board, can be used for new information technology projects until the board's Agency Information Management Strategy is updated to reflect the board's current information technology strategy and submitted to the Joint Legislative Budget Committee no sooner than 30 days prior to any spending on information technology projects.

In addition, the LAO thinks that legislative oversight of the board's IT projects would be significantly enhanced if the board were required to submit an IT implementation plan in conjunction with the submittal of the annual Governor's budget. This plan should include information on ongoing and proposed IT projects, one-time design and development costs, and ongoing maintenance costs. The LAO, therefore, recommends the adoption of budget bill language requiring the board to submit an IT implementation plan as part of the submittal of the annual Governor's budget.

Also, the users of CIWQS, including regional boards, regulated entities, and the public, have raised concerns to the state board about CIWQS, prompting the board to request an external review of this IT project to be completed in May 2007 by external program experts. The LAO thinks the Legislature should receive an unabridged version of this review, and the LAO therefore recommends that the board present the Legislature with the review at the same time as it is presented to the state board. This assessment would help the Legislature evaluate CIWQS and associated major IT projects at the board and assess the corrective actions the board is taking to address the identified problems with its IT programs.

The LAO additionally recommends that the board report at budget hearings on the extent of the CIWQS backlog and its plans to reduce it in the budget year.

Staff Recommendation. Staff recommends the Subcommittee take three actions:

1. Adopt the LAO recommended budget bill language:

Item 3940-001-0001. No money appropriated in this item or any other items appropriating funds to the State Water Resources Control Board, can be used for new information technology projects until the board's Agency Information Management Strategy is updated to reflect the board's current information technology strategy and submitted to the Joint Legislative Budget Committee no sooner than 30 days prior to any spending on information technology projects.

2. Direct the State Water Board to provide an unabridged copy of the IT project's external review to the Budget Committees of both houses, and request the LAO to review the IT project external review document and recommend appropriate action to the Legislature.
3. Adopt Supplemental Report Language directing the State Water Board to submit an IT implementation plan in conjunction with the submittal of the annual Governor's budget. The language would be:

On January 10, 2008, the State Water Resources Control Board shall provide to the Joint Legislative Budget Committee and the fiscal committees of each house of the Legislature a report with information regarding the board's information technology projects. The report will include information on ongoing and proposed IT projects, one-time design and development costs, and ongoing maintenance costs.

15. San Diego Bay Toxic Sediment Clean-up

Background. In 1996, the National Oceanic and Atmospheric Administration identified San Diego Bay as the second most toxic bay in the nation. A few years earlier, in 1991, the San Diego Regional Water Quality Control Board (San Diego Board) requested an initial sediment study of the San Diego Bay. However, it took until 2005 for the San Diego Board to issue a tentative Clean-up and Abatement Order (Order No. R9-2005-0126) for contaminated marine sediment in San Diego Bay.

The San Diego Board has yet to issue a final Order. The delay appears to be related to the San Diego Board's efforts to prepare an electronic index of documents and other information from their records related to the tentative Order. Also, the San Diego Board currently has one employee and one contractor assigned to the work.

While delays are taking place, the price of clean-up continues to escalate. The current estimate for removing the 885,000 cubic yards of toxic sediment is estimated at \$96 million.

Questions:

1. Why did it take so long for the San Diego Regional Water Quality Board to obtain a contractor and begin the work?
2. Why has the San Diego Regional Water Quality Board not established sediment standards for clean-up?
3. How can the Legislature ensure sufficient funding so this work can be completed in a realistic and timely manner?

Staff Recommendation. Staff recommends the State Water Board report back to the Subcommittee by May 1, 2007 on the staffing needs to create a final Order in a more expedited manner.

16. Water Quality Program Funding Level

Background. The Porter Cologne Water Quality Control Act is designed in part to control point and non-point sources of pollution. Non-point (polluted runoff) pollution is the sole or contributing cause of impairment in 76 percent of the surface water bodies around the state. These types of pollution typically come from irrigated agriculture, grazing, confined animal facilities, marinas, and timber harvesting activities. Pollutants from many of these activities have been detected in drinking water supplies that serve 16.5 million people in 46 California counties. In the Central Valley, numerous water bodies violate state and federal water quality standards. Many of these surface waters are polluted to an extent that also makes them hazardous to aquatic life. Some of these pollutants have migrated into groundwater. The application of manure on lands or the runoff from some livestock operations creates a risk that E. coli and other pathogens can be spread into the human food chain or public water supplies.

California currently requires that these sources of pollution comply with the Porter Cologne Water Quality Act either through a waiver that covers these activities or through a waste discharge requirement. In 2003, a series of obsolete waivers were rescinded by operation of law and authorized fees in order to fund these programs.

However, despite these changes in the law, only three of nine regional boards have adopted waivers for irrigated agriculture, none have comprehensive waivers or water discharge requirements (WDR) for grazing (despite the E. coli situation), and none have WDRs or waivers for polluted runoff. Additionally, little attention has been paid to the problem of pollution affecting groundwater supplies. While it is true that not all of these activities are present in all

the areas served by regional boards, it is clear that the significant non-compliance with Porter-Cologne is ongoing.

LAO 2002 Analysis. The Legislative Analyst's Office reported in the *Analysis of the 2002-03 Budget Bill* that the SWRCB had substantial unmet funding requirements for its water quality programs. The LAO's findings were based on a needs analysis conducted by the board in 2001. This analysis found that the board would need an additional \$100 million above the current level of funding to fully address its current workload. In addition, the board estimated that an additional \$70 million would be needed to address future workload as the universe of waste dischargers under regulation increased.

Since 2002, legislation has been enacted to shift the majority of the water quality programs to fee-based funding. The LAO indicated that the Legislature should consider the board's funding requirements when enacting legislation to shift program funding from the General Fund to fee-based funding. However, these funding requirements were never addressed and funding levels have been frozen at relatively the same level as when the program was supported largely by the General Fund. Therefore, substantial unmet funding requirements continue for the board's water quality programs. This has likely been further exacerbated by the numerous General Fund reductions made to the board's operations over the past few budget cycles.

Staff Recommendation. Staff recommends the Subcommittee adopt the following Supplemental Report Language:

On or before January 10, 2008, the State Water Resources Control Board shall provide to the chairs and vice chairs of the fiscal committees of the Senate and the Assembly a report that discusses the State Water Resources Control Board's financial needs to fully fund the Board's programs. The report will also include information on what the Board is doing to increase accountability in water delivery between the regional water boards.

On or before January 10, 2010, the State Water Resources Control Board shall submit a report to the Legislature, including the chairs and vice chairs of the fiscal committees of the Senate and the Assembly, that discusses potential options for modifying the State Water Resources Control Board's regulatory structure.

17. The Petroleum Underground Storage Tank Fund Sunset

Background. AB 1906 (Chapter 774/Statutes of 2004) extended and increased funding for the Petroleum Underground Tank Cleanup Fund. This fund provides moneys to reimburse parties, ranging from residential tank owners to large corporations, for the purposes of cleaning up leaking petroleum fuel tanks. That measure also set aside \$10 million per year for brownfields petroleum contamination cleanup. The program has successfully disbursed funds to cleanup brownfields in urban areas. However, under current law, the program is scheduled to sunset at the end of the calendar year.

Staff Recommendation. Staff recommends the Subcommittee adopt trailer bill language to eliminate the fund sunset.

3960 Department of Toxic Substances Control

Background. The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; the General Fund; and federal funds.

Governor's Budget. The Governor's Budget proposes \$144 million to support the DTSC in 2007-08. This is 2.5 percent less than estimated expenditures in the current year. This reduction is due to a decrease in General Fund appropriations.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Site Mitigation and Brownfields Reuse	\$ 102,137	\$ 106,047	\$ 3,910	3.8
Hazardous Waste Management	66,999	65,711	-1,288	-1.9
Science, Pollution Prevention, and Technology	10,593	11,178	585	5.5
State as Certified Unified Program Agency	1,199	1,271	72	6
Capital Outlay	3,963	0	-3,963	-100
Administration	31,475	33,217	1,742	5.5
<i>less distributed administration</i>	<i>-31,475</i>	<i>-33,217</i>	<i>-1,742</i>	<i>5.5</i>
Total	\$ 184,891	\$ 184,207	-\$684	-0.4
Funding Source				
General Fund	\$ 32,453	\$ 25,321	-\$7,132	-21.9
Special Funds	115,480	118,953	3,473	3
<i>Budget Act Total</i>	<i>147,933</i>	<i>144,274</i>	<i>-3,659</i>	<i>-2.5</i>
Federal Funds	26,567	27,801	1,234	4.6
Reimbursements	10,391	10,632	241	2.3
Stringfellow Insurance Proceeds Account	0	1,500	1,500	100
Total	\$ 184,891	\$ 184,207	-\$684	-0.4

Vote-Only Items

1. Reducing Exposure to Toxic Chemicals: Pollution Prevention and Compliance

Background. The Department of Toxic Substances Control (DTSC) has a mandate to protect public health and the environment. Its primary activities are related to managing hazardous wastes and restoring brownfields, but it also has an active pollution prevention program.

The Pollution Prevention Development for Chemicals of Concern Program (PPDCCP) intends to proactively reduce the use of chemicals of concern, rather than waiting until a problem reaches the level where prescriptive regulations become necessary. The program aims to:

- Identify where and how much of these products are used;
- Work directly with California's industries to identify pollution prevention opportunities;
- Promote green chemistry in California's industries;
- Research alternative materials and processes; and
- Provide a clearinghouse of relevant pollution prevention and green chemistry information.

Governor's Budget. The Governor's Budget proposes \$451,000 from the Toxic Substances Control Account for 3.5 permanent positions to work on the Pollution Prevention Development for Chemicals of Concern Program. Specifically, work will target metals in packaging and lead in children's jewelry.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Enforcement and Outreach of Treated Wood Waste

Background. Treated wood waste has been treated with chemical preservatives, such as pentachlorophenol, chromated copper arsenate, or copper compounds. The wood is treated to prevent rotting and protect against insects. However, these additives would in most cases be classified as hazardous waste, but an exemption for treated wood waste in statute allowed disposal at landfills. The Department of Toxic Substances Control (DTSC) estimates that annually about 100,000 tons of treated wood waste is destined for landfill disposal.

AB 1353 (Matthews, 2003) repealed the treated wood waste exemption from being classified as hazardous waste as of January 1, 2007. Thus, treated wood waste is now within DTSC's regulatory responsibility. The DTSC adopted regulations for management standards for treated wood waste as an alternative to the full hazardous waste requirements. Small quantity generators (1,000 pounds or less) are exempt.

Governor's Budget. The Governor's Budget proposes to redirect \$431,000 in operating expense and equipment funding for 4.5 permanent positions and one limited-term position to implement and enforce the new treated wood waste law. No new funds are requested.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Transfer Navy Military Base Oversight to Cost Recovery Program

Background. Since September 1993, the Department of Toxic Substances Control (DTSC) has been the lead state agency for military base remediation activities. DTSC currently oversees 65 Navy installations for remediation activities. Of these Navy installations, 59 are invoiced through cost reimbursement and six are invoiced through a federal grant.

The Navy has requested that all of its installations be moved to direct billing to reduce administrative costs. The direct billing has worked well for DTSC.

Governor's Budget. The Governor's Budget proposes a funding shift of \$700,000 from federal grants to cost recovery for the DTSC's oversight of six Navy installations. No new funds are requested.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Laboratory Infrastructure and Equipment

Background. The Department of Toxic Substances Control (DTSC) received \$1 million in the 2005-06 Budget to purchase equipment for the Environmental Chemistry Laboratory. At the time, DTSC management decided to conduct a review of the potential chemicals and analytical methods for which the instruments would be used so as to ensure the right equipment was ordered. However, negotiations with instrument manufacturers took too long and DTSC was unable to spend the funds within one year before those funds reverted.

DTSC is now confident that it has information about the specific equipment that needs to be ordered, and will be able to use the funds quickly and cost-effectively.

Governor's Budget. The Governor's Budget proposes a total of \$978,500 (\$719,000 from the Hazardous Waste Control Account and \$259,000 from the Toxic Substances Control Account) in one-time funds for equipment for the Environmental Chemistry Laboratory.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Glendale Regional Office Move

Background. The Department of Toxic Substances Control (DTSC) Glendale Regional Office is currently in a building where the lease expires in December 31, 2007. Currently, the Glendale Regional Office is located in a renovated warehouse with many structural problems. DTSC offices have many specialized needs, such as ability to store hazardous or explosive samples. Although DTSC has yet to identify a new office location, the Glendale Regional Office can be left with 30 days written notice.

Governor's Budget. The Governor's Budget proposes \$1,899,000 from various special funds for relocating the Glendale Regional Office. The funds would be used for:

- \$150,000 – Moving costs
- \$750,000 – Modular furniture
- \$172,000 – Cabling and de-installation and installation of computers
- \$7,000 – Overtime for information technology and administrative services staff to set up the office on the weekend

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Stringfellow Hazardous Waste Site Management Augmentation

Background. The Stringfellow Hazardous Waste Site (Site) is a federal superfund near the community of Glen Avon in Riverside County. Until 1972, the Site received approximately 34 million gallons of highly acidic metal and organic waste, which has seeped into the groundwater. The Department of Toxic Substances Control (DTSC) is working to remediate the Site under the direction of the United States Environmental Protection Agency.

In 1992, a federal court deemed the State of California solely responsible for the Site. This was because the state selected the Site and issued all of the permits for operation. The state spends \$13 million on Site remediation annually, but there is no cost estimate for the total cost of cleanup.

Governor's Budget. The Governor's Budget proposes \$2.2 million from the General Fund for the operation and maintenance of the Stringfellow Hazardous Waste Site. Also, the Governor's Budget proposes \$1.5 million for two years from the Stringfellow Insurance Proceeds Account to continue the removal and remediation activities.

The Governor's Budget also includes trailer bill language that would become effective in January 1, 2013. This trailer bill language states that all assets, liabilities, and surplus of the Stringfellow Insurance Proceeds Account shall, as of July 1, 2013, be transferred to, and become a part of this Subaccount for the Stringfellow site, as provided by Section 16346 of the Government Code. All existing appropriations from the Stringfellow Insurance Proceeds Account, to the extent encumbered, shall continue to be available for the same purposes and

periods from this Subaccount. The trailer bill language makes other technical changes related to the account transfer.

The trailer bill language also incorporates the 2002 Memorandum of Understanding between the State and participating defendants into the activities to be carried out.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Transfer Authority from Site Operation and Maintenance Account

Background. The Department of Toxic Substances Control (DTSC) is responsible for recording a Land Use Covenant when hazardous waste remains on a property at which the land is not suitable for unrestricted uses. Existing statute requires that DTSC collect funds to cover the cost of administering these Land Use Covenants. The statute also allows the land owner to pay DTSC administration costs years into the future. Those funds are then deposited into a Site Operation and Maintenance Account, from where they are withdrawn to cover administration expenses.

Governor's Budget. The Governor's Budget proposes to transfer \$10,000 from the Site Operation and Maintenance Account to the Toxic Substances Control Account and the Hazardous Waste Control Account to pay for DTSC's cost of providing oversight to projects with funding from the Site Operation and Maintenance Account.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

8. Board of Equalization Fee Collection and Fund Shift

Background. The *2006-07 Budget Act* included trailer bill language that expanded the types of businesses subject to the environmental fee. The new entities subject to the fee include limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships. There are expected to be about 6,600 new fee-payers. The fee collection will begin in 2008.

The Board of Equalization collects all of DTSC's fees. The Board of Equalization commingles its collection activities associated with the environmental fee and the hazardous waste industry fees, and has not been able to provide DTSC with actual cost data differentiated between these two fee categories.

Governor's Budget. The Governor's Budget proposes \$268,000 (\$68,000 one-time) from the Toxic Substances Control Account to pay the Board of Equalization for expanding Environmental Fee collection.

The Governor's Budget also includes a funding shift of \$2,931,353 from the Hazardous Waste Control Account to the Toxic Substances Control Account to pay for Board of Equalization fee collection services from the appropriate account.

Proposed Trailer Bill Language. The Governor's Budget includes trailer bill language that would eliminate existing statute requiring that appropriation from the Toxic Substances Control Account for the administration and collection of fees be limited to \$500,000. The trailer bill language also would limit the payment for fee collection to the expenses incurred in collecting fees for deposit to the Hazardous Waste Control Account.

Staff Recommendation. Staff recommends the Subcommittee hold this item open to give staff time to work with the Department of Finance and DTSC on the wording of the trailer bill language.

9. Hazardous Materials Remediation Activities – Continued

Restoration of Our Urban Environment

Background. During the 2006 Legislative session, the Legislature passed three bills that address site mitigation and brownfields. These bills are:

- **SB 989 (Committee on Environmental Quality, Chapter 510)** – Hazardous Material Bona Fide Ground Tenant Remedial Actions – Provides liability immunities similar to those provided under the California Land Reuse and Revitalization Act of 2004 to Bona Fide Ground Tenants, provided they meet certain conditions and conducts certain site assessment and cleanup actions.
- **SB 354 (Escutia, Chapter 523)** – Hazardous Materials Release Remediation – Allows California Land Environmental Restoration and Reuse Act authority to be used at more sites to encourage the cleanup and redevelopment of more brownfield sites. This bill allows local agencies to act at sites with pending state agency enforcement orders.
- **AB 2144 (Montanez, Chapter 562)** – Hazardous Materials Land Use – Modifies the public participation requirements under the California Land Environmental Restoration and Reuse Act and under the Porter-Cologne Water Quality Control Act, and authorizes the DTSC to require that data and information be submitted in electronic format. This authority will make the transmission and transfer of information more efficient and cost-effective, and will also allow for more timely access to that information, as well as analysis.

Governor's Budget. The Governor's Budget proposes a total of \$219,000 (\$119,000 from reimbursements and \$100,000 from the Toxic Substances Control Account) for two permanent

positions to implement and coordinate three new bills dealing with brownfields. These positions would be a hazardous substances engineer and an associate government program analyst.

Staff Analysis. This newly-passed statute mainly gives authority to local agencies and land tenants regarding environmentally contaminated land. The tasks given to the Department of Toxic Substances Control by this legislation are relatively minor, with the exception of AB 2144, which deals with electronic data. However, DTSC did not ask for IT personnel with their request.

Staff Recommendation. Staff recommends the Subcommittee reject the budget proposal.

10. California Environmental Contaminant Biomonitoring Program: Planning for Implementation

Background. Scientific studies have identified a multitude of environmental chemicals as toxic to humans, but with few exceptions, relatively little is known about the presence of these chemicals inside people's bodies. Increases in breast and brain cancer, infertility, asthma, autism and other developmental diseases have heightened public concern about potential effects of environmental exposures. Some chronic diseases have been linked with exposure to synthetic chemicals, including a variety of common chemicals that can mimic or block actions of hormones necessary for growth and maintenance of health.

SB 1379 (Perata, 2006) establishes the California Environmental Contaminant Biomonitoring Program (CECBP) to systematically collect, analyze, and archive blood and other human biological specimens from a statistically valid representative sample of California's general population. The CECBP will be undertaken by the Department of Public Health, the Department of Toxic Substances Control (DTSC), and the Office of Environmental Health Hazard Assessment.

The CECBP will be used to:

- Determine baseline levels of environmental contaminants in Californians' blood and other human biological samples.
- Establish trends in the levels of these contaminants in people over time.
- Assess the effectiveness of public health efforts and regulatory programs to reduce exposures of Californians to specific chemical contaminants.

The CECBP will coordinate with the Center for Disease Control's biomonitoring program to the greatest extent possible. The Center for Disease Control has two decades of experience in designing and implementing similar sampling and data collection and management protocols in the National Health and Nutrition Examination Survey. The findings of the national and California programs will be compared.

