

**Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley**



**Thursday, March 5, 2015
9:30 a.m. or Upon Adjournment of Session
Hearing Room 112**

Consultant: Catherine Freeman

Special Presentations

1. Legislative Analyst's Office—Overview of the Governor's Budget
2. John Laird, Secretary for Natural Resources

Oversight

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Resources—Environmental Protection—Energy—Transportation

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3210 Environmental Protection Program (Environmental License Plate Program)

Background—Environmental License Plate Fund.

Personalized License Plates. The Legislature created the personalized license plate through the enactment statute in 1970. Revenues from personalized license plates, purchased by individuals, are collected by the Department of Motor Vehicles (DMV), and, deposited into the Environmental License Plate Fund (ELPF). State law requires that for certain plates, such as the Yosemite Conservancy Plate and the California Coastal License Plate (Whale Tail), the DMV collect additional revenues that are deposited directly into separate funds (the Yosemite Fund and California Beach and Coastal Enhancement Account, respectively). The remaining funding supports the Environmental Protection Program (EPP), which addresses the preservation and protection of California's environment, as prescribed by law.

In 2011-12, over 82,000 plates were purchased. Half of these were purchased for special programs (such as the Whale Tail and Yosemite plates), and half were generic environmental personalized license plates. Over one million plates have been purchased and are renewed annually. Revenues from the plates average \$41 to \$42 million per year from new purchases and renewals.

Environmental License Plate Fund (ELPF). The ELPF was established to provide funding to various environmental programs through the EPP at the state and local level. The amount of funding available is dependent upon the number of certain specialty license plates sold and maintained in the state. Traditionally, the fund has been allocated to natural resource programs. The main priorities of the ELPF, as designated by Public Resources Code 21190, include:

1. The control and abatement of air pollution.
2. Acquisition, preservation, and restoration of ecological reserves.
3. Environmental education, including formal school programs and informal public education programs.
4. Protection of nongame species and threatened and endangered plants and animals.
5. Protection, enhancement, and restoration of fish and wildlife habitat.
6. Purchase of real property for state and local parks.
7. Reduction or minimization of soil erosion and sediment discharge into Lake Tahoe.
8. In addition to these, SB 861 (Committee on Budget), Chapter 35, Statutes of 2014, added climate assessment to the eligible list of priorities.

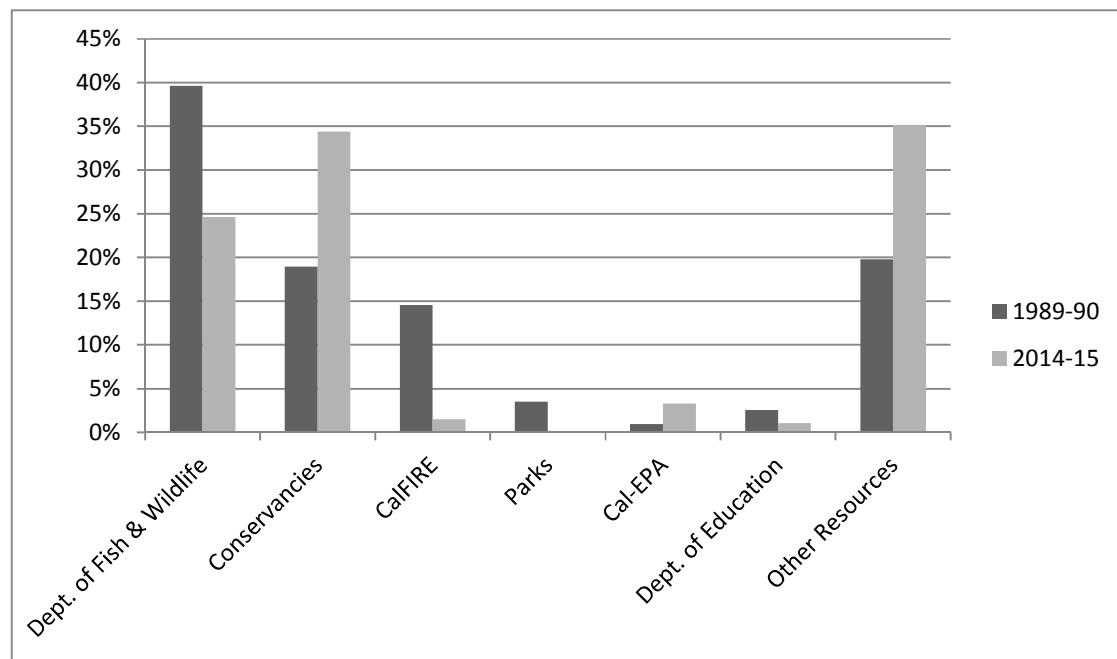
Allocation of Funds. The allocation of funds within the program is subjective. The Administration reviews revenues and provides the Legislature with a proposed funding package each January. As discussed in a 2012 audit of the program by the State Auditor, the Resources Agency is required to provide reports and programs recommended for funding, together with a statement of their purposes, the benefits to be realized, and the Secretary for Natural Resource's commitment for inclusion in the Governor's budget. This report is required to be submitted annually to the Governor with the request for funding. According to the 2012 audit, this information had not been provided; and the agency argues that the report is duplicative of the budget change proposal process already occurring.