The role of the three departments during the first year will be to:

- Develop a detailed outline of the study designs and plans for participant recruitment.

- Prepare draft versions of participant questionnaires.
- Appointment of the Scientific Guidance Panel.
- Hold an initial meeting of the Scientific Guidance Panel, supported by relevant documents, including a candidate chemical list for evaluation.

Governor's Budget. The Governor's Budget proposes \$123,000 from the General Fund for one permanent position to begin the planning process that will develop the California Environmental Contaminant Biomonitoring Program.

Staff Analysis. The Biomonitoring program could be accelerated with more resources. In order to procure laboratory equipment in the first year, an additional \$200,000 in funding is necessary. Also, additional positions for DTSC would allow initiation of field sampling protocols and develop and validate analytical methodologies for chemical classes. With additional staff, DTSC could also write standard operating procedures. Staff estimates that three additional positions are needed to complete these tasks.

Staff Recommendation. Staff recommends that the Subcommittee approve the Governor's proposal with an additional \$437,000 for a total of four positions and equipment.

3980 Office of Environmental Health Hazard Assessment

Background. The Office of Environmental Health Hazard Assessment (OEHHA) identifies and quantifies the health risks of chemicals in the environment. It provides these assessments, along with its recommendations for pollutant standards and health and safety regulations, to the boards and departments in the California Environmental Protection Agency and to other state and local agencies. The OEHHA also provides scientific support to environmental regulatory agencies.

Governor's Budget. The Governor's Budget proposes \$14 million to support the OEHHA in the budget year. This is a slight increase in funding from the estimated expenditures in the current year due to new budget proposals. General Fund support for the OEHHA remains relatively unchanged in the budget year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Health Risk Assessment	\$ 17,072	\$ 17,459	\$ 387	2.3
Administration	3,263	3,266	3	0.1
<i>less distributed administration</i>	<i>-3,263</i>	<i>-3,266</i>	<i>-3</i>	<i>0.1</i>
Total	\$ 17,072	\$ 17,459	\$ 387	2.3
Funding Source				
General Fund	\$ 8,782	\$ 8,933	\$ 151	1.7
Special Funds	6,040	6,250	210	3.5
<i>Budget Act Total</i>	<i>14,822</i>	<i>15,183</i>	<i>361</i>	<i>2.4</i>
Federal Trust Fund	500	514	14	2.8
Reimbursements	1,749	1,762	13	0.7
Total	\$ 17,071	\$ 17,459	\$ 388	2.3

Vote-Only Items

1. Proposition 65 and Waste Discharge Compliance Assistance

Background. Proposition 65 was passed by the voters in 1986. It required businesses to post public notice of the presence of hazardous substances, especially ones that are known to cause cancer, birth defects, or other reproductive harm. A “safe harbor” number is the level of exposure to a hazardous substance that is believed to not pose a significant long-term risk. Many businesses use a safe harbor number as guidance in determining whether they need to provide Proposition 65 warnings concerning exposure to listed chemicals in their products or through their operations.

In 1991, the newly-created Office of Environmental Health Hazard Assessment (OEHHA) was given responsibility for implementing Proposition 65. OEHHA is in charge of developing the safe harbor numbers for substances listed as hazardous by Proposition 65. Of the over 750 chemicals currently listed as carcinogens, roughly half do not have safe harbor numbers. In addition, 90 percent of the chemicals listed as causing birth defects or other reproductive harm do not yet have safe harbor numbers. The safe harbor numbers are needed in order to provide the public with reliable information and to prevent over-labeling of substances as hazardous.

Over the years, various Proposition 65 issues have been litigated in the courts. OEHHA, the courts, the State Attorney General’s Office, business associations, and private enforcers have identified needed regulatory actions. It takes OEHHA’s one attorney approximately a year to deal with a single regulatory proposal. The current backlog of regulatory proposals has grown to 23, and additional needs are identified each year.

Governor’s Budget. The Governor’s Budget proposes \$203,000 from the Safe Drinking Water and Toxic Enforcement Fund for two permanent positions and two limited-term positions. These positions would be as follows:

- 2 currently limited-term positions made permanent, funded with special funds
- 1 new limited-term legal position, funded with special funds
- 1 new limited-term position to track legislative bills and conduct outreach, funded with redirected General Fund (that had previously funded a limited-term position)

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. California Environmental Contaminant Biomonitoring Program

Background. Scientific studies have identified a multitude of environmental chemicals as toxic to humans, but with few exceptions, relatively little is known about the presence of these chemicals inside people’s bodies. Increases in breast and brain cancer, infertility, asthma, autism and other developmental diseases have heightened public concern about potential effects of environmental exposures. Some chronic diseases have been linked with exposures to synthetic

chemicals, including a variety of common chemicals that can mimic or block actions of hormones necessary for growth and maintenance of health.

SB 1379 (Perata, 2006) establishes the California Environmental Contaminant Biomonitoring Program (CECBP) to systematically collect, analyze, and archive blood and other human biological specimens from a statistically valid representative sample of California's general population. The CECBP will be undertaken by the Department of Public Health, the Department of Toxic Substances Control, and the Office of Environmental Health Hazard Assessment.

The CECBP will be used to:

- Determine baseline levels of environmental contaminants in Californians' blood and other human biological samples.
- Establish trends in the levels of these contaminants in people over time.
- Assess the effectiveness of public health efforts and regulatory programs to reduce exposures of Californians to specific chemical contaminants.

The CECBP will coordinate with the Center for Disease Control's biomonitoring program to the greatest extent possible. The Center for Disease Control has two decades of experience in designing and implementing similar sampling and data collection and management protocols in the National Health and Nutrition Examination Survey. The findings of the national and California programs will be compared.

The role of the three departments during the first year will be to:

- Develop a detailed outline of the study designs and plans for participant recruitment.
- Prepare draft versions of participant questionnaires.
- Appointment of the Scientific Guidance Panel.
- Hold an initial meeting of the Scientific Guidance Panel, supported by relevant documents, including a candidate chemical list for evaluation.

Governor's Budget. The Governor's Budget proposes \$167,000 General Fund for 2.8 positions to plan for the implementation of SB 1379.

The funds requested for 2008-09 are \$434,000, as the program expands.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

Discussion Items

3. OEHHA Support: California Accidental Release Prevention Program

Background. The California Accidental Release Prevention Program (CalARP) was established to prevent the release of substances determined to pose the greatest risk of immediate harm to the public and the environment. Some chemicals pose a great risk to communities if they are accidentally released, such as ammonia, chlorine, or phosgene gas.

In 2004, CalARP adopted the federal Risk Management Program guidelines (which are part of the Clean Air Act), requiring that the commercial sector provide information about the type, inventory, volume, and inherent risks of the chemicals used or stored at their facilities. The Office of Emergency Services (OES) is responsible for developing regulations that establish statewide standards for the CalARP program, which local governments and Certified Unified Program Agencies use to implement the standards, and the Secretary of the Environmental Protection Agency oversees the implementation of the program as a whole.

OES has requested OEHHA's assistance in meeting OES's responsibility for completing and maintaining the list of CalARP regulated substances, their toxic endpoints, and threshold quantities. A chemical-by-chemical review of the list of regulated substances and analysis of quantities allowed to be stored onsite at facilities has never been completed.

Governor's Budget. The Governor's Budget proposes \$125,000 from the Unified Program Account for one position.

The one staff toxicologist would:

- Complete and periodically update the toxic endpoint analysis for the state list of regulated hazardous chemicals.
- Assist the Office of Emergency Services in establishing or revising toxicological and health-based parameters used in evaluating risks from chemical releases.
- Complete a review of each regulated substance and provide technical expertise for the periodic revision of the list of regulated chemicals and the threshold quantities.
- Assist the California Environmental Protection Agency in the development of CalARP policies and procedures under the Unified Program.

Staff Analysis. By statute, the Office of Emergency Services must develop CalARP policies and procedures. This task should not be given to OEHHA through the budget bill.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal with budget bill language specifying that OEHHA cannot establish policies and procedures for CalARP.

4. Public Health Goals

LAO Analysis. In California, two state entities—OEHHA and the newly constituted Department of Public Health (DPH), formerly part of the Department of Health Services—are responsible for assuring that the state’s drinking water is safe, pure, and potable. The OEHHA scientifically assesses the risks to human health posed by contaminants that may be found in the state’s public drinking water systems and are regulated or proposed to be regulated under DPH’s safe drinking water regulatory program (discussed below). Based on that scientific assessment, OEHHA adopts contaminant-specific goals, known as PHGs, that specify, based solely on public health considerations, the maximum levels of concentration at which various contaminants can be found in drinking water without adversely affecting human health. Statute specifies that OEHHA is to set each PHG at a level that protects the public from both acute adverse health effects and chronic disease. Statute further directs OEHHA to consider possible combined and interactive effects of exposure to two or more contaminants, as well as the effect of contaminants upon specified subgroups, including infants, children, pregnant women, and elderly persons, and persons suffering from serious illness.

The DPH manages the risk to human health identified in OEHHA’s PHGs (which are advisory) by setting primary drinking water standards (also known as “maximum contaminant levels” or “MCLs”). Statute requires DPH to set its MCL for each regulated contaminant as close as is technologically and economically feasible to the corresponding PHG. In this way, OEHHA’s PHGs form the scientific basis of DPH’s regulation of drinking water to ensure public health and safety. (Until PHGs are developed for a regulated contaminant, DPH is guided by a federal requirement that the state set safe drinking water standards at least as stringent as any federal standards for that contaminant.) The MCLs specify the maximum level of each contaminant allowable in the state’s public drinking water systems that are regulated by DPH.

Public drinking water systems, which can be either publicly or privately owned, are those systems that regularly supply drinking water to at least 25 people or 15 service connections. In California, there are over 7,000 public drinking water systems, each of which is regulated and permitted by DPH. These systems include both groundwater systems and surface water systems and supply drinking water to the majority of Californians.

Statute enacted in 1996 (and amended in 1999) provides a timeline for OEHHA to develop (and “publish”) PHGs for each drinking water contaminant regulated by DPH and to periodically review the PHGs, once developed. Specifically, OEHHA is required to have developed 25 PHGs by January 1, 1998, an additional 25 PHGs by January 1, 1999, and PHGs for all remaining drinking water contaminants for which DPH had adopted an MCL by December 31, 2001. (In 1996, DPH regulated 84 drinking water contaminants for which a PHG was to be developed.) Statute also requires OEHHA to have developed a PHG at the same time DPH proposes the adoption of an MCL for any newly regulated contaminant. In addition, statute requires OEHHA to review each established PHG every five years, and to revise the PHG as necessary, based on the availability of new scientific data.

Unlike most other regulatory-related programs within the California Environmental Protection Agency, OEHHA’s PHG program receives no funding from regulatory fees. Rather, the program has been funded entirely from the General Fund since its inception in 1997-98, at which

time the program's budget was \$835,000. For 2007-08, the budget proposes \$1.84 million from the General Fund for OEHHA's PHG program.

LAO Recommendation. The LAO thinks that funding for OEHHA's PHG program should be guided by the "beneficiary pays" principle. According to this principle, those who benefit from the use of public resources are responsible for paying the cost imposed on society to regulate that use.

The LAO thinks that public drinking water systems regulated by DPH benefit directly from OEHHA's PHG activities. This is because OEHHA's development of PHGs benefits the operators of public drinking water systems, in that the PHG program provides a basis in science for the drinking water standards adopted by DPH and prevents the standards from being more stringent than is necessary to protect public health. As such, the PHG program benefits the regulated public drinking water systems and, therefore, should be funded through fees assessed on these systems.

Shift Funding to Fees. The LAO recommends that OEHHA's PHG program be funded through existing regulatory program fees paid by operators of DPH-regulated public drinking water systems. (Currently, DPH collects permit fees from these operators and deposits them in the Safe Drinking Water Account [SDWA].) The LAO recommends permanently shifting all funding for OEHHA's PHG activity from the General Fund to SDWA, creating savings of \$1.84 million to the General Fund in the budget year. The LAO notes that, in light of a substantial balance projected to remain in SDWA at the end of the budget year (about \$6.6 million), the adoption of the LAO's recommendation is unlikely to require an increase in DPH's regulatory fees that support SDWA in either the budget year or the subsequent few years at current funding levels for the PHG program.

Reporting Requirement. In order to provide the Legislature with the information it needs to evaluate the budget proposed for OEHHA's PHG program, the LAO recommends that OEHHA report to the budget subcommittee of each house, prior to budget hearings, on the funding that would be required in 2007-08 and future years to enable OEHHA to address the following workload within the timeframes specified:

- Develop/publish PHGs for the six regulated contaminants remaining from the 1996 list of 84 contaminants, within one year.
- Complete reviews of the 49 PHGs developed more than five years ago, within two years. (The OEHHA should give priority to those developed PHGs that seem most likely in need of revision, based on new scientific data.)
- Complete review of PHGs developed since 2001 within five years of development, and every five years thereafter.
- As required by statute, develop/publish a PHG at the same time DPH, in the future, proposes the adoption of a primary drinking water standard for a newly regulated contaminant.

The report should also include OEHHA's estimates of the time it would take to address the above-noted workload (without the specified timeframes) at the current funding level of the PHG

program. The report will allow the Legislature to determine whether revisions to OEHHA's budget are appropriate so that the office can meet its statutory responsibilities for the PHG program in a timely manner. Finally, should the Legislature, based on the report, determine that funding for the PHG program should be increased, the LAO recommends that this increase be fee funded from SDWA.

Staff Recommendation. Staff recommends that the Subcommittee hold the item open until May revise to see if a shift from General Fund to fees would be prudent.

7300 Agricultural Labor Relations Board

Background. The Agricultural Labor Relations Board (ALRB) is responsible for conducting secret ballot elections to determine collective bargaining representation in agriculture and for investigating and resolving unfair labor practice disputes.

Governor's Budget. The Governor's Budget proposes \$5.1 million General Fund to support the Agricultural Labor Relations Board. This is nearly the same level of support as in the current year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Board Administration	\$2,163	\$2,170	\$7	0.3
General Counsel Administration	2,942	2,946	4	0.1
Administration	265	263	-2	-0.7
<i>less distributed administration</i>	<i>-265</i>	<i>-263</i>	<i>2</i>	<i>0.7</i>
Total	\$5,105	\$5,116	\$11	0.2
Funding Source				
General Fund	\$5,105	\$5,116	\$11	0.2
Total	\$5,105	\$5,116	\$11	0.2

Staff Recommendation. Staff recommends the Subcommittee approve the budget as proposed.

8570 Department of Food and Agriculture

Background. The California Department of Food and Agriculture (CDFA) provides services to both producers and consumers of California's agricultural products in the areas of agricultural protection, agricultural marketing, and support to local fairs. The purpose of the agricultural protection program is to prevent the introduction and establishment of serious plant and animal pests and diseases. The agricultural marketing program promotes California's agricultural products and protects consumers and producers through the enforcement of measurements, standards, and fair pricing practices. Finally, the department provides financial and administrative assistance to county and district fairs.

Governor's Budget. The Governor's Budget proposes \$242 million to support CDFA in 2007-08. This is approximately \$9 million less than the level of expenditures estimated in the current year. This decrease is primarily due to a reduction in special funds.

Summary of Expenditures

<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Agricultural Plant and Animal Health, Pest Prevention, and Food Safety Services	\$ 172,586	\$ 160,947	-\$ 11,639	-6.7
Marketing and Commodity and Agricultural Services	68,736	58,993	-9,743	-14.2
Assistance to Fair and County Agricultural Activities	60,817	26,621	-34,196	-56.2
General Agricultural Activities	-	43,149	43,149	100.0
Capital Outlay	24,395	3,611	-20,784	-85.2
Administration	14,561	14,029	-532	-3.7
<i>less distributed administration</i>	<i>-13,376</i>	<i>-12,826</i>	<i>550</i>	<i>-4.1</i>
Total	\$ 327,719	\$ 294,524	-\$33,195	-10.1

Funding Source

General Fund	\$ 101,699	\$ 99,261	-\$2,438	-2.4
Special Funds	148,529	141,955	-6,574	-4.4
Bond Funds	1,180	1,178	-2	-0.2
<i>Budget Act Total</i>	<i>\$251,408</i>	<i>\$242,394</i>	<i>-\$9,014</i>	<i>-3.6</i>
Federal Trust Fund	42,779	38,762	-4,017	-9.4
Public Building Construction Fund	18,356	-	-18,356	-100.0
Harbors and Watercraft Revolving Fund	1,296	1,336	40	3.1
Reimbursements	13,879	12,032	-1,847	-13.3
Total	\$ 327,718	\$ 294,524	-\$33,194	-10.1

Vote-Only Items

1. Emergence Tower System for Fruit Fly Rearing Efficiency

Background. The California Department of Food and Agriculture (CDFA) rears and releases sterile fruit flies to prevent regular fruit flies from becoming common in California. These sterile fruit flies are bred in Hawaii, and then flown to California where they are reared in the Los Alamitos Medfly Rearing Facility. (Fruit flies are also called Medflies)

The United States Department of Agriculture (USDA) is building a new state-of-the-art laboratory in Los Alamitos. The CDFA will use this building, replacing the 54 trailers that were previously used to rear fruit flies. By using the USDA building rent-free, the CDFA can revert \$1 million that had previously been provided for constructing a new fruit fly rearing facility.

The USDA developed a tower system for rearing fruit flies, and has found it to be a more efficient method than previously used storage methods. Also, the tower system can increase fruit fly production by 50 percent, from 500 million fruit flies per week to 750 million per week.

Governor's Budget. The Governor's Budget proposes \$658,000 one-time funds from General Funds for a new fruit fly rearing system. Of this amount, \$500,000 would be for equipment and \$168,000 would be for repositioning and disposing of existing trailers.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

2. Hydrogen Purity and Performance Standards

Background. SB 76, Chapter 91, Statutes of 2005 requires the California Department of Food and Agriculture (CDFA), with the Air Resources Board, by January 1, 2008, to establish specifications for hydrogen fuels used in internal combustion engines and fuel cells. SB 76 also places the responsibility on CDFA for the sampling, testing, and enforcement action against distributors and sellers of non-compliant hydrogen fuels.

Based on the small number and geographic location of the existing hydrogen fuel sites, the CDFA is able to absorb workload related to sampling, testing, and enforcement without new positions.

Governor's Budget. The Governor's Budget proposes \$212,000 (\$53,000 on-going) from the Agriculture Account for laboratory equipment and supplies for the standardized sampling and testing of hydrogen fuel.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

3. Extension of Private Vehicle Inspection Pilot at the Needles Border Protection Station

Background. From 1921 to 2003, private vehicles entering California were screened for compliance with federal and state agricultural laws in an effort to minimize the introduction of pests that might cause damage to agricultural crops or native plant species. Due to fiscal constraints, the department discontinued the private vehicle inspection program. Commercial vehicles entering the state have always been subject to inspections.

In the *2006-07 Budget Act*, the Legislature provided the California Department of Food and Agriculture with General Fund monies to begin a one-year pilot project at the Needles Border Protection Station to restart private vehicle inspections.

In fiscal year 2002-03, 658,000 vehicles passed through the Needles border station. In 2006-07, 698,000 vehicles passed through the same border station. Still, in 2006-07, there have been 34 percent more vehicles caught with insects, plants, or other banned materials than there were in 2002-03. Also, during that same time, there was a 74 percent increase in variety of pests found over 2002-03.