Shifting Priorities and New Programs. As shown in the figure below, shifting priorities have altered how ELPF funding been allocated. For example, in 1990, the Department of Fish and Wildlife (DFW) accounted for 40 percent of ELPF expenditures. The budget display reflected numerous ongoing and capital programs. Conservancies made up a relatively small proportion of the budget in 1990, but jumped to 35 percent in the proposed 2015-16 budget. Over the years, new programs have been added to the ELPF budget. For example, the California Natural Resources Agency (CNRA) proposes to spend \$6.7 million of the overall allocation primarily for two relatively new programs—the Ocean Protection Council (formerly housed at the State Coastal Conservancy), and the Fourth Climate Assessment (first proposed in 2014-15).

Environmental License Plate Fund

Expenditures (by percentage)

1989-90 versus 2014-15



Stable Revenues. The ELPF revenues have hovered between \$39 and \$41 million for over eight years. However, in multiple years, the Governor's budget has forecast higher revenues (as much as \$45 million). When a final reconciliation of the budget has been made, these higher forecasts have never been realized. In 2014-15, the budget forecast revenues of \$44 million. However, currently estimated revenues (as shown in the 2014-15 budget display), are forecast to be \$41 million. A similar pattern has occurred over multiple years.

Conservancies—Funding Baseline Expenditures. In recent years, the ELPF has been used to backfill state operations expenses at state conservancies where bond funds have been exhausted. In most cases, this consists of state operations of less than \$500,000. However, certain conservancies receive a greater proportion (such as the Tahoe Conservancy) due to statutory requirements and ties to specific license plates. The coastal agencies receive funding directly from the Whale Tail license plate in another fund.

In November 2014, voters approved the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1). The bond makes available \$7.5 billion in general obligation bond funds for projects that improve water supply, protect and restore watersheds, improve water quality, and increase flood protection. The majority of funds are designed to be allocated to existing state programs that provide grants and loans to local entities. This bond allocates approximately \$100 million directly to state conservancies for ongoing and capital projects. The bond also allows for five percent of the full allocation to be used over the life of the bond expenditures and encumbrance periods, for baseline state operations expenses (salaries, office expenses, etc.).

State Conservancies Funding—ELPF and Proposition 1 2015-16 (Dollars in Thousands)

| Conservancy | ELPF | Prop 1 | Proposition 1 (Full Allocation) | |
|------------------------------------|-----------------|-----------------|----------------------------------------|--------------------------------|
| | | | Total | 5% for State Operations |
| Tahoe* | \$3,582 | \$14,150 | \$15,000 | \$750 |
| Coastal** | \$1,300 | \$15,000 | \$100,500 | \$5,025 |
| Santa Monica Mountains*** | \$308 | \$12,640 | \$80,000 | \$4,000 |
| Los Angeles River and Mountains*** | \$369 | \$19,700 | \$80,000 | \$4,000 |
| San Joaquin River | \$312 | \$2,800 | \$10,000 | \$500 |
| Baldwin Hills | \$377 | \$2,100 | \$10,000 | \$500 |
| San Diego River | \$374 | \$4,100 | \$17,000 | \$850 |
| Coachella Valley | \$303 | \$2,570 | \$10,000 | \$500 |
| Sierra Nevada* | \$4,406 | \$10,200 | \$25,000 | \$1,250 |
| Delta | \$77 | \$9,871 | \$50,000 | \$2,500 |
| Totals | \$11,408 | \$93,131 | \$397,500 | \$19,875 |

* Tahoe received funding in proportion to the amount raised by the Lake Tahoe license plate.

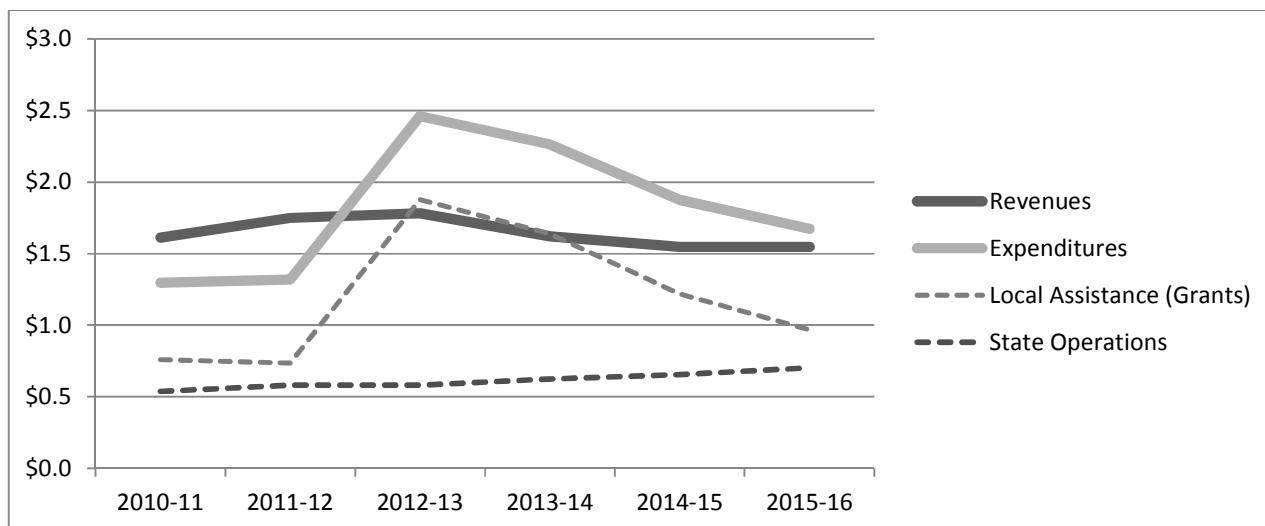
**\$1.3 million to SCC is one-time allocation. Baseline ELPF to SCC was shifted to OPC.

*** In addition to \$30 million per conservancy, SMMC/RMC share \$100,000 for the LA River.

Whale Tail—A Special License Plate. According to the DMV Website: “The fees collected for the Whale Tail License Plates, sponsored by the California Coastal Commission, help protect and restore the priceless resources of California's coast and ocean.” In reality, the allocation of funds from this special license plate is more complex.

The California Coastal Commission’s Whale Tail License Plate was established as a mechanism through which the public can contribute funds to coastal and marine education programs in California. For each new plate that is sold, approximately \$13.97 is deposited in the California Beach and Coastal Enhancement Account (CBCEA). Annual renewal fees deposit approximately \$19.77 per plate into the account. Additional funds are deposited in the Environmental License Plate Fund (ELPF), which funds environmental programs in other state agencies. As of December 31, 2013, a total of 218,945 license plates have been sold. Whale Tail License Plate sales and renewal fees (plus miscellaneous other small fees) have contributed \$21.8 million to the CBCEA, and \$53.7 million to the ELPF. (The additional fees that are charged for personalized plates go to the ELPF.)

**Coastal Beach and Enhancement Account
Revenues and Expenditures 2010-2015
(Dollars in Millions)**



2014 Audit of ELPF. In 2013-14, the State Auditor reviewed the specialized license plate program. As a part of that audit, the auditor reviewed multiple funds receiving revenues from specialized license plates, including the ELPF, and in particular expenditures for the Department of Fish and Wildlife (DFW), Department of Parks and Recreation (CDPR), and Natural Resources Agency (CNRA). In brief, the overall audit concluded that the DMV should do a better job of collecting revenues for the plates, and several agencies could not demonstrate that the state received the intended benefit from the plate revenues. Specifically, the audit concluded:

- The DMV had not collected the appropriate amount of fees and had not claimed its administrative costs accurately. The DMV overcharged the ELPF by \$2.1 million per year from 2009-10 through 2011-12.

- The CDPR and CNRA could not provide sufficient support for their expenditures or a rationale for the portion of shared costs that they charged to the environmental fund, nor for the manner in which they allocated costs to the fund.
- The CNRA could not justify why it had paid the entirety of the secretary's salary in a single month (April 2010) from the ELPF, rather than proportionally.
- The CNRA has not submitted to the Governor and Legislature required reports intended to provide pertinent information about the performance of programs and projects paid for by the fund. Specifically, the CNRA must forward reports on those projects and programs recommended for funding, together with a statement of their purposes, the benefits to be realized, and the secretary's comments for inclusion in the Governor's budget.