Governor's Budget. The Governor's Budget proposes \$407,000 in one-time funding from General Funds for five one-year limited-term positions to continue the pilot project at the Needles Border Protection Station.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

4. Bakersfield Area Greenhouse Acquisition – Capital Outlay

Background. The glassy-winged sharpshooter is a pest that spreads Pierce's Disease. The disease is a threat to crops such as grapes, citrus, almonds, and stonefruit, as well as ornamental plants. The threat to the wine industry from Pierce's Disease has been estimated at \$3.2 billion from grape production alone, not counting associated economic activity. The glassy-winged sharpshooter is found in Kern County, but has not yet spread throughout California.

The spread of the glassy-winged sharpshooter is controlled with a parasitic wasp. This form of biocontrol allows for reduced use of pesticides to control the glassy-winged sharpshooter. Locations of the biocontrol facilities are restricted to areas already infested with the pest so as to not allow for accidental releases of the pest into a new area.

Project. The California Department of Food and Agriculture (CDFA) has been leasing a facility in Arvin, near Bakersfield, to breed parasitic wasps that check populations of the glassy-winged sharpshooter. The leased facility is approximately 47,000 square feet and sits on 4.18 acres of land. The facility is in good condition and meets the needs of the CDFA.

CDFA's lease includes a purchase option for the facility for about \$1.1 million. Given that rent is over \$13,000 a month, and that the facility meets CDFA's needs, the purchase is reasonable.

Governor's Budget. The Governor's Budget proposes \$1,096,000 from the Agriculture Account to purchase the Arvin facility.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

5. Fresno/Tulare Laboratory Consolidation and Replacement – Capital Outlay

Background. The California Department of Food and Agriculture (CDFA) has five laboratories in its California Animal Health and Food Safety Laboratory System (CAHFS). Three of the five laboratories are located in Turlock, Fresno, and Tulare, and provide testing services to thousands of animal-producing farms throughout the San Joaquin Valley. The CAHFS laboratories test samples for animal disease or food contamination so as to be able to efficiently quarantine or eradicate problems.

In 2001, the Accreditation Site Visit Team of the American Association of Veterinary Laboratory Diagnosticians evaluated the use and accessibility of CAHFS laboratories. The study concluded that more space was needed for immunology and molecular diagnostic areas. Also in 2001, the Department of General Services studied the CAHFS laboratories and concluded that there was need for laboratory facilities to be strategically located.

Currently, the laboratories in Turlock, Tulare, and Fresno are unable to meet current mandates and future needs due to severe space and bio-containment limitations, aged equipment, deficient electrical and airflow systems, and urban encroachment. The Fresno laboratory was built in 1950 and the Tulare laboratory was built in 1984.

Project. A new facility will be constructed that will consolidate the Tulare and Fresno laboratory facilities. The new facilities will have more space and will include diagnostic technologies and equipment. The new facility will be located in the southern San Joaquin Valley.

Governor's Budget. The Governor's Budget proposes \$2,515,000 from General Fund for the preliminary plans phase of the Fresno/Tulare Laboratory Consolidation and Replacement.

Total project cost for all phases is estimated at about \$47.5 million.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

Discussion Items

6. Deferred Maintenance and Equipment Replacement for the Chemistry Laboratory

Background. AB 1061, Chapter 613, Statutes of 2005, created the Analytical Laboratory Account within the Department of Food and Agriculture Fund. Funds deposited into the account are reimbursements for services rendered by the Center for Analytical Chemistry. The funds in the account are to pay for the services provided by the Center for Analytical Chemistry, laboratory equipment and replacement, modifications to existing facilities, and other uses that maintain the laboratory infrastructure.

Governor's Budget. The Governor's Budget proposes \$500,000 on-going from the Analytical Laboratory Account for laboratory maintenance and equipment.

Staff Analysis. The Department of Food and Agriculture provided staff with a list of maintenance that would be conducted with the funds. The list of identified projects is estimated to cost about \$2 million to complete. Since the funds requested can complete all of these projects in four years, the Legislature may wish to consider not making these funds part of the baseline.

Staff Recommendation. Staff recommends the Subcommittee make this two-year limited-term funding, since it is for building repairs.

7. Noxious Weed Management – Informational Item

Background. Weed Management Areas are cooperative, local organizations that bring together landowners, land managers, and other stakeholders for the purpose of combining their weed control efforts and expertise.

Governor's Budget. The Governor's Budget includes no funds for Weed Management Areas.

Staff Analysis. In the past, the state has provided money through the Weed Management Areas Program at CDFA to leverage local funding and in-kind donations at a rate of 3:1 to reduce invasive weeds. Invasive weeds are a serious problem statewide and their presence reduces the value of agricultural lands and the habitat values of lands for native species.

Staff Recommendation. Informational item, no action recommended at this time.

8. California Forest Products Commission – Informational Item

Background. The purpose of marketing programs is to provide agricultural producers and handlers an organizational structure, operating under government sanction, that allows them to solve production and marketing problems collectively that they could not address individually. Current marketing programs' activities include commodity promotion, research, and maintenance of quality standards. The commissions intend to provide a structure for solving problems and also provide a vehicle for collecting funds to support activities.

The California Forest Products Commission was established by legislation in 1990 to educate the public about California forests and the products that they provide. State law requires that the California Department of Food and Agriculture oversee all State marketing programs. The California Forest Products Commission is governed by a board made up of industry members.

Marketing programs are industry initiated and usually do not go into effect without approval by an industry vote. Since all industry members stand to gain from a marketing program's activities, all affected producers and/or handlers of each commodity are required to abide by the marketing program's statutory provisions and share the cost of funding the program's activities. Only companies producing five million board feet of logs, or more, annually, are mandated to pay for the California Forest Products Commission's activities.

The California Forest Products Commission's three main objectives through education, marketing, and research efforts are:

- To educate the public about environmental and consumer benefits of forest management.
- To assemble and publicize information about science-based forestry practices.
- To demonstrate and communicate the commitment of California's forest industry to balancing environmental and economic concerns.

Staff Analysis. California Forest Products Commission's enabling statute is found in Sections 77501 - 77666 of the Food and Agriculture Code. The California Forest Products Commission's activities and expenses are financed via a mandatory assessment paid by timberland owners and sawmill operators (tax on the industry). Food and Agriculture Code Section 77583 says: "the commission may promote the sale of forest products by *advertising and other promotional means*, including cost sharing advertising, for the purpose of maintaining and expanding present markets and creating new and larger intrastate, interstate, and foreign markets for forest products and to educate and instruct the public with respect to the use of forest products."

Based on information provided to the budget subcommittees of the Legislature in recent years, the bulk of the commission's money is spent not on marketing forest products, but on advocacy for the timber industry, much of which is focused on criticizing state regulatory programs and environmental requirements enacted by the Legislature. Most of California Forest Products Commission's budget is spent on contracts with PR firms for this purpose. Very little, if any, of the California Forest Products Commission's budget is actually spent on product promotion like other more conventional marketing boards under the California Department of Food and Agriculture. California Forest Products Commission isn't actually performing the statutory

mandate for which it was created. PR is a subsidiary statutory mission, but has become its primary function and activity.

California Forest Products Commission appears to function as a de facto advocacy and lobbying voice for timber interests instead of as a state marketing agency. Its budget isn't published as part of the California Department of Food and Agriculture budget. While there is no dispute that the timber interests are entitled to engage in public relations to advocate their interests, this role may be best suited for the private sector trade associations like the California Forestry Association and individual companies.

In view of the activities of the California Forest Products Commission, the Subcommittee may wish to consider placing a sunset on the commission statutes so that its activities may continue as a private sector endeavor.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open to allow for public comment on the function and importance of the California Forest Products Commission. Staff further recommends that the Subcommittee direct the California Department of Food and Agriculture to provide the Subcommittee with the California Forest Products Commission's budget for 2005-06 and 2006-07 with detail showing the amount of funds spent on the Commission's various programs and activities.

SUBCOMMITTEE NO. 2

Agenda

Alan Lowenthal, Chair
Darrell Steinberg
Mark Wyland



Monday, May 7, 2007
1:00 p.m. or upon adjournment of session
Room 2040

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Resources—Environmental Protection—Energy

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Vote-Only Calendar

0540 Secretary for Resources

1. Urban Streams Proposition 40 Grant Program – Reversion and Reappropriation

Background. The Urban Streams Restoration Program is a statewide program implemented at the local level. The program is managed by the Department of Water Resources. The program aims to improve water supply reliability and protect fish by improving in-stream and riparian habitat. The program specifically funds restoration, land reserve acquisition, and promotes alternative land management practices. The program also encourages the participation of locals, landowners, and private organizations as well as promoting cooperative planning. Since 1989, the program has provided \$27 million to 242 projects.

Proposition 40 provided \$5 million for the Urban Streams Restoration Program. Of the Proposition 40 state operations funding, the following has not been used: \$10,000 from 2003-04, \$19,775 from 2005-06, and \$21,225 from 2006-07. The total amount of unused funds is \$51,000.

April Finance Letter. The April Finance Letter proposes a reversion of \$51,000 in unused Urban Streams Restoration Program Proposition 40 funds, and to appropriate that \$51,000 as support funds for 0.3 existing positions at that Department of Water Resources to continue management of previously issued grants. These funds would be used to complete the last remaining Proposition 40 Urban Streams Restoration Program projects.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter proposal.

2. Santa Barbara County Grant Funded Project Extension of Liquidation

Proposed Language:

0540-361 – Extension of liquidation period, Resources Agency. Notwithstanding any other provision of law, funds appropriated in the following citations shall be available for liquidation until June 30, 2008:

0540-Coastal Resources Grant Program:

(1) Item 0540-101-0001, Budget Act of 1999 (Ch. 50 Stats. 1999).

0540-361 – Extension of liquidation period, Resources Agency. Notwithstanding any other provision of law, funds appropriated in the following citations shall be available for liquidation until June 30, 2008:

0540-Coastal Resources Grant Program:

(2) Item 0540-101-0001, Budget Act of 2000 (Ch. 52 Stats. 2000).

0540-361 – Extension of liquidation period, Resources Agency. Notwithstanding any other provision of law, funds appropriated in the following citations shall be available for liquidation until June 30, 2008:

0540-Coastal Resources Grant Program:

(3) Item 0540-101-0001, Budget Act of 2001 (Ch. 106 Stats. 2001).

Staff Recommendation. Staff recommends that the Subcommittee adopt the proposed extension of liquidation language.

0555 Secretary for Environmental Protection

3. California Environmental Protection Agency Network Refresh Project

Background. The seven California Environmental Protection Agency (CalEPA) departments, boards, and offices are connected to the same network so as to encourage greater collaboration and sharing of network services over time. The CalEPA headquarters is located in a 25-story building with over 7,000 network connections serving 4,824 program staff. The current network arrangement has resulted in cost savings, increased efficiency for technical support, and sharing of network resources and equipment.

The current network will reach end-of-life on July 2007. At that time, the manufacturer will no longer provide technical support, operating system updates, or replacement parts. The CalEPA anticipates that if the network is not updated each department will be making small repairs to its own portion of the network, ultimately creating a problem of program compatibility.

April Finance Letter. The April Finance Letter proposes a three year project with \$2,762,000 in 2007-08 for equipment and related costs. The funds would come entirely from department special funds.

The April Finance Letter also proposes \$331,000 for training, licensing, and consulting costs in 2008-09 and 2009-10.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter proposal.

3340 California Conservation Corps

4. Resources Bond Act of 2002 – Reversion of Funds

April Finance Letter. The April Finance Letter proposes a technical correction to the *2006-07 Budget Act*. In the 2006 Budget a reappropriation of \$106,000 from Proposition 40 funds was accidentally recoded twice. This Finance Letter corrects that error by reverting \$106,000.

Staff Recommendation. Staff recommends that the Subcommittee approve the Finance Letter.

3480 Department of Conservation

5. Comprehensive Recycling Community Project

Background. The Comprehensive Recycling Community Project is a new pilot project that intends to increase beverage container recycling by fifty percent in targeted communities. This pilot project aims to develop strategies that can be applied to other communities to increase recycling. This pilot project will select four cities and work with the local governments to implement strategies. The goal is to achieve an 80 percent recycling rate.

Governor's Budget. The Governor's Budget proposes \$1,972,000 (\$423,000 on-going) from the California Beverage Container Recycling Fund for four permanent positions and implementation costs for the Comprehensive Recycling Community Project.

Staff Analysis. The pilot project for this program in its first three months has shown a 10 percent increase in recycling.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Pollution Prevention in the Bottle Recycling Program

Background. The California Ocean Protection Council passed a resolution on February 8, 2007 to reduce and prevent marine debris. Since the Department of Conservation

(DOC) administers the California Beverage Container Recycling and Litter Reduction Act, DOC is proposing to partner with the Department of Toxic Substances Control to find solution to reduce plastic waste and ban toxic plastics packaging.

The reduction of plastic waste is proposed to be accomplished through coordinated activities, including life cycle assessment, green chemistry alternatives, bioplastics development, processing technology improvement, and industry outreach for pollution prevention.

April Finance Letter. The April Finance Letter proposes to add \$2,402,000 from the California Beverage Container Recycling Fund in budget year and \$2,685,000 for 2008-09 through 2010-11. The funds would be used for a four-year interagency agreement between Department of Conservation and Department of Toxic Substances Control to reduce negative environmental impacts of beverage containers. DOC would use the funds for an interdepartmental contract and six four-year limited-term positions.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

7. Camarillo Satellite Relocation – Construction Reappropriation

Proposed Project. The California Conservation Corps received ownership of property in Ventura County from the California Youth Authority in 2001. The proposed project would construct an administration building, a warehouse, hazmat storage, a multi-purpose room, kitchen and dining room, education facilities, and recreational facilities. Once completed, the facility will house 104 youth corps members. The Department of General Services developed the cost estimate for the project.

May Finance Letter. The May Finance Letter proposes to revert previous construction funds and to appropriate \$17,432,000 in Lease Revenue Bonds. This is an increase of \$2,689,000 in construction costs.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Finance Letter request.

3540 Department of Forestry and Fire Protection

8. Bargaining Unit 8 Changes for Firefighter I

Background. Bargaining Unit 8 (BU 8) covers the state's firefighters. On July 1, 2006, the BU 8 contract was extended through June 30, 2008. This contract extension reduced the duty workweek for a Firefighter I from 96 hours to 72 hours. The new contract results in three consecutive 24-hour workdays rather than the previous four 24-hour workdays. With this new contract, the amount of overtime CDF must pay firefighters increased.

AB 1165 (Chapter 229, Statutes of 2006) provided CDF with General Fund for 2006 to cover the cost of hiring additional seasonal Firefighter I positions and to pay the planned overtime for existing Firefighter I positions.

Governor's Budget. The Governor's Budget proposes \$4.2 million in reimbursement authority for CDF to cover planned overtime costs for Firefighter I positions during the fire season.

Required Report. CDF submitted the report required by the Legislature on the department's fire prevention work.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

9. Capital Outlay

Governor's Budget. The Governor's Budget includes \$8,120,000 in General Fund and \$149,398,000 in Lease Revenue Bonds for capital outlay. Some of the projects in the Governor's Budget were augmented by May Finance Letters. The funds are for the following capital outlay projects:

- **Baseline Conservation Camp, Remodel Facility** – An additional \$147,000 General Fund for the working drawings phase. The total working drawings cost is \$463,000. The project includes replacement of electrical service, installation of emergency generator and uninterrupted power supply system. Also, the project will construct two 4-bay CCV apparatus buildings, a bulldozer storage shed, an office building, and a 4-bay automotive shop building. This is the final phase of the project. The total project cost is \$7,351,000. This proposal's cost was augmented from the Governor's Budget proposal by a May Finance Letter.
- **Batterson Forest Fire Station, Relocate Facility** – \$4,284,000 General Fund for the construction phase. The project will be to construct a 2-bay apparatus building, an 8-bed barracks, a fuel building, generator, generator building, pump house, site work, and utilities. This is the final phase of the project. The total project cost is \$4,703,000.

- **Bear Valley Forest Fire Station, Replace Water Supply System** – \$533,000 General Fund for acquisition of land. The project will provide a reliable water supply for this facility. This is the first phase of the project and includes acquiring an easement for the well and water delivery infrastructure. The total project cost is \$4,152,000.
- **Hemet-Ryan Air Attack Base, Replace Facility** – \$40,000 General Fund for preliminary plans and working drawings. These funds are in addition to \$2,512,000 already appropriated for preliminary plans and working drawings for this project. This project will construct a new facility at the location of the current facility. The total project cost is \$24,313,000.
- **Pine Mountain Fire Station, Relocate Facility** – \$335,000 General Fund for acquisition of five acres for a new facility location. This is the first phase of the project. The total project cost is \$5,964,000. This proposal's cost was augmented down by \$227,000 from the Governor's Budget by a May Finance Letter.
- **Bieber Fire Station/Helitack Base, Relocate Facility** – \$19,938,000 in Lease Revenue Bonds for the acquisition, preliminary plans, working drawings, and construction of a new fire station with a helicopter launching pad. The funds requested are the total funds needed for the project. This proposal's cost was increased by \$1,373,000 from the Governor's Budget by a May Finance Letter.
- **Fawn Lodge Fire Station, Replace Facility** – \$6,664,000 in Lease Revenue Bonds for preliminary plans, working drawings, and construction phases of the project. This project includes construction of a new barracks, 3-bay apparatus building, generator, pump, storage building, fueling facilities, hazardous materials building, and vehicle wash area. Also, the project includes upgrades such as fire sprinklers to existing buildings. The funds requested are the total funds needed for the project.
- **Growlersburg Conservation Camp, Remodel Facility** – \$45,534,000 in Lease Revenue Bonds for the preliminary plans, working drawings, and construction of a new facility at the site of the existing facility. The funds requested are the total funds needed for the project. This proposal's cost was decreased by \$2,031,000 from the Governor's Budget by a May Finance Letter.
- **Ishi Conservation Camp, Replace Facility** – \$32,107,000 in Lease Revenue Bonds for preliminary plans, working drawings, and construction of a new facility at the site of the existing facility. The funds requested are the total funds needed for the project. This proposal's cost was decreased by \$143,000 from the Governor's Budget by a May Finance Letter.
- **Las Posadas Fire Station, Replace Facility** – \$4,784,000 in Lease Revenue Bonds for preliminary plans, working drawings, and construction of the project. This project includes construction of a one-engine fire station, 8-bed barracks, a 2-bay apparatus building, generator, pump, storage facility, a new fuel vault, and a new well. The funds requested are the total funds needed for the project.
- **Paso Robles Fire Station, Replace Facility** – \$5,777,000 in Lease Revenue Bonds for preliminary plans, working drawings, and construction for a new facility at the site of the existing facility, and \$2,302,000 in reimbursements from the county. The funds requested are the total funds needed for the project. This

proposal's cost was decreased from the Governor's Budget by a May Finance Letter, which also added the reimbursement authority.

- **Red Bluff/Tehama Glenn Fire Station, Replace Facility** – \$25,923,000 in Lease Revenue Bonds for preliminary plans, working drawings, and construction of identified infrastructure at the facility. The funds requested are the total funds needed for the project. This proposal's cost was increased by \$2,346,000 from the Governor's Budget by a May Finance Letter.
- **Westwood Fire Station, Replace Facility** – \$5,733,000 in Lease Revenue Bonds for preliminary plans, working drawings, and construction of the project. The project includes 12-bed barracks, 3-bay apparatus building, office building, generator/pump/storage building, 20,000 gallon water storage tank, and other improvements. The funds requested are the total funds needed for the project. This proposal's cost was increased by \$79,000 from the Governor's Budget by a May Finance Letter.
- **Reappropriations for Various Major Capital Outlay Projects** – \$2,938,000 for reappropriation of the working drawings and construction phases of the following projects: Alma Helitack Base facility replacement, Warner Springs Fire Station replacement, Twain Harte Fire Station facility relocation, Bautista Conservation Camp modular building replacement, and Altaville Fire Station facility replacement.
- **Minor Capital Outlay Projects** – \$2,781,000 General Fund for various minor capital outlay projects (under \$500,000 in total cost).