A review of the Governors' budget showed that in 1990, the CNRA and its respective departments provided specific and detailed information about the nature of ELPF expenditures. Projects were identified in the Governor's budget and backup justification for each project and program was included for review by the Legislature.

The current report forwarded by the CNRA repeats statutory guidance provided to the departments. For example, the following was provided:

0540 Natural Resources Agency

ELPF funds state operations of the secretary for natural resources (Natural Resources Agency). The mission of the agency is to restore, protect and manage the state's natural, historical and cultural resources. The secretary for natural resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 26 various departments, boards, commissions, and conservancies, and directly administers the Sea Grant Program, California Environmental Quality Act, and River Parkways Grant Program. In addition, the secretary, per Public Resources Code (PRC) 21193 is responsible for the administration of the Environmental License Plate Fund and oversight of the funds expenditures.

In reality, the CNRA intends to expend over \$6.7 million dollars on specific programs including the Fourth Climate Assessment and the Ocean Protection Council (all-base funding). This information was not included in the justification for the budget request. It should be noted that the Whale Tail plate funding, administered by the Coastal Commission and State Coastal Conservancy, under multiple reviews, has been found to be justified by recent audits by the State Auditor.

By contrast, the DFW was able to identify how it would spend its entire \$15.5 million allocation, the majority of which would fund biodiversity programs. However, a full \$4.3 million was identified as general and unspecified overhead within the department.

Governor's Budget Proposal

The Governor's budget proposes \$38.8 million in expenditures and \$42 million in revenues. After required transfers to the Motor Vehicle Account (\$2.4 million), the amount available for expenditure is \$39 million. The figure below outlines ELPF expenditure proposals for the current year and budget year.

Environmental License Plate Fund

2015-16 Proposed Expenditures

(Dollars in Thousands)

| Function | 2014-15 (Estimate) | 2015-16 (Proposed) | % Change |
|-------------------------------------|-----------------------|-----------------------|-------------|
| Department of Fish and Wildlife | \$15,511 | \$9,468 | -39% |
| Conservancies | \$10,235 | \$11,408 | 11% |
| Secretary for Natural Resources | \$4,561 | \$6,703 | 47% |
| Natural Resource Agency Departments | \$5,380 | \$5,330 | -1% |
| Tahoe Regional Planning Agency | \$3,998 | \$3,998 | 0% |
| Department of Parks and Recreation | \$3,058 | \$0 | -100% |
| Cal-EPA boards and Departments | \$1,454 | \$1,456 | 0% |
| Department of Education | \$414 | \$410 | -1% |
| Total | \$44,611 | \$38,773 | |

ELPF Shortfall. According to the Administration, revenues in the ELPF are not likely to meet budgeted projects by as much as \$3 million in both the current year (2014-15) and the budget year (2015-16). The shortfall occurred mainly because the Administration over-estimated revenues to the program. As discussed previously, revenues to the program historically averaged between \$39 to \$41 million per year. The Administration raised the revenue estimate in 2014 to \$45 million. Additional cost pressures include salary adjustments required by the “like-pay for like-work” initiative.

The Administration proposes a series of actions to address the shortfall. In the current year (2014-15), the solutions include:

- Delay the beginning of the 4th Climate Assessment from the current year to budget year (\$2.5 million).
- Delay the Climate Ready grants from current year to budget year (\$1.3 million).
- Shift expenditures in CDPR and DFW to special funds (\$1.1 million).
- Other, targeted reductions.

In 2015-16, the proposed solutions include:

- Moving the remaining 4th Climate Assessment funding out one year (\$2.5 million).
- Shifting \$3.3 million in CDPR to the State Parks and Recreation Fund.
- Shift \$7.2 million in DFW to Fish and Game Preservation Fund.
- Introducing trailer bill language to increase plate fee by five percent (estimated new revenue of \$1 million).
- Additional targeted reductions to departments (\$1.1 million).

LAO Review. Shifting Funds for Support Purposes? In 2006, the Legislative Analyst's Office (LAO) provided an initial review of the ELPF and highlighted several key historical issues with the fund. First, in 2002-03, the ELPF replaced General Fund and other funds in four main areas: (1) \$2.3 million from General Fund for operations at the Secretary for Natural Resources; (2) \$2.8 million for operations of the Tahoe Conservancy; (3) \$2.6 million from other funds at the Department of Fish and Wildlife to the ELPF; and, (4) \$3 million from the General Fund to the Environmental License Plate Fund for the Tahoe Regional Planning Agency. These shifts were necessitated by major General Fund deficits.