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposals for capital outlay.

10. Capital Outlay May Finance Letters

May Finance Letter Augmented Projects. A May Finance Letter alters a capital outlay project. The administration submitted the following May Finance Letters, in addition to the ones listed above:

- Item 3540-301-0001 – Increase Nipomo Forest Fire Station construction cost by \$268,000 General Fund.
- Item 3540-301-0660 – Increase Mendocino Unit Headquarters construction by \$129,000 Lease Revenue Bonds.
- Item 3540-301-0660 – Increase Ventura Youth Conservation Camp working drawings and construction by \$344,000 total from Lease Revenue Bonds.
- Item 3540-301-0660 – Increase South Operations Area Headquarters acquisition, working drawings, and construction by \$6,003,000 total from Lease Revenue Bonds.
- Item 3540-301-0890 – Increase South Operations Area Headquarters construction by \$1,913,000 from federal trust fund.
- Item 3540-301-0660 – Increase Twain Harte Forest Fire Station construction by \$187,000 from Lease Revenue Bonds.

- Item 3540-301-0660 – Increase Bautista Conservation Camp modular building replacement construction by \$2,355,000 from Lease Revenue Bonds.

May Finance Letter Reappropriations. The May Finance Letters also request reappropriation of the following projects:

- Mt. St. Helena, Communication Facility: Renovation – Construction
- Batterson Forest Fire Station: Relocate Facility – Preliminary plans and working drawings
- Hollister Air Attack Base: Relocate Facility – Acquisition and working drawings
- Statewide: Construct Communication Facilities, Phase IV – Preliminary plans and working drawings
- Statewide: Construct Communication Facilities – Working drawings and construction
- Minor Capital Outlay
- Ukiah Air Attack Base: Relocate Facility – Acquisition, preliminary plans, working drawings, and construction
- Statewide: Construct Forest Fire Stations – Preliminary plans, working drawings, and construction
- North Region Forest Fire Station Facilities – Preliminary plans, working drawings, and construction
- Mendocino Ranger Unit Headquarters: Replace Automotive Shop – Acquisition
- Hemet-Ryan Air Attack Base: Replace Facility – Acquisition and construction

Staff Recommendation. Staff recommends that the Subcommittee approve the May Finance Letter proposals.

3560 State Lands Commission

11. Huntington Beach Field Office Replacement – Capital Outlay

Background. The State Lands Commission Huntington Beach office has become infected with toxic mold, due to storm damage to the roof in 2000 that allowed water to seep into the walls. Asbestos and lead paint have been previously identified in the building. Department of General Services estimates that mold and asbestos remediation would cost over \$250,000. However, the building is not ADA compliant and the remediation would not address that problem.

The current Huntington Beach facility houses four employees who are responsible for testing and accounting oil production for royalty computations. All crude oil produced from state leases is sampled, tested and measured for gravity, water content, solids content, and other factors. This testing is used for the royalty verification calculation

process. Annually, the crude oil royalties provide between \$15 to \$20 million in revenues to the state.

Proposed New Building. The new office building and laboratory would be 2,775 square feet with an oil laboratory. The laboratory would be designed as an explosion-proof space. The project cost includes the required equipment. The new office building would be constructed on State Lands Commission owned land in Seal Beach.

The current office would be demolished and the land sold as state surplus. The cost estimate for the site of the current office is \$3 million.

April Finance Letter. The April Finance Letter requests \$2,711,000 General Fund for a new office building and laboratory to be located in Seal Beach.

Staff Recommendation. Staff recommends the Subcommittee approve the finance letter.

3600 Department of Fish and Game

12. Land Management

Background. The Department of Fish and Game (DFG) has numerous responsibilities in land management including security and resource management. The management of DFG lands is important also for containment of invasive species that could spread onto neighboring lands.

In addition to lands DFG purchases, it receives habitat mitigation lands from public and private project proponents as mitigation for the environmental effects of various development projects. The DFG has a statutory mandate to manage and protect these habitat mitigation lands in perpetuity for the unique species and habitat values they support and for which they were acquired.

Governor's Budget. The Governor's Budget proposes \$2,850,000 from various funding sources for 18.5 permanent positions and three limited-term positions to meet management and maintenance needs for site security, resource management, and public use on lands. The funds would come from:

- \$639,000 from Proposition 12
- \$825,000 from the Special Deposit Fund
- \$1,386,000 from reimbursements

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

13. AB 3158 Environmental Review Program

Background. In 1991, the Legislature passed AB 3158 which established an environmental filing fee on California Environmental Quality Act (CEQA) documents. This fee was intended to finance the Department of Fish and Game CEQA Review Program.

However, the fee has only generated approximately \$2 million in revenues annually, while the program expenditures have been around \$6.5 million annually. The remainder of the balance comes from the General Fund and special funds. To raise more revenues to cover the cost of the program, SB 1535 (Kuehl, 2006), raised the CEQA filing fees. The increased revenue from the higher fee is anticipated at \$4.5 million.

The CEQA Review Program currently has 49 employees, who are able to review approximately 28 percent of the state's CEQA documents.

Governor's Budget. The Governor's Budget proposes \$4,534,000 from the Fish and Game Preservation Fund for 34 permanent positions for the California Environmental Quality Act (CEQA) review program.

The department projects that these 34 new employees could increase the department's CEQA document review rate to about 50 percent.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

14. Reimbursable Contract Stakeholder and Constituent Support

Background. The Department of Fish and Game (DFG) reviews permits and California Environmental Quality Act documents, and other environmental documents related to projects that could have an impact on fish or habitat. DFG's role in these interactions includes acting as advisor on compliance with laws and regulations, planning with an agency or non-governmental organization to identify and implement proactive conservation planning programs, permit and agreement development and review, and policy development and implementation.

There are several entities, both state agencies and non-governmental groups, which would like to reimburse DFG for services to review their permits and documents faster. These entities include CalTRANS, Pacific Gas and Electric, and Southern California Edison. These entities produce such a large volume of paperwork that they slow down the processing of other permits if they do not have dedicated staff working on their documents.

April Finance Letter. The April Finance Letter proposes 15 positions for staffing existing contracts and interagency agreements. The cost of these positions (\$1.75 million) would be reimbursed to DFG by the contract entities receiving services.

Staff Analysis. These positions would process permits but not write any documents on behalf of the petitioning agencies or non-governmental entities. Since relatively few entities generate a large amount of work for DFG, and these entities are volunteering to reimburse DFG for the cost of processing their permits, staff thinks this proposal is sound.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter proposal.

15. Alignment of Program Budgets

April Finance Letter. The April Finance Letter proposes several technical budget adjustments. These are:

- Shift \$125,000 from the Fish and Game Preservation fund to the newly established California Sea Otter Fund (created by AB 2485, Jones, 2006).
- Reduce Marine Life Management Act and Marine Life Protection Act funding by \$2 million General Fund. This money was approved as one-time for 2006-07, but was accidentally left into the 2007-08 Budget.
- Reduce Fish and Game Preservation Fund by \$400,000 in 2007-08 and \$400,000 in 2008-09 due to AB 2773 and the *2006-07 Budget Act* both providing these funds.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter proposal.

3680 Department of Boating and Waterways

16. Abandoned Watercraft Abatement Fund

Background. The Abandoned Watercraft Abatement Fund (AWAF) is used for the removal of abandoned recreational watercraft and water hazards, and in so doing improve public safety of California's waterways. The program was created in 1998, and since then DBW has provided over \$3.3 million to local governments for removal of vessels and other water hazard projects. Statute sets the local match for grants at ten percent.

Governor's Budget. The Governor's Budget proposes \$200,000 from the Abandoned Watercraft Abatement Fund for the administration of the Abandoned Watercraft Abatement Fund program.

Staff Analysis. A clerical error in the budget shows the transfer as \$500,000, rather than the intended \$200,000. The administration submitted an April Finance Letter to correct this mistake.

Staff Recommendation. Staff recommends that the Subcommittee approve the Governor's Budget with the April Finance Letter.

17. Beach Erosion Tasks and Projects

Background. The California Coastal Sediment Master Plan aims to restore and manage coastal sediment and mitigate coastal erosion. The Department of Boating and Waterways has partnered with the United States Army Corps of Engineers, the United States Geological Survey, the California Resources Agency, the State Coastal Conservancy, the State Water Resources Control Board, and the California Coastal Commission in the Coastal Sediment Management Workgroup to implement the California Coastal Sediment Master Plan.

So far, the California Coastal Sediment Master Plan has been worked on with data collection, the creation of a GIS map, and a number of physical and biological resource guides. The Department of Boating and Waterways would use these funds to study and demonstrate that reuse of sediment for beach restoration is an economic and environmental way to tackle the problem.

April Finance Letter. The April Finance Letter requests an addition to the Governor's Budget of a total of \$5,150,000. Of this amount, \$950,000 would be from the Harbors and Watercraft Revolving Fund and \$4.2 million would be from the Public Beach Restoration Fund. The specific tasks to be funded would be:

- \$200,000 for an existing position for one year.
- \$250,000 for identifying and implementing remedial actions to restore critically eroding areas through the beneficial reuse sediments in an economically viable and environmentally acceptable manner.
- \$500,000 for federal shore erosion feasibility efforts
- \$4.2 million for the Surfside-Sunset Beach Restoration Project

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

3790 Department of Parks and Recreation

18. Capital Outlay Projects

Governor's Budget. The Governor's Budget includes the following capital outlay projects, not including projects requesting Proposition 84 funds:

- **Crystal Cove State Park, El Morro Mobile Home Park Conversion** – \$9,988,000 in additional funding for working drawings and construction from Proposition 12 bond funds. This proposal brings the cost of working drawings to \$899,000 and the cost of construction to \$20,297,000. This project will demolish the mobile home park, build an entrance road, a campground, day-use facilities and parking, municipal sewer connection, Moro Creek channel reconfiguration, and riparian corridor restoration. The total project cost is \$23,332,000.
- **Fort Ross State Historic Park, Reconstruct Historic Fur Warehouse** – \$2,007,000 for working drawings and construction from Proposition 40 bond funds. This project will reconstruct a two-story fur warehouse within the Fort Ross State Historic Park and provide appropriate exhibits. The total project cost is \$4,876,000.
- **Reversion: Malibu Creek State Park, Rehabilitate Tapia Facilities** – Reversion of \$4,249,000 to the 2002 Bond Fund. This project was dependent on the Tapia Park property being transferred from Los Angeles County to the Department of Parks and Recreation. The land transfer has been delayed indefinitely.
- **Reversion: Riverside Off-Highway Vehicle Park** – Reversion of \$26,849,000 to the Off-Highway Vehicle Fund of the funds for the acquisition, preliminary plans, working drawings, and construction of the Riverside OHV Park. Toxic waste has been found on the site, and the current site owner is unwilling to pay for clean-up.
- **Statewide: Federal Trust Fund Program** – \$5 million in Federal Trust Fund monies to acquire important additions to or improve facilities within the State Park System. This request is for authority to spend federal grant funds.
- **Statewide: Reimbursed Capital Outlay Projects** – \$3 million in reimbursement authority to spend funds received from other state agencies or non-governmental entities, such as grants or gifts to the park system.
- **Statewide: State Park System Minor Capital Outlay Program** – \$450,000 in Proposition 12 bond funds for construction of minor capital outlay projects.

19. Capital Outlay May Finance Letter

May Finance Letter. A May Finance Letter alters a capital outlay project. The administration submitted the following May Finance Letters, not including projects requesting Proposition 84 funds:

- **Oceano Dunes State Vehicular Recreation Area, La Grande Tract** – \$2.1 million from the Off-Highway Vehicle Fund to acquire approximately 301 acres

- in the Oceano Dunes State Vehicular Recreation Area. This is phase two of acquisition. The land is currently owned by San Luis Obispo County.
- **Hungry Valley State Vehicular Recreation Area, Gorman Acquisitions** – \$2.9 million from the Off-Highway Vehicle Fund to acquire up to 69 acres adjacent to Hungry Valley State Vehicle Recreation Area to create a buffer between the park and proposed new housing developments.
 - **Statewide: Off-Highway Vehicle Opportunity Purchase Pre-Budget Schematics** – \$4 million from the Off-Highway Vehicle Fund to acquire real property inholdings and parcels adjacent to State Off-Highway Vehicle areas.
 - **San Elijo State Beach, Replace Main Lifeguard Tower** – \$1,866,000 in additional funding for construction from Proposition 12 and a federal grant.

20. Capital Outlay Reappropriation

May Finance Letter. A May Finance Letter proposes reappropriation of the following projects:

Item 3790-301-0005, Budget Act of 2001, as reappropriated by Item 3790-491, Budget Act of 2004.

- Statewide, 2000 Bond Opportunity Purchases Acquisition Program – Acquisition

Item 3790-301-0005, Budget Act of 2004.

- Angel Island State Park, Immigration Station Area Restoration – Construction

Item 3790-301-0005, Budget Act of 2005, as reappropriated by Item 3790-491, Budget Act of 2006.

- Antelope Valley Indian Museum, Structural Improvements – Preliminary plans and working drawings
- San Elijo State Beach, Replace Main Lifeguard Tower – Preliminary plans and working drawings

Item 3790-301-0005, Budget Act of 2006.

- Antelope Valley Indian Museum, Structural Improvements – Construction
- San Elijo State Beach, Replace Main Lifeguard Tower – Construction and equipment
- Los Angeles State Historic Park, Planning and Conceptual Design – Study
- Columbia State Historic Park, Drainage Improvements – Working drawings and construction

Item 3790-301-0263, Budget Act of 2001, as reappropriated by Item 3790-491, Budget Act of 2004.

- Oceano Dunes State Vehicular Recreation Area, La Grande Tract – Acquisition

Chapter 1126, Statutes of 2002, as reappropriated by Item 3790-491, Budget Acts of 2005 and 2006.

- California Indian Museum – Preliminary plans, working drawings, and construction

Item 3790-301-6029, Budget Act of 2004, as partially reappropriated by Item 3790-491, Budget Act of 2005 and 2006.

- Railroad Technology Museum, Rehabilitation and Facilities Plan – Working drawings and construction
- Chino Hills State Park, Entrance Road and Facilities – Working drawings
- Chino Hills State Park, Coal Canyon Wildlife Corridor Restoration – Construction
- Donner Memorial State Park, New Visitor Center – Working drawings, construction, and equipment
- Donner Memorial State Park, Visitor Center – Reimbursement

Item 3790-301-6029, Budget Act of 2005, as reappropriated by Item 3790-491, Budget Act of 2006.

- Chino Hills State Park, Entrance Road and Facilities – Construction and equipment
- Topanga State Park, Public Use Improvements – Construction and equipment

Item 3790-301-6029, Budget Act of 2006.

- Big Basin Redwoods State Park, Water System Improvements – Working drawings and construction
- Jedediah Smith Redwoods State Park, Aubell Maintenance Facility – Construction
- Donner Memorial State Park, New Visitor Center – Working drawings and construction
- Donner Memorial State Park, New Visitor Center – Reimbursement

Extend liquidation for Item 3790-301-0005, Budget Act of 2002.

- State Los Encinos Historic Park, De La Ossa Adobe House Museum – Working drawings, construction, and equipment

Extend liquidation for Item 3790-301-6029, Budget Act of 2003, as extended by Item 3790-493, Budget Act of 2006.

- Railroad Technology Museum, Rehabilitation and Facilities Plan – Study and preliminary plans

Staff Recommendation. Staff recommends that the Subcommittee approve the May Finance Letter.

21. Partial Reappropriation of 2005-06 Disaster Relief Funding and Technical Reversions of Two Proposition 12 and 40 Appropriations

Background. In 2003-04, State Park units experienced significant damage as a result of the San Simeon Earthquake and Southern California fires of 2003. As a result, the Legislature appropriated funds for the rebuilding of State Park facilities. However, some of these projects were greatly delayed in waiting for Federal Emergency Management Agency approval.

April Finance Letter. The April Finance Letter proposes to reappropriate \$3,260,000 in Proposition 40 funds. The April Finance Letter also proposes to revert \$3 million in Proposition 40 funds (originally appropriated in 2005-06) and \$107,000 in Proposition 12 funds. The reversions will be requested as new appropriations in 2008-09.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

22. Extension of Liquidation Period for Local Assistance Grant – California State University, Chico Research Foundation for the design and construction of the Northern California Natural History Museum

Background. In 2002, the Department of Parks and Recreation awarded a grant to the California State University, Chico, to complete the design and construction of the Northern California Natural History Museum. The grant was for \$3 million. The archeological study and geotechnical study of the site have been completed.

April Finance Letter. The April Finance Letter proposes to extend the liquidation period for the grant until June 30, 2010.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

3860 Department of Water Resources

23. Integrated Regional Water Management – State Operations and Local Assistance Grants

Background. The Integrated Regional Water Management and Local Groundwater Assistance grant programs assist local agencies in the acquisition and construction of capital outlay, water conservation, and groundwater recharge facilities projects and in the development of new local water supply projects. Since 1984, these programs have funded over \$660 million in grants for over 350 projects and feasibility studies.

During the past three years, the Department of Water Resources IRWM grants were:

- 2006-07: No Local Groundwater Assistance Grants; \$157 million in IRWM Implementation Grants to 8 agencies (\$78 million from FY06-07 and balance from FY 07-08).
- 2005-06: No Local Groundwater Assistance Grants; \$12.6 million in IRWM Planning Grants to 28 agencies.
- 2004-05: \$6.4 million - Local Groundwater Assistance Grants to 30 agencies; No IRWM grants.

Governor's Budget. The Governor's Budget proposes \$113,135,000 in Proposition 50 bond funds for local assistance and state operations for regional water management and local groundwater assistance. The funds would be divided:

- \$99,635,000 for local assistance IRWM grants for 2007-08
- \$6.4 million for reestablishment of local assistance for 2007-08
- \$6.4 million for reestablishment of local assistance for 2008-09
- \$700,000 for state operations to fund four existing positions

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

24. Division of Engineering Multiple Essential Programs Position Authority Request

Background. The State Water Project is undertaking multiple construction projects over the next 12 years to increase the water carrying capacity of the system. These projects are:

- San Geronio Pass Water Agency East Branch Extension, Phase II
- South Bay Aqueduct Enlargement
- North Bay Aqueduct Enlargement
- California Aqueduct East Branch Enlargement
- Perris Dam Repair

- Delta Facilities
- Oroville Facilities Federal Energy Regulatory Commission license related capital projects
- A.D. Edmonston Pumping Plant

Governor's Budget. The Governor's Budget requests position authority for 42 permanent full-time positions to staff design and construction of multiple major capital facilities associated with the State Water Project. The positions would cost \$3,405,000. These positions would be paid for by the State Water Projects, which is off budget.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

3900 State Air Resources Board

25. Structural Retrofit of Haagen-Smit Laboratory, El Monte

Project. The Haagen-Smit Laboratory houses the mobile source emissions control program for California. The Department of General Services conducted an evaluation of the Haagen-Smit Laboratory, and found it to be seismically unsafe. The facility was rated Risk Level V, which means that during an earthquake structural damage is almost certain and the safety of any occupants of the building is threatened. The project is a seismic retrofit of the laboratory.

The project needs reappropriation due to delays in signing a contract for construction services.

May Finance Letter. The May Finance Letter proposes reappropriation of \$1 million from the Air Pollution Control Fund for the construction phase of the seismic retrofit project.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Finance Letter.

3930 Department of Pesticide Regulation

26. Pesticide Enforcement and Compliance Improvements

Background. The Department of Pesticide Regulation (DPR) regulates pesticide sales and use. The County Agricultural Commissioners (CAC) have joint authority with DPR to enforce pesticide laws and regulations. The CACs carry out local level enforcement, under the supervision of DPR.

To create consistent enforcement of pesticide regulations in the state, the DPR developed the Enforcement Response Policy, which became formal regulation in 2006. Preliminary reports show that the number of enforcement actions in 2005-06 were more than double of those in 2003-04.

When a proposed fine from an enforcement action is appealed, the CACs are in charge of the administrative appeals hearings. The DPR provides oversight and training through its three regional offices to the approximately 600 CAC staff in the state.

Governor's Budget. The Governor's Budget proposes \$667,000 from the Department of Pesticide Regulation Fund for six permanent positions to provide additional state oversight of field enforcement activities carried out by the county agricultural commissioners and to establish a training program for conducting county agricultural commissioner hearings.

These additional resources would shift the current ratio of one DPR oversight staff for every 38 CAC staff to one DPR staff for every 32 CAC staff.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3940 State Water Resources Control Board

27. Technical Changes – Proposition 13, 40, 50

April Finance Letter. The April Finance Letter proposes the following technical adjustments:

- Proposition 13 – Add \$1,572,000 for additional grants to municipalities, local public agencies, and non-profit organizations to implement watershed projects that improve flood and erosion control and wildlife habitats. The requested funds are from canceled projects or unused balances from completed projects.
- Proposition 40 – Reappropriate \$1,926,000 for local assistance in the Small Community Wastewater Program and the Urban Stormwater Grant Program.

- Proposition 50 – Decrease by \$145,000 due to a previously unnoticed appropriation from a prior year.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

3960 Department of Toxic Substances Control

28. Pollution Prevention in the Bottle Recycling Program

Background. The California Ocean Protection Council passed a resolution on February 8, 2007 to reduce and prevent marine debris. Since the Department of Conservation (DOC) administers the California Beverage Container Recycling and Litter Reduction Act, DOC is proposing to partner with the Department of Toxic Substances Control to find solution to reduce plastic waste and ban toxic plastics packaging.

The reduction of plastic waste is proposed to be accomplished through coordinated activities, including life cycle assessment, green chemistry alternatives, bioplastics development, processing technology improvement, and industry outreach for pollution prevention.

April Finance Letter. The April Finance Letter proposes to add \$1,571,000 in reimbursement authority for nine four-year limited-term positions and contracts. The reimbursement funds would come from the Department of Conservation, which is a partner in this project.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal.

29. New Pretreatment Plant – Reappropriation

Stringfellow Hazardous Waste Site. The Stingfellow Hazardous Waste Site (Site) is a federal superfund near the community of Glen Avon in Riverside County. Until 1972, the Site received approximately 34 million gallons of highly acidic metal and organic waste, which has seeped into the groundwater. The Department of Toxic Substances Control (DTSC) is working to remediate the Site under the direction of the United States Environmental Protection Agency. In 1992, a federal court deemed the State of California solely responsible for the Site. This was because the state selected the Site and issued all of the permits for operation.

The current pretreatment building on the Site was constructed in 1985 as an interim solution intended for five years of use.

Proposed Project. The proposed project would construct a new pretreatment plant, an administrative building, and a maintenance and storage building.

May Finance Letter. The May Finance Letter proposes reappropriation of \$3,963,000 General Fund for acquisition and preliminary plans for a new pretreatment plant at the Stringfellow Hazardous Waste site.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Finance Letter.

3825 San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy

30. Reappropriation for Capital Outlay

Background. In 2002-03, the Legislature appropriated \$18 million to the conservancy from Proposition 40 funds. The conservancy was unable to expend the funds for multiple reasons, but mainly there were a few large land acquisitions that the conservancy could not complete.

Governor's Budget. The Governor's Budget proposes a \$12.67 million reappropriation in Proposition 40 bond funds for the conservancy.

Staff Analysis. The conservancy has indicated to staff that although it has identified up to \$60 million in land acquisitions, those land purchases are still undergoing Department of General Services (DGS) review. The previous land acquisitions fell through because of numerous problems, and there is no guarantee that the projects identified this time by the conservancy will be approved by DGS. The conservancy should provide information to the Subcommittee showing that the projects are ready for expenditure.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8570 Department of Food and Agriculture

31. Quagga Mussel Inspections at the Border Protection Stations

Background. A highly invasive fresh-water quagga mussel, related to the zebra mussel, was discovered in California on January 17, 2007. The quagga mussel was found in Lake Havasu and on the Metropolitan Water District intake pumps. The Department of Fish and Game has expressed concern that the species could cause potentially wide-spread damage to drinking water pumping systems and other related infrastructure. In addition to damage to infrastructure, the quagga mussel eats nutrients out of the water at a high rate and leaves other water-organisms with little food.

Due to lack of funds, border station boat inspections were discontinued in 2003. Between 1993 and 2003, quagga and zebra mussels were detected on 70 occasions. Since the Yermo, Needles, and Vidal border station boat checking was started again in January 2007 with emergency funds, six out of the 2,200 watercraft checked have carried adult mussels. The boats can also carry quagga mussel larva in their water tanks.

April Finance Letter. The April Finance Letter proposes \$2,497,000 in reimbursement authority for 35 positions in 2007-08, and \$2,379,000 in reimbursement authority in 2008-09. The reimbursement would come from the Department of Fish and Game.

With these funds, the Department of Food and Agriculture would operate border inspection stations for boats at Yermo, Needles, Vidal, Blythe, and Truckee.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

32. Eradication of Japanese Dodder

Background. The Japanese Dodder is a parasitic noxious weed that engulfs entire plants and kills them by cutting off their nutrients. The Japanese Dodder is classified as an A-rated noxious weed, meaning that it has known economic importance. The Japanese Dodder was found in California in 2005, and is now located in several California counties.

April Finance Letter. The April Finance Letter proposes \$977,000 from the Agriculture Account within the Food and Agriculture Fund for 2007-08 to pay for 7.2 positions. The April Finance Letter also proposes \$881,000 for 2008-09.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

33. CalSTARS On-Going Costs

Background. As part of the 2006-07 Budget Act, the Legislature provided the Department of Food and Agriculture with funds to transition from their old accounting system to CalSTARS. However, no funds were provided for on-going maintenance of the new CalSTARS system. The funds requested here would be used to contract with the Department of Technology Services.

April Finance Letter. The April Finance Letter proposes \$347,000 from various funding sources (\$118,000 General Fund) for on-going maintenance costs of the CalSTARS system.

Staff Recommendation. Staff recommends that the Subcommittee approve the April Finance Letter.

34. Capital Outlay

May Finance Letter. The May Finance Letter requests that \$23,196,000 in unencumbered balances for the Yermo Agricultural Inspection Station relocation be reverted. The proposed language is as follows:

Item 8570-301-0042, Budget Act of 2005, as reappropriated by Item 8570-490, Budget Act of 2006:

1. Relocation: Yermo Agricultural Inspection Station – Acquisition, Preliminary Plans, Working Drawings, and Construction

Item 8570-301-0660, Budget Act of 2005, as reappropriated by Item 8570-490, Budget Act of 2006:

1. Relocation: Yermo Agricultural Inspection Station – Construction

Staff Recommendation. Staff recommends that the Subcommittee approve the May Finance Letter.

CALFED

35. CDF CALFED Bay-Delta Program Component

Background. In 2006, the California Department of Forestry and Fire Protection entered into a three year interagency agreement with the Resources Agency to provide accounting, personnel transaction, and examination services for the CALFED Bay-Delta Program. The agreement is effective until June 30, 2009.

Governor's Budget. The Governor's Budget proposes \$182,823 in reimbursement authority and 3 positions for the California Department of Forestry and Fire Protection to provide accounting, personnel transaction, and examination services for the CALFED Bay-Delta Program. The reimbursement authority would be from General Fund through the Resources Agency. The funds would be appropriated for three years at \$183,000 a year.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

36. CALFED Ecosystem Restoration Program – Bay-Delta Conservation Planning Process

Background. The CALFED Ecosystem Restoration Program calls for the development of a Bay-Delta Conservation Plan (BDCP). The BDCP would support the implementation of near-term water supply, water quality, ecosystem, and levee actions. The BDCP restoration plans, conservation strategies, and recovery actions will focus on State and federally listed pelagic and anadromous species that are impacted by covered activities. The BDCP would strive to:

- Protect and conserve covered species on a regional scale
- Provide long-term assurances related to the operation of water and power-related projects and associated activities of the State Water Project and other utilities
- Create regulatory benefits for water users, define the proportional share of the State Water Project towards mitigation and conservation goals
- Provide implementation opportunities for the California Endangered Species Act and the federal Endangered Species Act.

In December 2005, negotiations on a Statement of Principles were completed by State and federal agencies, water users, power interests, Delta interests, and others. The Statement of Principles proposes to provide \$60 million in new and existing funds for the BDCP, and other large CALFED plans and studies.

Governor's Budget. The Governor's Budget proposes authority for two new positions to the Department of Water Resources to work on the Bay-Delta Conservation Plan. The positions would cost \$151,000 in salary, wages, and benefits. The funds used would be State Water Project funds, which are off budget.

These two new positions would allow a more condensed schedule for the Bay-Delta Conservation Plan. With the new positions, completion of the project would be anticipated for FY 2010-11.

Staff Recommendation. Staff recommends the Subcommittee approve this budget proposal.

37. CALFED Fish Passage Improvement Program

Background. The CALFED August 2000 Record of Decision (ROD) outlines fish passage goals. The Fish Passage Improvement Program will continue to study and evaluate fish passage and fish screen issues with respect to the development and implementation of the ERP regional restoration plans, Habitat Conservation Plans, and Natural Communities Conservation Plans.

Governor's Budget. The Governor's Budget proposes \$1.2 million in Proposition 50 bond funds for 7.6 existing positions to continue the management, administration, and implementation of the CALFED Fish Passage Improvement Program. This money is being requested through the Department of Water Resources.

Questions.

1. How many of the fish passage goals outlined in the CALFED 2000 Record of Decision has CALFED achieved so far?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

38. CALFED Conveyance and Water Quality Program Projects

Background. The goal of the CALFED Water Quality Program is to advance efforts to provide safe, reliable, and affordable drinking water to the millions of Californians who receive water from the Delta watershed. The program strives to improve source water quality, water management, and water treatment. The program and its initial activities are described in the CALFED Record of Decision. Currently, the California Bay-Delta Public Advisory Drinking Water Subcommittee guides implementation of the program.

The fish Collection, Handling, Transportation, and Release (CHTR) evaluation program is a multi-year study to evaluate the impacts to Delta smelt of the processes at the State Water Project and Central Valley Project pumping plants of collecting, handling, transporting, and releasing salvaged fish. These fish protection improvements may be realized, in part, through operational and capital outlay changes at the existing facilities. The CHTR study will develop alternatives that can meet engineering and operational requirements of the pumping plants with minimal impacts to the surrounding Delta environment.

The Department of Water Resources is still working on the Environmental Impact Report for the Franks Tract project. Preliminary feasibility studies suggest that modifications to the Franks Tract by restoring levees and installing tidal gates could reduce salinity in the central and south Delta.

Governor's Budget. The Governor's Budget proposes \$5,875,000 in Proposition 13 and Proposition 50 bond funds for one existing position and two new positions. There is also one off-budget State Water Project funded position. The request breaks down as follows:

- \$1,750,000 in Proposition 13 general obligation bond funds to support evaluation of fish facility improvement alternatives at intake facilities.
- \$4,125,000 in Proposition 50 general obligation bond funds for the Franks Tract Project.
- One new position costing \$107,000 with State Water Project Funds (off budget) for the Franks Tract Project.

This money is being requested through the Department of Water Resources.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

3110 Special Resources Program

Background. The Special Resources Programs include the Tahoe Regional Planning Agency, the Yosemite Foundation Program, and the Sea Grant Program.

Governor's Budget. The Governor's budget proposes \$4.7 million for these three special resources programs. This is about nine percent less than the expenditure in the current year due to a General Fund reduction.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Tahoe Regional Planning Agency	\$4,344	\$3,808	-\$536	12.1
Yosemite Foundation Program	840	840	0	0
Sea Grant Program	201	248	47	23.3
Total	\$5,385	\$4,896	-\$489	-9.1
Funding Source				
General Fund	\$134	\$0	-\$134	-100
Yosemite Foundation Account	840	840	0	0
California Environmental License Plate Fund	4,287	3,932	-355	-8.2
<i>Budget Act Total</i>	<i>5,261</i>	<i>4,772</i>	<i>-489</i>	<i>-9.2</i>
Harbors and Watercraft Revolving Fund	124	124	0	0
Total	\$5,385	\$4,896	-\$489	-9.1

Tahoe Regional Planning Agency

Background. The Tahoe Regional Planning Agency (TRPA) was established by a congressionally approved compact between California and Nevada. The TRPA provides planning and enforceable regulations that preserve and enhance the environment and resources of the Lake Tahoe Basin. Funding for the agency is shared between California (two-thirds) and Nevada (one-third) according to the compact that established the agency.

1. Legal Budget Increase

Background. Currently, the Tahoe Regional Planning Agency (TRPA) has a legal budget of \$450,000. The legal budget has been the same since 1999. TRPA's legal staff consists of two attorneys and a paralegal. This legal staff supports the 15 member Governing Board, over 90 agency staff, and conducts legal tasks related to planning, regulatory, and environmental improvement programs and responsibilities. The current compact between California and Nevada allows for planning enforcement only through court action.

New TRPA Activities. Over the next five years, TRPA will be developing a new Regional Plan, implementing new Shorezone regulations, preparing comprehensive agency code revisions, pursuing increased enforcement, and additional agency activities related to planning implementation.

Governor's Budget. The Governor's Budget includes no funds for this proposal.

Staff Analysis. With an increase in its legal budget, TRPA would be able to:

- Outsource compliance, enforcement, and legal services as the need arises, particularly when in-house staff capacity is over-extended.
- Address TRPA's strategic priority of improving Regional Plan compliance through improved enforcement.
- Compensate for inflationary cost increases over time of normal operating expenses, such as salary comparability and retention pay increases.

Staff Recommendation. Staff recommends the Subcommittee approve \$100,000 General Fund for legal costs at the Tahoe Regional Planning Agency with the following budget bill language:

The funds appropriated in Schedule (1) shall only be used for enforcement of the Tahoe Regional Planning Agency regulations mitigating the adverse environmental effects of development near Lake Tahoe.

2. Tahoe Transportation District Transit Staff Position

Background. The Tahoe Regional Planning Agency (TRPA) was made the Metropolitan Planning Organization (MPO) for the Tahoe region in 1999. As the MPO, TRPA has

responsibility over regional transportation planning, and access to federal and state funds for that purpose. TRPA conducts the regional transportation planning, while the local transportation district implements the plans.

Governor's Budget. The Governor's Budget includes no funds for this proposal.

Staff Analysis. State and federal transportation funds are determined by a population-based formula. The Tahoe area has a population of 62,000 residents, and receives transportation funds based on that number of people, even though during the tourist-season the area can have a day-population of 230,000 people. Due to this population formula, it is difficult for the local transportation district to access state and federal transit funds. However, the federal government has provided some funds for water-based transit infrastructure, but not for staff to implement the plan.

Staff thinks providing TRPA with one position to direct transportation planning implementation will assist the region in creating more integrated transportation. However, since the Tahoe region does have the ability to levy a local tax to support local transportation, the funding should be limited-term.

Staff Recommendation. Staff recommends the Subcommittee approve \$100,000 General Fund for one two-year limited-term position for transit operation and systems development.

3480 Department of Conservation

Background. The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support DOC in the budget year. This is an increase of \$216 million over the estimated expenditures in the current year. The majority of this increase is from the Beverage Container Recycling and Litter Reduction program due to recent legislation that increased the California Redemption Value (CRV) payments.

Summary of Expenditures*(dollars in thousands)*

	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Geologic Hazards and Mineral Resources Conservation	\$ 23,769	\$ 24,227	\$ 458	1.9
Oil, Gas, and Geothermal Resources	18,866	19,793	927	4.9
Land Resource Protection	25,738	36,250	10,512	40.8
Beverage Container Recycling and Litter Reduction	972,528	1,177,673	205,145	21.1
Office of Mine Reclamation Administration	8,148	6,860	-1,288	-15.8
<i>less distributed administration</i>	12,061	13,296	1,235	10.2
	-12,061	-13,296	-1,235	10.2
Total	\$ 1,049,049	\$ 1,264,803	\$ 215,754	20.6

Funding Source

General Fund	\$ 4,587	\$ 4,668	\$ 81	1.8
Special Funds	1,010,328	1,215,647	205,319	20.3
Bond Funds	22,278	32,631	10,353	46.5
<i>Budget Act Total</i>	\$ 1,037,193	\$ 1,252,946	\$ 215,753	20.8
Federal Trust Fund	1,813	1,809	-\$4	-0.3
Bosco-Keene Renewable Resources Investment Fund	994	1,002	8	0.8
Reimbursements	9,050	9,046	-4.00	0
Total	\$ 1,049,050	\$ 1,264,803	\$215,753	20.6

1. Implementation of AB 3056

Background. AB 3056 (Chapter 907, Statutes of 2006) makes a number of changes to the beverage container recycling program. These changes include:

- Extends the program sunset date from January 1, 2007 to January 1, 2012.
- Increases the annual market development and expansion grants from \$10 million to \$20 million.
- Adds plastic and aluminum containers to the quality incentive payments program (glass already included).
- Appropriates \$15 million annually for program payments. Authorizes payment of up to \$60 per ton for glass, \$180 per ton for plastic, and \$125 per ton for aluminum meeting all specified criteria.
- Establishes a Plastic Market Development Program authorizing up to \$5 million annually to certified entities and product manufacturers for empty plastic beverage containers collected and either recycled or used in manufacturing.
- Establishes a Recycling Incentive Payment Program authorizing up to \$10 million annually to eligible recycling centers and drop-off or collection programs.
- Requires the DOC to conduct a cost survey during 2007 and every two years thereafter to determine future handling fee payments.
- Authorizes up to \$20 million during FY 2007-08 in competitive grants issued to community conservation corps designated by a city or county.
- Reduces the processing fee paid by beverage manufacturers to zero for any container type with a recycling rate of 40 percent or greater.
- Increases distributor redemption payment withholding for administrative costs from 1 percent to 1.5 percent.
- Authorizes up to \$5 million for expenditures until January 1, 2008 for a public education and information campaign aimed at promoting increased recycling of beverage containers.

Currently, of the approximately 20 billion beverages with CRV currently sold in California, about 12 billion are redeemed. This is approximately a 60 percent recycling rate. Prior legislation, the California Beverage Container Recycling and Litter Reduction Act (AB 2020, Margolin, Statutes of 1986), sets an objective of 80 percent recycling rate for beverage containers.

Governor's Budget. The Governor's Budget proposes \$3,357,000 (\$2,146,000 on-going) from the California Beverage Container Recycling Fund for 19 permanent positions and 4 one-year limited-term positions. These funds would be used for implementing AB 3056 (Chapter 907, Statutes of 2006).

Staff Recommendation. Staff recommends that the Subcommittee approve \$3 million for AB 3056 implementation.