At the time, the LAO noted that “statute does not specify the extent ELPF money has been used for one-time expenditures, such as capital outlay expenditures, and providing assistance for local programs or for ongoing support of state programs and operations.” They noted that about 88 percent of funding from ELPF was directed to state operations and only 12 percent was allocated to one-time expenditures such as capital outlay or local assistance.

LAO Assessment (2015-16 Budget Proposal). The LAO also reviewed the Governor's budget year proposal and provided its assessment as follows:

Important Information Not Included With Governor's Budget. The Governor's budget does not include details of ELPF spending by program. While the Administration provided some details on the programs funded by ELPF upon request, more detailed information on spending (such as identification of and funding levels for ELPF-supported programs and projects) is needed. In addition, providing this information in the Governor's annual budget proposal—as was done in the past—would be more timely and helpful for legislative decision making. The lack of detail regarding ELPF expenditures makes it difficult for the Legislature to evaluate the degree to which ELPF spending is being used for the most effective programs and is consistent with legislative priorities.

Governor's Proposal Offers One Reasonable Option to Address Shortfall. In the current year, the state has only limited options for addressing the ELPF shortfall. It would be difficult to raise much revenue with only a few months remaining in the fiscal year, and many departments would likely have difficulty implementing budget reductions without significantly affecting their programs. Most savings achieved by the administration's proposal are from delaying one—

time spending until the next fiscal year. Therefore, this option is the least disruptive and achieves the needed savings to avoid a shortfall in 2014–15.

The proposal also provides a reasonable approach to addressing the shortfall in 2015–16 without major funding disruptions to supported programs. Yet, it has trade-offs. Under the proposal, the costs of the budget–year shortfall would be borne mostly by special funds that support the activities of DPR and DFW. While these funds have sufficient balances to support this one-time shift without reducing the departments’ activities, they would not be able to sustain the shifts. Additionally, the proposal only offers a solution through the budget year. A long term solution would still need to be found for 2016–17 and beyond.

There Are Other Alternatives Available. The Legislature has several choices regarding how to address the ELPF shortfall, both for the budget year and thereafter. For the budget year, the Legislature could choose from a variety of options: (1) reduce funding from the other programs supported by ELPF, (2) reduce or eliminate one-time spending, (3) increase the license plate fee beyond the level proposed by the Governor, or (4) backfill ELPF with other special funds. For example, if the Legislature did not want to use State Parks and Recreation Fund, and Fish and Game Preservation Fund, to backfill ELPF, a cut of about 20 percent to all programs would achieve the same savings level in the budget year. Likewise, increasing the plate fee by more than the five percent proposed would reduce the need to cut spending in 2015–16 and beyond. We also note that many conservancies are getting large funding increases from Proposition 1 (2014 water bond), and may no longer need to rely as heavily on ELPF.

In the long-term, the ongoing deficit—about \$8 million annually—is smaller than the budget–year shortfall, and therefore may be addressed with less drastic action. The Legislature could reevaluate statutory priorities for the ELPF to ensure that activities of the highest priority continue to be funded. Narrowing the definition of some uses or eliminating uses would result in savings to the fund. A greater increase in the plate fee, as noted above, could also address the ongoing deficit.

Issues for Legislative Consideration

Should the Legislature Consider Revisiting Conservancy ELPF Funding? As shown on page 4, aside from revenues from specific plates, ELPF funding appears to be fairly random in its allocation. Long-established conservancies (State Coastal Conservancy, for example) receive no baseline/state operations funding while the Sierra Nevada Conservancy receives \$4.4 million per year. The Santa Monica Mountains and LA River Conservancies receive \$308,000 and \$369,000 by comparison. These conservancies have traditionally been funded by bond funds given that their main purpose is acquire and develop land for conservation status (parks, watersheds, view-sheds, trails, etc.). As the figure shows, a full five percent of allocations from bonds can be used for state operations. This is considered the amount necessary to administer a capital outlay program. For many of the smaller agencies, the addition of the five percent may not be sufficient to pay for their ongoing state operations, but for some this amount is very significant. For example, the Delta Conservancy receives \$77,000 from the ELPF for state operations. Additionally, they may use up to five percent bond allocation (\$2.5 million), for state operations. Is the \$77,000 still necessary?

Why are Education and Environmental Protection Such a Low Priority? Public Resources Code 21190 guides the distribution of the ELPF, and clearly identifies the following priorities: (1) the control and abatement of air pollution; and, (2) environmental education. Respectively, these priorities receive four percent and one percent of the funding allocated from the ELPF. At the same time, the state continues an initiative to bring environmental education into the core curriculum of all classrooms in the state through the Education and the Environment Initiative. The Legislature should consider whether funding distributed pursuant the statute is being equitably distributed, or if there should be statutory language directing the allocation of funds in a more definite manner.

Do Plate Owners Really Think This is How We Spend the Money? One of the more challenging questions legislators may ask is how do the purchasers of the specialized license plates expect their fees to be used. For example, if PRC 21190 states that one priority is “purchase of real property for state and local parks,” how is this being brought to fruition? Base state operations funding at state parks and the conservancies does not accomplish this goal. Removing all state parks funding from the ELPF, as is proposed in the 2015-16 budget, would not accomplish this goal. So, too, if the DMV website says that purchase of the Whale Tail plate would “help protect and restore the priceless resources of California’s coast and ocean,” would the same purchaser think that funding non-coastal agencies is part of their purchase-package? The Legislature could consider, as part of its review of the ELPF, any number of other ways of distributing funding for the ELPF and other specialty plates in a manner that is more in keeping with what the purchasers expect.

Should the ELPF be Used for Climate Strategy? Using \$5 million in 2014-15 from the ELPF to fund the CNRA’s Climate Adaptation Assessment, should be reviewed. The ELPF was designed to fund state environmental education efforts that have, to date, been funded with a variety of recycling funds and other environmental fees. Previous climate assessments had been funded through the public goods charge. The Administration suggested that cap-and-trade auction revenues would not be appropriate for the assessment but did not provide a legal opinion supporting that statement. The climate assessment proposal was rejected by budget subcommittees last year, and an alternative proposal—funding direct climate resilience (direct adaptation)—was adopted. During final budget negotiations, the Administration assured the Legislature that sufficient funding was available in the ELPF for both the fourth Climate Assessment and the Climate Resilience Account (\$1.3 million).

The Legislature may wish to consider rejecting the 4th Climate Assessment (given that funding for this was based on false projections), and revisit the idea of funding all climate activities through other funds (such as cap-and-trade auction revenues).

Staff Comments: Over the years, it is clear that the ELPF has been used both for its initial intended purpose, but also to backfill where other funding has been lost. Statute clearly lays out the priorities for program funding from the ELPF but does not specify how much should be allocated to each purpose. Some contend that, over the years, too, much of the funding has been diverted from traditional purposes (such as protection of land and habitat, or development of parks) to backfill for General Fund as indicated by the 2006 LAO review of the fund.

As audits confirm, the allocation of funds from ELPF has, over the years, been subject to considerable broad interpretation by the various Secretaries for Natural Resources. Priority setting has generally been left up to the administration with little input from the Legislature for the development of the ELPF budget. The Legislature could address some of the long-term issues with the ELPF either through budget action or through trailer bill language that designated percentages or priorities to the statutory priorities designated by PRC 21190. In addition, the Agency could conduct a small survey of license plate owners to determine where they think the funding is being directed.

Options for Shifting ELPF Priorities? Another option available to the Legislature is to update priorities for funding and specify what portions should be state operations generally, and what should be for project-specific work. For example, if the Legislature does not think that the Administration provided sufficient funding for environmental protection programs, it could specify a base level percent of funding for that purpose. Similarly, if the Legislature thought funding was over-allocated to state operations or other activities, it could provide that guidance through a prioritized system. Lastly, the Legislature could limit the amount of funds or state administration used for baseline budgets (currently set at five percent for bond administration).

ELPF Reporting. As discussed above, the Secretary for Natural Resources believes the statutorily report to the Governor on priorities is duplicative of other budget documents they submit. Even in years where the report was submitted, it did not provide detailed analysis of the direction of funding, priorities for use, and project commitments. Rather, funding clearly was directed to support very general priorities of the Administration. The Legislature could consider revising this reporting language to require the Agency to submit a detailed funding proposal that includes current-year to budget-year funding changes, capital outlay, local assistance, and state operations.

Staff Recommendation: Hold Open. Require the Secretary to submit to the subcommittee, by March 30, 2015, a comprehensive list of projects to be funded by the ELPF in the current year and proposed budget. This list should include a breakdown of activities in general categories, overhead, and support. Direct the agency to determine which funds are appropriately used for regulatory work (such as Tahoe Regional Planning Agency), and which should be for project-specific work.