3540 Department of Forestry and Fire Protection

Background. The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. In addition, CDF: (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

Governor's Budget. The Governor's Budget provides \$686 million to support CDF in 2007-08. This is approximately \$38 million, or 6 percent, more than the level of expenditures estimated for the current year. The increase is due to increased capital outlay expenditures as well as employee compensation cost increases associated with fire protection. General Fund support for the department is also proposed to increase by approximately 5 percent as a result of increased capital outlay spending.

Summary of Expenditures

<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Office of the State Fire Marshal	\$ 14,383	\$ 15,766	\$ 1,383	9.6
Fire Protection	845,660	851,201	5,541	0.6
Resource Management	56,822	69,017	12,195	21.5
Capital Outlay	8,793	30,954	22,161	252
Administration	66,759	67,006	247	0.4
<i>less distributed administration</i>	<i>-66,129</i>	<i>-66,382</i>	<i>-253</i>	<i>0.4</i>
Total	\$ 926,288	\$ 967,562	\$ 41,274	4.5
Funding Source				
General Fund	\$ 625,768	\$ 654,938	\$ 29,170	4.7
Special Funds	8,337	8,785	448	5.4
Bond Funds	12,947	22,005	9,058	69.9
<i>Budget Act Total</i>	<i>\$ 647,052</i>	<i>\$ 685,728</i>	<i>\$ 38,676</i>	<i>5.9</i>
Federal Trust Fund	29,311	26,258	-3,053	-10.4
Forest Resources Improvement Fund	699	7,802	7,103	1016.1
Timber Tax Fund	31	33	2	6.4
Reimbursements	249,199	247,741	-1,458	-0.6
Totals	\$ 926,292	\$ 967,562	\$ 41,270	4.5

1. Efforts to Contract with Certified Disabled Veteran Business Enterprises

Background. Existing law provides that state agencies have a goal of assigning 3 percent of contracted services to certified disabled veteran businesses. CDF has acknowledged past lapses in meeting this goal, but believes it has made significant progress with this objective. On the other hand, all parties acknowledge that the goal is just that, and is not as strong as a binding requirement for a certain percentage of contracts to go to qualified disabled contractors.

Though existing law also establishes a goal of 25 percent of all contracts be awarded to certified small businesses, these small businesses are entitled to a 5 percent competitive advantage with certain bids to state agencies. Disabled contractors are not covered by this provision nor are they guaranteed a contract even when their price is the same as that of a non-disabled contractor. Similarly, state agencies, including CDF, do not set aside a specific portion of their contracting budgets for certified disabled contractors.

In 2006, CDF awarded 2.2 percent of its contract for goods and services to disabled veteran businesses. This is up from 2005, when only one percent of contracts were awarded to disabled veterans. Also, CDF awarded 16.4 percent of its contracts to small businesses, an increase over the 2005 rate of 13.3 percent.

As part of the *2005-06 Budget Act*, the Legislature requested a report from CDF on its efforts to contract with certified disabled veteran businesses, as directed by current law. In this report, CDF identified inconsistent policies at the department related to contracting with veteran-owned businesses. The report indicated that CDF conducted eight hired equipment dispatching training workshops throughout the state for CDF fire dispatchers in 2005. A total of 64 dispatchers from 21 of CDF's dispatching centers received training on CDF's emergency equipment hiring and dispatching policies and a special emphasis was placed on how CDF provides preferential hiring opportunities to disabled veteran business enterprises.

Staff Recommendation. Staff recommends that the Subcommittee approve the following two Supplemental Report Languages:

1. On or before January 10, 2008, California Department of Forestry and Fire Protection shall report to the Legislature on its efforts to contract with certified disabled veteran business enterprises during the 2007 fire season. The report shall include the amount paid to these enterprises in the 2006 fire season compared to 2005. The report shall also inform the Legislature of the department's efforts to train its employees, including dispatchers, in order to minimize the frequency and duration of lost opportunities for certified disabled veteran business enterprises to be awarded contracts and to employ their workers during the fire season. The report shall also explain to the Legislature how the department is working to meet their disabled veteran business enterprise participation goals.
2. On or before January 10, 2008, the California Department of Forestry and Fire Protection shall provide a report to the Legislature (including budget and fiscal committees from both houses) on the resources and time required to provide real time access to the department's

database of the statewide rotational hiring of rental equipment to disabled veteran business enterprise contractors.

2. Capital Outlay Project Management

Governor's Budget. The Governor's Budget includes trailer bill language providing the Department of Forestry and Fire Protection with authority to manage its own capital outlay projects.

Legislative Counsel's Digest. The Legislative Counsel's digest of the trailer bill language states:

Existing law authorized the Department of Finance, until January 1, 2009, to delegate to the Department of Parks and Recreation the right to exercise the same authority granted to the Division of the State Architect and the Real Estate Services Division in the Department of General Services, to plan, design, construct, and administer contracts and professional services for legislatively approved capital outlay projects. Existing law authorizes the Department of Finance to revoke that delegation at any time before January 1, 2009.

This bill would authorize the Department of Finance to delegate to the Department of Forestry and Fire Protection the right to exercise that same authority, and would authorize the Department of Finance to revoke the delegation at any time.

LAO Recommendation. The LAO finds that unlike DGS and other state departments with project management authority, the department has not been filing quarterly capital outlay reports on its project management activity with the Department of Finance, as is required under state administrative procedure. Additionally, the *Supplemental Report of the 2006 Budget Act* requires the department to report to the Legislature by January 10, 2007, on actions that it and DGS are taking or will take to improve DGS's management of the department's projects. At the time this analysis was prepared, this report had not been submitted to the Legislature. The LAO believes that all of this information will be necessary for the Legislature to determine whether the department should continue to manage its own capital outlay projects.

The LAO thinks that since the department does not yet have a track record of completing capital outlay projects and because important information about the capital outlay process and the department's ongoing projects have not yet been provided to the Legislature, it would be premature to expand the scope of the department's capital outlay project management at this time. In particular, since the department has not yet developed a track record of managing fire station replacements (fairly prototypical projects) it would be premature to expand the department's project management authority to larger, more complicated projects, such as the Red Bluff/Tehama Glenn Unit Headquarters replacement project. The LAO therefore recommends revising the proposed budget language in order to exclude the Red Bluff/Tehama Glenn Unit Headquarters replacement project from the list of projects to be managed by the department. This particular project would instead be managed by DGS. The LAO's revised budget bill

language would retain the authority for the department to manage the four fire station replacement projects, as proposed by the budget.

The LAO recommends that the following provisional language be amended in the budget bill as follows:

Amend Item 3540-301-0001, Provision 1, as follows:

The funds appropriated *by Schedules (2) and (6) of* this item include funding from construction and preconstruction activities, including, but not limited to, study, environmental documents, preliminary plans, working drawings, equipment, and other costs relating to the design and construction of facilities, that may be performed by the Department of Forestry and Fire Protection, subject to the approval of the Department of Finance. While the Department of Forestry and Fire Protection may manage these projects, the projects are subject to review by the State Public Works Board and require authorization to proceed to bid from the Department of Finance.

Amend Item 3540-301-0660, Provision 5, as follows:

The funds appropriated *by Schedules (1), (2), (4), and (5) of* this item include funding for construction and preconstruction activities, including, but not limited to, study, environmental documents, preliminary plans, working drawings, equipment, and other costs relating to the design and construction of *forest fire station* facilities, that may be performed by the Department of Forestry and Fire Protection, subject to the approval of the Department of Finance. While the Department of Forestry and Fire Protection may manage these projects, the projects are subject to review by the State Public Works Board and require authorization to proceed to bid from the Department of Finance.

Staff Recommendation. Staff recommends that the Subcommittee adopt the Governor's trailer bill language with the LAO's proposed provisional language amendments.

3600 Department of Fish and Game

Background. The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

Governor's Budget. The Governor's Budget proposes \$315 million to support DFG in the budget year. This is about 19 percent less than estimated expenditures in the current year due to a reduction in General Fund and bond funds available for appropriation. General Fund support for the department is proposed to decrease by 40 percent.

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Biodiversity Conservation Program	\$ 302,776	\$ 240,392	-\$62,384	-20.6
Hunting, Fishing, and Public Use	55,413	57,979	2,566	4.6
Management of Lands and Facilities	65,832	56,259	-9,573	-14.5
Conservation Education and Enforcement	52,866	55,336	2,470	4.7
Spill Prevention and Response	32,799	34,137	1,338	4.1
Capital Outlay	1,314	2,922	1,608	122.4
Administration	46,521	40,677	-5,844	-12.6
<i>less distributed administration</i>	<i>-46,512</i>	<i>-40,677</i>	<i>5,835</i>	<i>-12.6</i>
Totals	\$ 511,009	\$ 447,025	-\$63,984	-12.6
Funding Source				
General Fund	\$ 133,078	\$ 78,565	-\$54,513	-40.9
Special Funds	123,416	152,659	29,243	23.7
Bond Funds	133,628	83,996	-49,632	-37.1
<i>Budget Act Total</i>	<i>\$ 390,122</i>	<i>\$315,220</i>	<i>\$-74,902</i>	<i>-19.2</i>
Federal Trust Fund	57,270	57,701	431	0.7
Reimbursements	65,350	69,810	4,460	6.8
Salton Sea Restoration Fund	2,644	2,718	74	2.8
Harbors and Watercraft Revolving Fund	5	5	-	0
Special Deposit Fund	610	1,435	825	135.2
Coastal Wetlands Account	-5,000	136	5,136	-102.7
Total	\$ 511,001	\$ 447,025	-\$63,976	-12.5

1. San Francisco Public Utilities Commission

Background. The San Francisco Public Utilities Commission operates the Hetch Hetchy water project. The Hetch Hetchy supplies water to over 2.4 million people in the San Francisco Bay Area. In 1987, the Secretary of the Interior Donald Hodel proposed the restoration of the Hetch

Hetchy. The San Francisco Public Utilities Commission wants to undertake a study of a water improvement project.

Proposal. The Department of Fish and Game would provide technical assistance as San Francisco Public Utilities Commission plans their projects.

Governor's Budget. The Governor's Budget proposes position authority for one permanent Staff Environmental Scientist position to study, consult, develop, and evaluate environmental mitigation measures for the San Francisco Public Utilities Commission Bay Area Cities Water System Improvements project. This would be a redirected position.

Staff Analysis. Under the California Environmental Quality Act (CEQA), the entity constructing a project is not necessarily the lead agency. The state can be the lead agency for local government or even private projects when the state must grant permits necessary for the project to proceed. The lead agency is liable for financial damages should the project harm the environment. Thus it is in the state's interest to help in completing the environmental documents for projects for which the state is the lead agency.

For this project, the San Francisco Public Utilities Commission is the lead agency. Therefore, the Legislature should not allow the state to prepare CEQA or other environmental documents when the state is not the lead agency.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal with the following budget bill language:

The funds appropriated in this item are for review and evaluation of California Environmental Quality Act documents only, and shall not be used for preparation of such documents.

2. Quagga Mussel

Background. A highly invasive fresh-water Quagga Mussel, related to the Zebra Mussel, was discovered in California on January 17, 2007. The Quagga Mussel was found in Lake Havasu and on the Metropolitan Water District intake pumps. The Department of Fish and Game (DFG) has expressed concern that the species could cause potentially wide-spread damage to drinking water pumping systems and other related infrastructure. In addition to damage to infrastructure, the Quagga Mussel eats nutrients out of the water at a high rate and leaves other water-organisms with little food.

Currently, DFG Habitat Conservation Branch is responsible for invasive species management. The Habitat Conservation Branch has two staff members.

April Finance Letter. The April Finance Letter proposes \$5,732,000 General Fund for 16 permanent positions, two limited-term positions, and interagency contract to respond to the Quagga Mussel. Specifically, these funds would be for:

- \$1,531,000 for eight permanent and two limited-term positions for implementing a control and response program in California.
- \$4,201,000 for eight permanent positions to augment the Law Enforcement Division's resources responsible for conducting statewide inspections, conducting checkpoints with inspection areas, and to quarantine boats and other watercraft. Included in this amount is a \$2.5 million reimbursement to the Department of Food and Agriculture for conducting inspections at the Yermo, Needles, Vidal, Blythe, and Truckee stations.

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal with the following Supplemental Report Language.

On or before January 1, 2008, the Department of Fish and Game must submit a report to the chairs and vice chairs of the fiscal committees of the Senate and the Assembly on the actions the state has undertaken contain the Quagga Mussel--including actions taken by the Department of Fish and Game, the Department of Boating and Waterways, the Department of Food and Agriculture, the Department of Water Resources, and any other state agency involved in the response to this issue. The report must also include a plan for future action and a cost estimate for those planned actions.

3. Streamflow Money from the State Water Board

Note: The Subcommittee heard this as an informational item on March 26, 2007.

Background. Public Resources Code Sections 10001-10005 recognize the need for adequate stream flows to benefit fish and wildlife. These sections require the California Department of Fish and Game (DFG) to:

- Prepare a list of streams in need of minimum stream flow requirements.
- Initiate at least 10 new studies per year to develop proposed minimum stream flow requirements for listed streams.
- Consult with the State Water Resources Control Board, other agencies, and the public concerning the proposed stream flow requirements.
- Transmit the proposed stream flow requirements to the State Water Resources Control Board for its use in approving water rights applications.

To fund DFG's preparation of these reports, the State Water Resources Control Board (SWRCB) collects \$850 per application or petition (with some exceptions) from water rights applicants and petitioners on behalf of DFG. SWRCB has been collecting these fees for more than 15 years, and currently has pending over 500 water rights applications and over 500 petitions to amend existing water rights.

Current Law. Public Resources Code, Section 10004: "The Department of Fish and Game shall initiate studies to develop proposed streamflow requirements for those streams or watercourses *in each fiscal year for which funds are appropriated* and shall complete studies on each stream or watercourse within three years. It is the intent of the Legislature that the

department develop a program that will *initiate studies on at least 10 streams or watercourses in each fiscal year.*”

Staff Recommendation. Staff recommends that the Subcommittee adopt the following Supplemental Report Language:

On January 10, 2008 the Department of Fish and Game shall provide a report to the Legislature (including budget and fiscal committees from both houses) on the streamflow funds the department received during 2006-07 and how those funds were expended. The report shall identify what streams the department will study in 2008-09.

4. Salmon Regulations

Background. Fish and Game Code Section 2112 requires the development of regulations for species for which a recovery plan has been approved. Though the Coho salmon has an approved recovery plan, the Department of Fish and Game has not yet developed regulations for Coho salmon.

Staff Analysis. Staff anticipates that trailer bill would provide some protection for most salmon, virtually all of which are listed as threatened or endangered under either the federal or state endangered species acts, or both. It would also help address the finding of the National Marine Fisheries Service that the existing Forest Practices Act are inadequate to protect salmon. It also would alleviate the proven multi-year inability of the Board of Forestry to implement regulations.

Staff Recommendation. Staff recommends that the Subcommittee direct staff to write trailer bill language that directs adoption by Department of Fish and Game and California Department of Forestry and Fire Protection of the July 2006 draft Department of Fish and Game regulations pursuant to Section 2112 of the Fish and Game Code.

5. Halibut Bottom-Trawling

Background. SB 1459 (Alpert) established restricted access standards for trawling for halibut and other species. That legislation became effective on January 1, 2006, and the Department of Fish and Game testified on numerous occasions about the cost of that legislation. Additional funding was provided to the Department in the 2007 budget to implement this legislation. The underlying statute for commercial fishing programs is Section 711 of the Fish and Game Code and that section requires that the costs of commercial fishing programs are to be provided in large part from revenues from commercial fishermen.

SB 1459 provided that the Fish and Game Commission would set the fees for the halibut trawling permits, but that until that occurred, the fees could not exceed \$1000 per permit. Currently, the Commission set the fees at \$50.75.

Questions:

1. How much fee revenue has been collected? What are the anticipated revenues for 2007-08?
2. Are the fee revenues collected covering the costs of the program? If not, what fee would cover the costs of the program?

3680 Department of Boating and Waterways

Background. The Department of Boating and Waterways (DBW) is responsible for planning and developing boating facilities on waterways throughout California. It is also responsible for protecting the public's right to safe boating by providing subventions to local law enforcement agencies. The department is also responsible for boating safety and education, licensing yachts, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

Governor's Budget. The Governor's Budget proposes \$76.7 million to support DBW, which is approximately 12 percent less than expenditures in the current year. (The majority of DBW's budget is not subject to appropriation in the budget act. Only \$500,000 is subject to the Budget Act.) The department is not supported by the General Fund.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Boating Facilities	\$ 59,117	\$ 49,561	-\$9,556	-16.2
Boating Operations	20,519	20,678	159	0.8
Beach Erosion Control	1,641	311	-1,330	-81.1
Capital Outlay	6,045	6,140	95	1.6
Administration	2,447	2,361	-86	-3.5
<i>less distributed administration</i>	<i>-2,447</i>	<i>-2,361</i>	<i>86</i>	<i>-3.5</i>
Total	\$ 87,322	\$ 76,690	-\$10,632	-12.2
Funding Source				
General Fund	\$ -	\$ -	\$ -	0
Special Funds	1,250	500	-750	-60
<i>Budget Act Total</i>	<i>1,250</i>	<i>500</i>	<i>-750</i>	<i>-60</i>
Federal Trust Fund	13,499	10,036	-3,463	-25.6
Reimbursements	1,015	1,015	0	0
Harbors and Watercraft Revolving Fund	71,558	65,139	-6,419	-9.9
Total	\$ 87,322	\$ 76,690	-\$10,632	-13.2

1. Boating and Waterways Funds

Background. The Department of Parks and Recreation has been receiving appropriations from the Harbors and Watercraft Revolving Fund. The proposed 2007-08 budget would provide \$26,649,000 to the department from the Harbors and Watercraft Revolving Fund.

The Department of Boating and Waterways is also funded out of the Harbors and Watercraft Revolving Fund. The Department of Boating and Waterways has argued that due to the fact that the monies in the account come from boaters and that there is a need to replace aging infrastructure they should receive the funds that the Department of Parks and Recreation is currently receiving.

The Harbors and Watercraft Revolving Fund receives money from:

- Annual appropriation from the Motor Vehicle Fuel Account from taxes imposed on distribution of fuel to propel vessels.
- Vessel registration fees.
- Fees received from the licensing of yacht and ship brokers and salesmen.

Current Law. The California statute Harbors and Navigation Code, Section 85.2 (b) (1) states:

The money in the fund shall also be available, upon appropriation by the Legislature, to the Department of Parks and Recreation for the operation and maintenance of units of the state park system that have boating-related activities. Funds appropriated to the Department of Parks and Recreation may also be used for boating safety and enforcement programs for waters under its jurisdiction.

Harbors and Navigation Code, Section 85.2 (b) (2), also states that:

The Department of Parks and Recreation shall submit to the Legislature, on or before January 1 of each year, a report describing the allocation and expenditure of funds made available to the Department of Parks and Recreation from the Harbors and Watercraft Revolving Fund and from the Motor Vehicle Fuel Account in the Transportation Tax Fund attributable to taxes imposed on the distribution of motor vehicle fuel used or usable in propelling vessels during the previous fiscal year.

Staff Recommendation. Staff recommends that the Subcommittee adopt the following Supplemental Report Language:

On January 1, 2008 the Department of Parks and Recreation shall provide a report to the Legislature (including budget and fiscal committees from both houses) on how the department spends the funds it receives from the Harbors and Watercraft Revolving Fund. The report shall include information on the types of parks the department manages with the funds, the types of boating activities available at those parks, and what services the department would potentially eliminate if the funds were no longer appropriated.