Vote:

0540 Secretary for Natural Resources

The Secretary for Natural Resources is responsible for overseeing and coordinating the activities of the boards, departments, and conservancies under the jurisdiction of the Natural Resources Agency (CNRA). The mission of the Resources Agency is to restore, protect, and manage the State's natural, historical, and cultural resources for current and future generations, using creative approaches and solutions based on science, collaboration, and respect for all involved communities. The Secretary for Natural Resources, a member of the Governor's cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 27 various departments, boards, commissions, and conservancies.

Governor's Budget. The Governor's January budget includes \$53 million to support the Secretary for Natural Resources. This is a \$6 million decrease under current-year estimated expenditures, primarily due to reduced bond fund expenditures and one-time expenditures in the current year. Significant increases include \$2.2 million from the Environmental License Plate Fund for the Fourth Climate Assessment, and \$9.8 million from Proposition 1 for various bond-related programs.

Items Proposed for Vote-Only

1. **California River Parkways Program—Staffing Extensions.** The Governor's budget requests to extend two positions, and the funding for these positions, for five years, to support the Proposition 84 California River Parkways Program. Savings from previous years will allow this allocation to adhere to the "five percent for administration" rule found in the bond.

Staff Recommendation: Approve Item 1.

Items Proposed for Discussion**1. Proposition 1 Programs**

Background. Proposition 1, passed by the voters in 2014, allocates \$525 million directly to three Natural Resources Agency-administered programs. These include:

- **Ocean Protection Council (\$30 million).** The council was created by the California Ocean Protection Act of 2004. The council's strategic plan is to focus on research and monitoring, ocean and coastal water quality, and ocean and coastal ecosystems.
- **Watershed and Urban River Enhancement Projects (\$20 million).** The bond requires \$20 million for a competitive program, administered by the Secretary, to fund multi-benefit watershed and urban rivers enhancement projects to increase water self-sufficiency.
- **State Water Obligations (\$475 million).** The bond requires the Secretary to administer these funds for any of the: (1) Central Valley Project Improvement Act; (2) Salton Sea Quantification Settlement Agreement; (3) San Joaquin River Settlement; and, (4) other multi-state or multi-party settlement agreements such as the Klamath River or Tahoe Compact.
- **Oversight.** The bond contemplates oversight for bond activities in much the same way as other recent bond measures, wherein the Secretary provides accountability and bond oversight for other state agencies.

Budget Proposal. The Governor's budget allocations include: (1) \$9.5 million to the Ocean Protection Council; (2) \$125 million for watershed and urban river enhancement projects; and, (3) \$189,000 for oversight.

LAO Analysis—Accountability and Oversight. Proposition 1 includes provisions that affect how projects would be administered or overseen. For example, the measure specifies that up to five percent of the bond allocations can be used for administrative costs and up to 10 percent can be used for planning and monitoring efforts. In addition, the measure requires the Department of Finance (DOF) to audit the expenditure of grant funds and allows for additional auditing in the event that DOF identifies issues of concern. Proposition 1 also requires that CNRA annually public a list of all program and project expenditures on its website. The LAO, in its analysis of the Governor's Proposition 1 overall proposal, makes two recommendations to promote effective bond implementation: (1) Ensure data collection to support program evaluation; and, (2) facilitate oversight of projects, programs and outcomes.

Staff Comments. Staff agrees with the overall approach of the Governor's proposed allocations to the CNRA and the LAO's analysis of the oversight and accountability. The subcommittee may wish to explore how the CNRA should implement these recommendations, and how it plans to expend the \$475 million allocated in the bond for settlements.

Staff Recommendation: Approve item. Request the LAO draft trailer bill language to implement its accountability recommendations, to be brought back to the subcommittee for review. Approve budget bill language requiring CNRA to report on its plans to expend the State Water Obligations (\$475 million) funding pot.

Vote:

Items Proposed for Discussion**2. Marine Protected Area Monitoring**

Background. The CNRA implements Fish and Game Code Section 2853 (c)(3), the Marine Life Protection Act (MLPA). The MLPA established a statewide network of marine protected areas (MPAs) designed, created, and managed through public-private partnerships. The Ocean Protection Council (OPC), within the CNRA, expended \$16 million to create a baseline characterization of ecosystem status for four regions.

Budget Proposal. The Governor's budget requests \$2.5 million (Proposition 84 bond funds), one-time, to continue to support monitoring to inform the ongoing management of the network of MPAs. The budget does not specify a long-term funding source for management of the MPAs, and specifically states that, "as the OPC's appropriation of Proposition 84 bond funds draw to a close, a new source of funding is needed to continue monitoring the MPAs." The proposal further states that "the annual cost of ongoing monitoring will be lower than the cost of the baseline characterization. As such, this request can be seen as a decrease in requested funds."