3790 Department of Parks and Recreation

Background. The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Support of the Department of Parks and Recreation	\$ 466,148	\$ 382,490	-\$83,658	-17.9
Local Assistance Grants	93,458	44,279	-49,179	-52.6
Capital Outlay	169,174	67,011	-102,163	-60.4
Total	\$ 728,780	\$ 493,780	-235,000	-32.2
Funding Source				
General Fund	\$ 231,630	\$ 150,359	-81,271	-35.1
Special Funds	233,056	202,950	-30,106	-12.9
Bond Funds	139,291	69,403	-69,888	-50.2
<i>Budget Act Total</i>	<i>\$ 603,977</i>	<i>\$422,712</i>	<i>\$-181,265</i>	<i>-30</i>
Federal Trust Fund	77,633	27,241	-50,392	-64.9
Reimbursements	46,136	43,013	-3,123	-6.4
Harbors and Watercraft Revolving Fund	747	814	67	8.9
California Missions Foundation Fund	289	0	-289	-100
Total	\$ 728,782	\$ 493,780	\$-235,002	-32.2

1. New Americans Immigration and Learning Center Reappropriation

Background. The New Americans Immigration and Learning Center (NAIMLC) received a Historical and Cultural Resources Preservation Opportunity Grant in 2002. However, NAIMLC experienced difficulty in securing a site to which the learning center could be located.

Staff Recommendation. Staff recommends that the Subcommittee extend the liquidation period for the NAIMLC grant with the following budget bill language:

3790-490 – Extension of Liquidation Period, Department of Parks and Recreation.

The balance of the appropriation provided in the following citation is reappropriated for the purpose and subject to the limitations, unless otherwise specified, provided for in the following appropriations and shall be available for liquidation of encumbrances until June 30, 2010.

6029 – California Clean Water, Clean Air, State Neighborhood Parks, and Coastal Protection Fund.

(1) Chapter 1126, Statutes of 2002, SEC. 2 (b)

Provisions:

1. The reappropriation is limited to the \$2,500,000 grant to Immigration Museum/New Americans.

2. Bancroft Park, San Diego – Reappropriation

Proposed Language:

Reappropriation, Department of Parks and Recreation. The balance of the appropriation provided for in the following citation is reappropriated for the purposes specified and shall be available for encumbrance or expenditure until June 30, 2009:

0005 -- Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund

(1) Item 3790-101-0005, Budget Act of 2000 (Ch. 52, Stats. 2000)

(a) 80.25 - Recreational Grants

(5) Murray-Hayden Grants

(ux) County of San Diego: Bancroft Park Acquisition and/or Development

Staff Recommendation. Staff recommends that the Subcommittee adopt the proposed reappropriation language.

3835 Baldwin Hills Conservancy

Background. The Baldwin Hills Conservancy (BHC) acquires and manages public lands within the Baldwin Hills area to provide recreational facilities, open space, wildlife habitat restoration, and educational services.

Governor's Budget. The Governor's budget proposes \$3.5 million to support BHC in 2007-08. This is 84 percent less than the estimated expenditures in the current year due to a loss of capital outlay bond funds.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Baldwin Hills Conservancy	\$431	\$440	\$9	2.1
Capital Outlay	24,386	4,050	-20,336	-83.3
Total	\$24,817	\$4,490	-\$20,327	-81.9
Funding Source				
Special Funds	\$321	\$329	\$8	2.5
Bond Funds	22,496	3,161	-19,335	-85.9
<i>Budget Act Total</i>	<i>22,817</i>	<i>3,490</i>	<i>-19,327</i>	<i>-84.7</i>
Reimbursements	2,000	1,000	-1,000	-50.0
Total	\$24,817	\$4,490	-\$20,327	-81.9

1. Trailer Bill Language on Sunset Date

Background. The Baldwin Hills Conservancy (BHC) sunsets on January 1, 2008. The BHC acquires and manages public lands within the Baldwin Hills area in Los Angeles County to provide recreational facilities, open space, wildlife habitat restoration, and educational services. Currently pending legislation, AB 3 (Bass), would repeal the sunset date.

Governor's Budget. The Governor has submitted trailer bill language extending the Baldwin Hills Conservancy for another 10 years. The Governor's budget proposes \$3.5 million to support BHC in 2007-08.

LAO Recommendation. The LAO finds that the BHC is generally fulfilling its statutory duties. While the conservancy has acquired no land and does not manage any public land, it has advanced the statutory goals of increasing public open space and educational, recreational, and habitat preservation and restoration opportunities in the Baldwin Hills area.

However, the LAO further finds that the Legislature's objectives for BHC, as stated in 2000, have not been fully met. Despite a substantial increase in public open space since the BHC's inception, 655 acres of open-space land in the Baldwin Hills area remain susceptible to development that may not be in keeping with the public purposes for these lands—open space, education, recreation, and wildlife and habitat conservation—envisioned by Chapter 428. In addition, despite the completion of significant projects that increase opportunities for recreation, education, and ecological preservation in the area, recently acquired public lands in the Baldwin Hills area remain largely unrestored or undeveloped and unusable by the public.

The LAO recommends extending the sunset date for the BHC by five years, to January 1, 2013. The LAO believes this operating period is appropriate, given that the conservancy has been through the “development” period to establish itself as a conservation resource in the Baldwin Hills area. The LAO expects the conservancy to capitalize on existing relationships with surrounding communities, area governments, and local property owners, so that public land acquisition and development would occur more quickly during the conservancy's second operating period than it did during the first.

The LAO also recommends that the Legislature require a review, prior to the new sunset date, of the conservancy's effectiveness and progress towards fulfilling its statutory objectives during the period. This review would provide the Legislature with a basis on which to determine whether the conservancy structure continues to be the appropriate one for addressing land conservation goals in the Baldwin Hills area.

Staff Recommendation. Staff recommends the Subcommittee adopt trailer bill language to extend the Baldwin Hills Conservancy's sunset date by five years to January 1, 2013. Staff also recommends that the Subcommittee adopt the following Supplemental Report Language:

Not later than January 1, 2012, the Baldwin Hills Conservancy shall provide a report to the Legislature (including budget and fiscal committees from both houses) on its activities and accomplishments towards meeting statutory goals since 2007. The Legislative Analyst's Office shall review and critique the Baldwin Hills Conservancy's report, and report on the findings of its review, along with any recommendations, including whether the Conservancy should be extended beyond its statutory sunset date, in its *Analysis of the 2012-13 Budget Bill*.

3360 Energy Resources Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

Governor's Budget. The Governor's Budget proposes \$399 million to support CEC in 2007-08. The proposed budget is approximately 18 percent less than estimated expenditures in the current year due to a reduction in renewable energy and PIER funding. The department does not receive any General Fund support.

Summary of Expenditures					
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change	
Type of Expenditure					
Regulatory and Planning	\$ 27,025	\$ 27,757	\$ 732	2.7	
Energy Resources Conservation	33,989	47,510	13,521	39.8	
Research and Development	451,043	343,556	-107,487	-23.8	
Administration	13,653	13,199	-454	-3.3	
<i>less distributed administration</i>	-13,653	-13,199	454	-3.3	
<i>less loan repayments</i>	-2,422	-1,522	900	-37.1	
Total	\$ 509,635	\$ 417,301	-\$92,334	-18.1	
Funding Source					
General Fund	\$0	\$0	\$0	0	
Special Funds	491,912	399,166	-92,746	-18.8	
<i>Budget Act Total</i>	<i>491,912</i>	<i>399,166</i>	<i>-92,746</i>	<i>-18.8</i>	
Federal Funds	11,978	12,390	412	3.4	
Reimbursements	5,745	5,745	0	0	
Total	\$ 509,635	\$ 417,301	-\$92,334	-18.1	

1. Provide Photovoltaic and Energy Efficiency Project Funding and Assistance to California's K-12 Schools

Background. The Williams settlement agreement was entered into between the California Attorney General and the Williams Energy Marketing & Trading Company to settle a lawsuit filed against Williams by the Attorney General. Under the settlement, Williams will pay approximately \$69 million to the state.

The California Energy Commission (CEC) is proposing to use the funds from the Williams settlement for a photovoltaic and energy efficiency program for public K-12 schools. This new program will provide grants, loans, and technical support contracts for combined photovoltaic and energy efficiency projects. This new program is proposed to be marketed and offered jointly with the CEC's existing Energy Conservation Assistance Account.

A portion of the funds would be used for a loan program for K-12 schools to purchase solar panels. The loan program will have repayments of no more than 30 equal semi-annual payments. These payments will reflect the energy savings of the project with a payback period averaging 12 years.

Governor's Budget. The Governor's budget proposes to use \$24.8 million of Williams Energy settlement funds to fund a new Photovoltaic (PV) and Energy Efficiency program for public K-12 schools. The Governor's budget, as part of those funds, proposes to use \$1,061,000 from the State Energy Conservation Assistance Account for four permanent positions to administer the Photovoltaic and Energy Efficiency Project for K-12 schools.

LAO Recommendation. The Legislature passed AB 2756 (Levine) which created a plan to expend Williams Energy settlement funds for energy efficiency retrofits of public schools and buildings. The legislation directed CEC, upon legislative appropriation, to provide grants to K-12 public schools and public universities or community colleges, based on specific criteria and expectations, for various energy conservation projects. The bill did not specify a specific energy technology, but rather allowed the schools to select the most effective energy efficiency projects to be submitted for grant consideration. The legislation was vetoed by the Governor in 2006.

Consistent with legislative intent in AB 2756, the LAO thinks that settlement funds should be awarded for a broader array of energy efficiency upgrades, beyond those that are PV in nature. Examples of other types of energy efficiencies are retrofitting heating and cooling systems, replacing lighting fixtures, improving insulation, and using alternative building materials.

To ensure legislative oversight and consistency with legislative intent for the use of the Williams Energy settlement funds, the LAO recommends that the budget request be denied and instead recommend the enactment of legislation directing the use of Williams Energy settlement funds (in accordance with the settlement agreement), such as was done in AB 2756.

Staff Recommendation. Staff recommends that the Subcommittee reject the budget proposal.

2. Transmission Corridor Zone Designation Process

Background. In its 2003 Energy Report, the California Energy Commission (CEC) noted that existing transmission planning and permitting processes lack important elements to assure that critically needed transmission infrastructure is approved and constructed in a timely manner to meet the state's growing demand for electricity. SB 1059 (Escutia, 2006) provided CEC with the authority to designate transmission corridor zones for future use to accommodate the needed electric transmission lines. The CEC can designate a transmission corridor zone on its own motion or by an application from an entity planning to construct a high-voltage electric transmission line within California.

In order to ensure that it can move forward with designating transmission corridor zones, the CEC intends to:

- Identify the long-term needs for electric transmission corridor zones within the state.
- Work with federal, state, and local agencies; stakeholders; and the public to study transmission corridor zone alternatives and designate appropriate transmission corridor zones for future use to ensure reliable and efficient delivery of electricity for California's residents.
- Integrate transmission corridor zone planning and designation at the state level with local land use planning processes, so that designated transmission corridor zones are considered by cities and counties when they are making land use decisions.

Governor's Budget. The Governor's Budget proposes \$536,000 from the Energy Resources Program Account for four permanent positions in 2007-08, and proposes \$1,019,000 from the Energy Resources Program Account for four additional permanent positions in 2008-09.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain video providers and passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support the CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type Expenditure				
Regulation of Utilities	\$ 375,297	\$ 381,501	\$ 6,204	1.6
Universal Service Telephone Programs	897,408	884,615	-12,793	-1.4
Regulation of Transportation Administration	18,637	20,458	1,821	9.7
Administration	21,781	26,247	4,466	20.5
<i>less distributed administration</i>	<i>-21,781</i>	<i>-26,247</i>	<i>-4,466</i>	<i>20.5</i>
Total	\$ 1,291,342	\$ 1,286,574	-\$4,768	-0.4
Funding Source				
General Fund	\$0	\$0	\$0	0
Special Funds	1,277,329	1,269,575	-7,754	-0.6
<i>Budget Act Total</i>	<i>1,277,329</i>	<i>1,269,575</i>	<i>-7,754</i>	<i>-0.6</i>
Federal Funds	1,209	1,702	493	40.8
Reimbursements	12,786	15,297	2,511	19.6
Total	\$ 1,291,324	\$ 1,286,574	-\$4,750	-0.4

1. Increase Number of Rail Crossing Safety Staff

Background. The Public Utilities Commission (PUC) has statutory authority over approximately 14,200 highway and railroad crossings. As part of its responsibilities, the PUC determines the design of the crossings and the location of the crossings, as well as the terms of installation, operation maintenance, use, and warning devices.

In April 2005, the PUC issued its first-ever Rail Safety Action Plan. This plan included components for increasing railroad crossing safety, including:

- Identifying new construction projects that adversely impact rail safety and then initiating informational and other actions to ensure that rail safety is addressed before the project is built.
- Collecting and analyzing data on “near miss” incidents relative to rail crossings and along the rail right-of-way.
- Investigate rail-related fatalities and significant accidents, and apply the lessons learned to rail crossing diagnostic reviews, to rail corridor safety enhancements, and to operational safety enhancements that advance the cause of rail safety.
- Issue public reports regarding the root causes and significant contributing factors of all accidents investigated.

In 2006, there were 143 deaths related to rail crossings and people walking on the rails. During the same time period, there were another 417 injuries related to rail crossings and rail trespassing. Currently, the PUC has a staff of 19 positions to work on rail safety. However, in 2000-01, the PUC had a staff of 25 positions to work on rail safety.

Governor’s Budget. The Governor’s Budget proposes \$86,000 in State Highway Account funds for one permanent position to increase rail crossing safety oversight activities.

Staff Analysis. At the April 9 hearing Senator Steinberg expressed concerns that with 143 deaths annually only one position was being added to work on rail crossing safety oversight activities. Since working on ensuring that new developments adjacent to railroads have safe crossings is important, and in the past the PUC had more positions for rail safety, staff believes that adding two positions to the Governor’s proposal would be appropriate.

Staff Recommendation. Staff recommends the Subcommittee approve the Governor’s budget proposal and add two positions at \$172,000 for a total cost of \$258,000.

2. Electricity Market Design

Background. The California electricity industry was deregulated in 1996. The 2000-2001 electricity crisis prompted the Legislature to pass, and the Governor to sign, emergency legislation AB 1X, which suspended some of the aspects of deregulation. Among the deregulation suspended was the ability of customers to sign up for direct access (competitive retail providers). These regulations will not be reinstated until 2014, when the Department of Water Resources electricity contracts expire.

Since the 2000-2001 crisis, the Public Utilities Commission (PUC) has been working on encouraging a “hybrid” market design. Currently, PUC staff is working on more stringent resource adequacy requirements and a capacity market structure.

Governor’s Budget. The Governor’s Budget proposes \$408,000 from the Public Utilities Commission Utilities Reimbursement Account (\$307,000 one time, \$101,000 on-going) for one permanent position and consultant contracts.

The analyst will be working on a plan to reopen retail electric competition in California.

LAO Recommendation. The LAO thinks it is premature and beyond the jurisdiction of CPUC to begin investigation and evaluation of a market design without further statutory direction from the Legislature. The LAO therefore recommends the Legislature deny the budget request.

Staff Analysis. Reopening the California electric retail market to competition is a policy choice with great financial and market implications for California, electricity providers, and ratepayers. This discussion should take place in the policy process with legislation that could be debated by all Senators.

Staff Recommendation. Staff recommends the Subcommittee reject this budget proposal.

3. Increase Staff to Form a Federally Funded Critical Infrastructure Security Team to Protect California Infrastructure and Key Resources

Background. June 2006, the United States Department of Homeland Security (USDHS) released the National Infrastructure Protection Plan (NIPP). NIPP sets national priorities, goals, and requirements to effectively distribute funding and resources in the event of a terrorist attack or other disaster.

The PUC wants to create a Critical Infrastructure Security team within its Consumer Protection Division. This team would be responsible for ensuring that California utilities, railroads, and rail transit properties are equitably included in the plan. The NIPP does point out that state public utilities commissions are generally well-placed to handle these responsibilities.

Governor’s Budget. The Governor’s Budget proposes \$500,000 in Federal Trust Fund for four permanent positions to staff a new critical infrastructure security team.

LAO Recommendation. The LAO finds the proposed duties of the new branch are often very broad, typically vague, and lacking a clear purpose. The PUC has stated that municipal utilities, currently not regulated by the PUC, would be included in this program. The inclusion of municipal utilities is an expansion of authority for the commission.

The LAO also finds that the federal funding proposed to support this new program is highly uncertain. According to the PUC, there is no certainty that federal funds will be allocated to this effort, and those federal funds the PUC has identified as potentially available may require matching state funds. Given the uncertainty of federal funding, the lack of clear duties, and an apparent expansion of the commission's jurisdiction without statutory authorization—the LAO recommends the Legislature deny the request.

Staff Analysis. Staff has requested information from the PUC as to how the department will work with the Department of Homeland Security so as not to duplicate tasks and act with the greatest efficiency possible in time of crisis. The PUC has indicated that it is in the process of drafting a memorandum of understanding (MOU) with the Department of Homeland Security, but that the MOU is not complete. Staff recommends holding this item open to give the PUC more time to respond to these questions.

The department has submitted a revised proposal to staff. The revised plan deals with planning security for the railroads. The revised plan requests 2 positions and \$313,654 from the Public Utilities Commission Transportation Reimbursement Account. The Department of Finance has not communicated its support of the plan to staff.

In addition, this proposal has not been reviewed by the Office of Emergency Services or the Department of Homeland Security. The Legislature should wait for such reviews to ensure that the state is not duplicating efforts and that the response plans are compatible with other agencies' plans.

Staff Recommendation. Staff recommends that the Subcommittee reject the budget proposal.

4. Data Center Restructuring

Background. After four disruptions to its data system over the course of three months, the Public Utilities Commission (PUC) hired TechProse (IT consultants) to investigate the disruptions of service, analyze the underlying causes, and develop an Information Services Branch Information Technology Strategic Plan. The improvements recommended in the plan will be conducted in three phases, the total cost of which is not known to the PUC.

Governor's Budget. The Governor's Budget proposes \$765,000 from various special funds (\$176,000 on-going, \$589,000 one-time) for Phase I of the Information Technology Strategic Plan. Specifically, the funds would be used for:

- \$70,000 – Conduct a data center redesign and expansion study.
- \$25,000 – Perform a full review of the heating/ventilation air conditioning in the data center and closets.
- \$150,000 – Purchase and install a dedicated emergency power backup system to its IT environment.
- \$180,000 – Establish a dedicated development and testing lab.
- \$150,000 – Perform a server/desktop network upgrade at the San Francisco headquarters office.

- \$190,000 – Establish two new positions in the Network Administration Unit. The first position would be a Senior Information Systems Analyst Supervisory to add a mid-management layer and the second would be an Associate Information Systems Analyst to perform change management functions, such as fixes and software upgrades.

Staff Analysis. Many of the requested improvements to the information technology branch are not useful if conducted prior to the study on data center redesign and expansion. The study could recommend different approaches to the data center configuration and technology used that may make some of the upgrades proposed in this budget request outdated.

Also, in another budget request, titled *Infrastructure Improvements and Repairs*, the PUC indicated that they will use alternative funding mechanisms to purchase an \$180,000 backup generator for the entire building. Funding a separate emergency power backup system for the IT environment only would be unnecessary given the other generator that will be purchased.

The PUC today has four fewer IT specialists than it did in 1996. However, the state's reliance on information technology has grown greatly since the 1990s as the public's reliance on the Internet as a source of information grows, and as nearly all agency workers use computers to complete some or all aspects of their job. Thus, increasing the number of IT workers at the PUC is warranted.

Given that many of the proposed repairs are too early to contemplate prior to the completion of the study, staff recommends reducing the funding to the data center redesign and expansion study, the HVAC study, and the two new positions.

Previous Subcommittee Action. On April 9 the Subcommittee approved \$285,000 from the Public Utilities Commission Utilities Reimbursement Account for the data center redesign and expansion study; for performing a full review of the heating/ventilation air conditioning in the data center and closets; and for the two requested positions.

Staff Recommendation. Staff recommends that the Subcommittee also approve \$180,000 for establishing a dedicated development and testing lab.

5. Division of Ratepayer Advocates – Auditors

Background. The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission. DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, and safety and reliability. Unique to DRA is participation in all PUC proceedings where DRA represents consumer interests. DRA works on energy matters (electric and gas), water rates and services, and telecommunications.

DRA undertakes numerous advocacy activities on behalf of utility consumers. Among these advocacy activities are audits of all proposed utility rate increases and past expenditures by providers.

Staff Recommendation. Staff recommends the Subcommittee increase the DRA budget by \$300,000 for 3 auditors from the Public Utilities Commission Ratepayer Advocate Account. Staff also recommends the Subcommittee adopt the following budget bill language:

The amount of \$300,000 is for auditor positions at the Division of Ratepayer Advocates within the Public Utilities Commission.

3940 State Water Resources Control Board

Background. The State Water Resources Control Board (SWRCB), in conjunction with nine semi-autonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The board carries out its water quality responsibilities by: (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement actions when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

Governor's Budget. The Governor's Budget proposes \$657 million to support the SWRCB in the budget year. This proposal is approximately \$112 million less than current year expenditure levels, mainly due to a reduction in bond funding. General Fund appropriation is expected to stay nearly the same.

Summary of Expenditures <i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Water Quality	\$ 927,734	\$ 823,408	-\$104,326	-11.3
Water Rights	13,642	11,137	-2,505	-18.4
Administration	18,950	18,890	-60	-0.3
<i>less distributed administration</i>	<i>-18,950</i>	<i>-18,890</i>	<i>60</i>	<i>-0.3</i>
Total	\$ 941,376	\$ 834,545	-\$106,831	-11.4
Funding Source				
General Fund	\$ 39,091	\$ 39,102	\$ 11	0
Special Funds	362,715	362,980	265	0.1
Bond Funds	367,641	254,966	-112,675	-30.6
<i>Budget Act Total</i>	<i>769,447</i>	<i>657,048</i>	<i>-112,399</i>	<i>-14.6</i>
Federal Trust Fund	128,877	128,578	-299	-0.2
Reimbursements	9,999	9,999	0	0
State Water Quality Control Fund	23,309	29,495	6,186	26.5
State Water Pollution Control Revolving Fund	-2,682	-2,682	0	0
Petroleum Underground Storage Tank Financing Account	12,426	12,107	-319	-2.6
Total	\$ 941,376	\$ 834,545	-\$106,831	-11.4

1. Data Management IT Systems

LAO Analysis. Like any modern organization, the State Water Board and the nine regional water boards rely upon IT for many of their core business functions. The SWRCB IT systems serve a variety of purposes, including administrative functions, permitting and enforcement systems, water quality monitoring, and providing public access to water quality and enforcement data (through the Internet). The boards are constantly revising, updating, and adding to their IT systems. Currently, at least five separate IT projects are currently in progress, with one-time development costs projected to total about \$3.7 million for these projects.

On numerous occasions, the Legislature has stressed the fundamental role that management of data—including permitting, enforcement, and water quality—at the boards plays in assisting the board to carry out its mission. This is critical to informing the board’s decision making, and the public-at-large, and in effectively targeting resources to program areas most in need.

Strategic Plan Needs Update. Every state department is required to have a strategic plan to guide its IT activity, known as an Agency Information Management Strategy (AIMS) report. The purpose of this strategic plan is to ensure that departments have a clear direction with respect to IT, including identification of priorities. Along with its use internally to state departments, the plan is submitted to the Department of Finance to assist in its review of the budget. The board has indicated that its AIMS is outdated, and that a new IT plan is needed. Furthermore, the LAO notes, the board has changed its IT strategy and a revised AIMS report must be prepared when there is a significant change in IT strategy. This plan is particularly important at SWRCB because, as the board adopts IT systems pursuant to the plan, the nine regional boards are then required to use these IT systems to accomplish their goals.

Legislative Oversight Circumvented. In past years, the Legislature, through the budget process, has reviewed IT proposals from the water boards. Most notably, a proposal for an upgrade to the core permitting and enforcement database was presented at hearings on the 2002-03 budget but was rejected by the Legislature for funding based on the design of the system. Shortly thereafter, the board developed a contract with the federal government, wherein a system similar to the one rejected by the Legislature would be designed by the board under federal contract with certain development costs to be paid directly by the federal government. In other words, the board proceeded with an IT project that the Legislature rejected by going outside the budget process. In subsequent years, the board administratively directed program funds to continue the project, making legislative review difficult.

The original purpose of this IT system—referred to as CIWQS—was solely to automate federal permitting for pollution discharges. (The state is delegated responsibility for issuing and enforcing federal water quality permits.) The project, however, has expanded significantly over time. The LAO identified total costs of about \$4.6 million to develop and maintain CIWQS at the state board, of which only \$1.7 million has been paid for by the federal government. Ongoing maintenance and operation costs are being paid by the state from special funds (mainly fees) as part of the board's permitting and enforcement activities. The LAO estimates \$738,000 would be used to maintain the system in the budget year.

Data Entry Backlog. The original scope of the CIWQS project was to automate the federal permitting process. However, the state board has expanded the scope of CIWQS by beginning to link various other existing data management programs, including those used by regional boards, to the CIWQS system. For example, data entry related to state water quality permits issued at the regional board level must now tie into CIWQS. Moreover, the board has a number of new IT projects under development, each of which is specifically designed to link with CIWQS and will generally require the regional boards to change the way they conduct data entry.

While some regional boards have integrated well with the new scope of the program, others have struggled. For example, one regional board halted all data entry into the new system for six months because it was unsure of how the system would be used in the future. This board still uses a duplicate paper-trail system in addition to the new automated system for day-to-day activities, which is inefficient and adds unnecessarily to costs.

The ongoing expansion of the scope of CIWQS exacerbates backlogs in data entry that have developed at the regional board level, particularly related to permitting, enforcement, and water quality monitoring data. Because of backlogs in data entry that would otherwise provide regional board staff with a picture of the state of water quality in their areas, they may not be targeting their resources as effectively as possible. This data backlog is also problematic because it creates the potential for the public to be misled as it uses the Internet to seek water quality-related information. For example, where backlogs occur with only partial data being put on the Internet, it would not be clear to the public that the information they are viewing contains gaps or is outdated.

LAO Recommendation. The LAO finds that the board's basis for adopting new IT projects is unclear and the Legislature has no basis on which to review how new IT projects fit into the board's overall IT strategy. Based on this, the LAO recommends the adoption of budget bill language requiring the board to update its AIMS report and prohibiting expenditures for new IT projects until the report is updated and submitted for legislative review. The LAO recommends:

Item 3940-001-0001. No money appropriated in this item or any other items appropriating funds to the State Water Resources Control Board, can be used for new information technology projects until the board's Agency Information Management Strategy is updated to reflect the board's current information technology strategy and submitted to the Joint Legislative Budget Committee no sooner than 30 days prior to any spending on information technology projects.

In addition, the LAO thinks that legislative oversight of the board's IT projects would be significantly enhanced if the board were required to submit an IT implementation plan in conjunction with the submittal of the annual Governor's budget. This plan should include information on ongoing and proposed IT projects, one-time design and development costs, and ongoing maintenance costs. The LAO, therefore, recommends the adoption of budget bill language requiring the board to submit an IT implementation plan as part of the submittal of the annual Governor's budget.

Also, the users of CIWQS, including regional boards, regulated entities, and the public, have raised concerns to the state board about CIWQS, prompting the board to request an external review of this IT project to be completed in May 2007 by external program experts. The LAO thinks the Legislature should receive an unabridged version of this review, and the LAO therefore recommends that the board present the Legislature with the review at the same time as it is presented to the state board. This assessment would help the Legislature evaluate CIWQS and associated major IT projects at the board and assess the corrective actions the board is taking to address the identified problems with its IT programs.

The LAO additionally recommends that the board report at budget hearings on the extent of the CIWQS backlog and its plans to reduce it in the budget year.

Previous Subcommittee Action. On April 23, the Subcommittee adopted the following budget bill language and directed staff to work on additional budget bill language:

On January 10, 2008, the State Water Resources Control Board shall provide to the Joint Legislative Budget Committee and the fiscal committees of each house of the Legislature a report with information regarding the board's information technology projects. The report will include information on ongoing and proposed IT projects, one-time design and development costs, and ongoing maintenance costs.

Staff Recommendation. Staff recommends the Subcommittee adopt the following budget bill language:

Item 3940-001-0001. No money appropriated in this item or any other items appropriating funds to the State Water Resources Control Board, can be used for new information technology projects modules related to the California Integrated Water Quality System (CIWQS) or any CIWQS modules, until the board's Agency Information Management Strategy is updated to reflect the board's current information technology strategy and submitted to the Joint Legislative Budget Committee no sooner than 30 days prior to any spending on information technology modules projects.

2. Proposition 13 and Proposition 50 Funding

Background. The State Water Board has adopted guidelines for the implementation of Proposition 13 and Proposition 50 local assistance grant funds. The guidelines establish a competitive process and criteria for selecting projects. State Water Board staff inspects projects during and after construction and reviews progress reports and invoices.

According to the California State Treasurer's Office, as of June 1, 2006, there are still \$27.6 million in unissued general obligation bonds for the Water Conservation and Water Quality Bond Law of 1986. The State Water Board informs staff that this is because these bond funds are specified to be loans, and the board has trouble finding interested applicants (most local agencies prefer grants).

Governor's Budget. The Governor's Budget proposes a total of \$132,542,000 from Proposition 13, Proposition 50, and 1986 Bond funds. Of these funds, \$35,552,001 is a reappropriation and \$96,991,000 is new funding. The funds are proposed as follows:

- 1986 Water Quality Bond – \$2.2 million local assistance reappropriation for agricultural drainage loans
- 1986 Water Quality Bond – \$4.6 million local assistance appropriation for agricultural drainage loans
- Proposition 13 – \$7,464,507 local assistance reappropriation for wastewater construction, coastal non-point source pollution control, and Southern California Integrated Watershed Program
- Proposition 13 – \$1,036,000 local assistance appropriation for water recycling
- Proposition 50 – \$25,887,494 local assistance reappropriation for water recycling and Integrated Regional Water Management

- Proposition 50 – \$91,355,000 local assistance appropriation for water recycling and Integrated Regional Water Management

April Finance Letter. An April Finance Letter proposes to augment the Governor’s proposed budget by adding \$2.4 million for Proposition 13 local assistance, adding \$1.9 million for Proposition 40 local assistance, and reducing \$145,000 from Proposition 50 local assistance.

Projects Ready for Funding. The \$82 million for Integrated Regional Water Management projects would be provided to projects that have already been approved by the State Water Board. These projects represent \$75 million in funding. The rest of the funds would be granted to projects that have not yet been approved by the State Water Board. The approved projects are:

- \$25 million – Santa Ana Watershed Project Authority
- \$12.5 million – Tahoe Resource Conservation District
- \$12.5 million – Contra Costa Water District
- \$12.5 million – Monterey County Water Resources Agency
- \$12.5 million – Community Foundation of Santa Cruz County

Staff Recommendation. Staff recommends that the Subcommittee approve the budget proposal with budget bill language that specifies that projects that applied in the first round of funding, but were left by the department for the second round of funding shall receive priority in consideration for funding.

3960 Department of Toxic Substances Control

Background. The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; the General Fund; and federal funds.

Governor's Budget. The Governor's Budget proposes \$144 million to support the DTSC in 2007-08. This is 2.5 percent less than estimated expenditures in the current year. This reduction is due to a decrease in General Fund appropriations.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Site Mitigation and Brownfields Reuse	\$ 102,137	\$ 106,047	\$ 3,910	3.8
Hazardous Waste Management	66,999	65,711	-1,288	-1.9
Science, Pollution Prevention, and Technology	10,593	11,178	585	5.5
State as Certified Unified Program Agency	1,199	1,271	72	6
Capital Outlay	3,963	0	-3,963	-100
Administration	31,475	33,217	1,742	5.5
<i>less distributed administration</i>	<i>-31,475</i>	<i>-33,217</i>	<i>-1,742</i>	<i>5.5</i>
Total	\$ 184,891	\$ 184,207	-\$684	-0.4
Funding Source				
General Fund	\$ 32,453	\$ 25,321	-\$7,132	-21.9
Special Funds	115,480	118,953	3,473	3
<i>Budget Act Total</i>	<i>147,933</i>	<i>144,274</i>	<i>-3,659</i>	<i>-2.5</i>
Federal Funds	26,567	27,801	1,234	4.6
Reimbursements	10,391	10,632	241	2.3
Stringfellow Insurance Proceeds Account	0	1,500	1,500	100
Total	\$ 184,891	\$ 184,207	-\$684	-0.4

1. Board of Equalization Fee Collection and Fund Shift

Background. The *2006-07 Budget Act* included trailer bill language that expanded the types of businesses subject to the environmental fee. The new entities subject to the fee include limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships. There are expected to be about 6,600 new fee-payers. The fee collection will begin in 2008.

The Board of Equalization collects all of DTSC's fees. The Board of Equalization commingles its collection activities associated with the environmental fee and the hazardous waste industry fees, and has not been able to provide DTSC with actual cost data differentiated between these two fee categories.

Governor's Budget. The Governor's Budget proposes \$268,000 (\$68,000 one-time) from the Toxic Substances Control Account to pay the Board of Equalization for expanding Environmental Fee collection.

The Governor's Budget also includes a funding shift of \$2,931,353 from the Hazardous Waste Control Account to the Toxic Substances Control Account to pay for Board of Equalization fee collection services from the appropriate account.

Proposed Trailer Bill Language. The Governor's Budget includes trailer bill language that would eliminate existing statute requiring that appropriation from the Toxic Substances Control Account for the administration and collection of fees be limited to \$500,000. The trailer bill language also would limit the payment for fee collection to the expenses incurred in collecting fees for deposit to the Hazardous Waste Control Account.

Staff Recommendation. The Department of Finance has submitted revised trailer bill language that addresses earlier technical concerns. Staff recommends that the Subcommittee approve the proposal.

8570 Department of Food and Agriculture

Background. The California Department of Food and Agriculture (CDFA) provides services to both producers and consumers of California's agricultural products in the areas of agricultural protection, agricultural marketing, and support to local fairs. The purpose of the agricultural protection program is to prevent the introduction and establishment of serious plant and animal pests and diseases. The agricultural marketing program promotes California's agricultural products and protects consumers and producers through the enforcement of measurements, standards, and fair pricing practices. Finally, the department provides financial and administrative assistance to county and district fairs.

Governor's Budget. The Governor's Budget proposes \$242 million to support CDFA in 2007-08. This is approximately \$9 million less than the level of expenditures estimated in the current year. This decrease is primarily due to a reduction in special funds.

Summary of Expenditures

(dollars in thousands)

	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Agricultural Plant and Animal Health, Pest Prevention, and Food Safety Services	\$ 172,586	\$ 160,947	-\$ 11,639	-6.7
Marketing and Commodity and Agricultural Services	68,736	58,993	-9,743	-14.2
Assistance to Fair and County Agricultural Activities	60,817	26,621	-34,196	-56.2
General Agricultural Activities	-	43,149	43,149	100.0
Capital Outlay	24,395	3,611	-20,784	-85.2
Administration	14,561	14,029	-532	-3.7
<i>less distributed administration</i>	<i>-13,376</i>	<i>-12,826</i>	<i>550</i>	<i>-4.1</i>
Total	\$ 327,719	\$ 294,524	-\$33,195	-10.1

Funding Source

General Fund	\$ 101,699	\$ 99,261	-\$2,438	-2.4
Special Funds	148,529	141,955	-6,574	-4.4
Bond Funds	1,180	1,178	-2	-0.2
<i>Budget Act Total</i>	<i>\$251,408</i>	<i>\$242,394</i>	<i>-\$9,014</i>	<i>-3.6</i>
Federal Trust Fund	42,779	38,762	-4,017	-9.4
Public Building Construction Fund	18,356	-	-18,356	-100.0
Harbors and Watercraft Revolving Fund	1,296	1,336	40	3.1
Reimbursements	13,879	12,032	-1,847	-13.3
Total	\$ 327,718	\$ 294,524	-\$33,194	-10.1

1. High Risk Pest Exclusion – Informational Item

Background. Exotic pests are capable of tremendous amounts of damage to native habitats and agricultural crops.

Governor’s Budget. The Governor’s Budget includes \$3,977,000 for high risk pest exclusion activities, the same level of funding as in 2006-07.

Staff Recommendation. Informational item, no recommendation at this time.

CALFED

1. South Delta Improvement Program

Background. The South Delta Improvement Program aims to regulate water levels in the San Joaquin River. The proposed project consists of permanent operable gates at the Middle River, Old River near Tracy, Grantline Canal, and Old River near the San Joaquin River. The program is designed to improve conditions for the San Joaquin salmon by reducing their movement into the south Delta via Old River, maintain adequate water levels and through water circulation, quality for agricultural diversions in the south Delta, and increase the SWP operational flexibility by raising the Delta export limit.

The National Marine Fisheries Service on January 11, 2007 denied the State of California permits for the four South Delta operable gates. The justification for denying the permits was that the state had not comprehensive plan for the Delta, and a piecemeal approach to ecosystem management would not be permitted. The loss of the South Delta adjustable dams permit means that in order to maintain water quality less water can be pumped out of the Delta. The Delta supplies water to approximately 23 million people.

The total project cost is estimated as \$50.25 million.

Governor's Budget. The Governor's Budget proposes \$31.4 million in bond funds for the working drawings and Phase I construction of water gates on the San Joaquin River. The funds would be:

- \$14,440,000 in Proposition 13 bond funds for working drawings.
- \$16,960,000 in Proposition 50 bond funds for Phase I construction.

LAO Recommendation. The LAO recommends the Legislature deny the budget request for three reasons:

1. **Missing Report** – The *2006-07 Budget Act* appropriated \$41.6 million in bond funds for the South Delta Improvement Program but included language prohibiting the expenditure of the funds until the Secretary of Resources submitted a specified report to the Legislature. The report was supposed to include actions that the Secretary will take, other than study, to stabilize the ecosystem in the Delta and to address an identified pelagic organism decline (POD). The intent of the language was to put on hold the development of the South Delta Improvement Program until the impacts of pumping from the Delta on POD could be addressed. The report has not yet been submitted.
2. **Lack of Cost-Sharing** – The cost-sharing agreements with the federal government and the State Water Project contractors who benefit directly from the program have not been secured. The budget documentation submitted to the Legislature states that such cost sharing is the “preferred” way to fund the program, and that it would be “unacceptable” for the state to be the sole funding entity. However, the department has not received funding commitments from either the federal government or State Water Project contractors.

3. **Denied Permit** – The federal Fish and Wildlife Service recently put on hold its permitting for the South Delta Improvement Project, citing problems with declines in fish populations in the South Delta area. This creates substantial uncertainty as to whether the project can proceed.

Staff Comments. The \$41.6 million appropriated in 2006-07 for the South Delta Improvement Project is unexpended at this point due to the tardiness of the required report. Since these funds will be available for expenditure once the report is submitted, the department has indicated that it will have sufficient funds to continue with the South Delta Improvement Project in 2007-08 even if the Legislature does not appropriate new funds for budget year.

Department Withdrawal of Proposal. The department has withdrawn this proposal, so there is no need to consider it.