Previous Concerns with the MPA Program. Over several years, this subcommittee has reviewed proposals for the MLPA program through the CNRA, OPC and the Department of Fish and Wildlife (DFW). Consistently, the question of management of the MPAs has been an outstanding issue. The DFW is charged with management of the MPAs (reductions in fishing, catch limits), but no dedicated funding source has been identified, to date, to fully manage the MLPA program. The state, partnering with federal and local agencies, has, in some places, created a de-facto management program but this has not been presented to the Legislature for review.

LAO Analysis. *Bond Funds Not Appropriate for Ongoing Operational Costs.* "We find that the proposed monitoring activities seem reasonable. The activities are consistent with the MLPA, and the proposed funding amount is actually somewhat less than the amount described in the monitoring plan adopted by the Fish and Game Commission in 2010. That plan included a range of activities and associated costs to conduct monitoring in the North Central Coast region, with the costs varying depending on the level of monitoring. The lowest cost option identified estimated total costs of \$4 million (\$1 million annually over four years)."

"As a general principle, however, bond funds should be used only for capital improvements or activities that provide benefits over many years to taxpayers who finance the bonds. The state should not conduct long-term borrowing for day-to-day maintenance or operations costs. If bond proceeds were used for operations costs, it would mean that taxpayers in the future would be paying for today's activities. In addition, the state pays more in the long run when it relies on bond debt, about \$1.30 (when adjusted for inflation) for each \$1 borrowed. Therefore, covering operational expenses with bond funding is more expensive than using other funding sources. Since monitoring MPAs is an ongoing operational activity, bond funds are not an appropriate source of funding."

LAO Recommendation. “We find the proposed MPA monitoring activity and funding level to be reasonable. However, we recommend that the Legislature reject the Governor’s proposal to use Proposition 84 bond funds for this purpose. Instead, we recommend that the Legislature choose a more appropriate funding source for an ongoing operational activity than bond funds. In determining the appropriate fund source, the Legislature should first consider who is most appropriate to bear these costs—for example, general taxpayers or users of these areas. Second, the Legislature should consider the competing demands for available funding sources and weigh the relative merits of using these funds for MPA monitoring versus other possible uses.”

Staff Comments. Staff disagrees with the Administration’s assertion that this request “can be seen as a decrease in requested funds.” It is still not clear what the long-term funding proposal is for the management of the MLPA program, nor is it clear to which department this management should be attributed. The most likely candidate is DFW, and a combination of Fish and Game Preservation Fund and General Fund, directed both toward fisheries management and law enforcement. In recent years requests have been made for more ocean-going vessels (in part for MLPA enforcement), but long-term funding for staffing and management have not been presented.

Staff Recommendation: Hold Open. Require the Ocean Protection Council to return at May Revision with a full analysis of management costs for the MLPA program, including funding sources, staffing and department management designations. Staff further requests that bond funds, which are appropriate for development of a capital program, not be proposed for ongoing staffing or maintenance of the areas. The DFW should also clearly delineate between its current baseline obligations, and the additional obligations presented by management of the MPAs.

Vote:

3340 California Conservation Corps

The California Conservation Corps (CCC) provides people between the ages of 18 and 23 work experience and educational opportunities. Program participants, referred to as corpsmembers, work on projects that conserve and improve the environment. They also provide assistance during natural disasters. Work projects are sponsored by various governmental and nongovernmental agencies that reimburse CCC for the work performed by corpsmembers. Corpsmembers often live in residential facilities that serve as a hub of CCC service delivery.

Governor's Budget. The Governor's 2015–16 budget proposes a total of \$98 million for support of CCC. About half of these funds are from the General Fund, with the remaining coming from a variety of special funds. The proposed amount reflects a net decrease of \$16.9 million, or 17 percent, compared to projected current-year expenditures. This change primarily reflects reduced capital outlay expenditures.

Items Proposed for Vote-Only

1. **Auburn Campus: Capital Outlay Improvements.** The budget requests \$2.7 million (Public Buildings Construction Fund) for preliminary plans and working drawings for a new kitchen, multi-purpose room, and dormitory to replace facilities at the Auburn campus. Funding also includes demolition and replacement of existing corpsmember dormitories and kitchen/dining hall.
2. **Local Corps Residual Prop 40 Funding.** The budget requests \$275,000 (Proposition 40) to provide funding for the CCC to award grants to certified Local Conservation Corps. Funding was identified after adjustments for statewide bond costs made a balance available.

Staff Recommendation: Approve Item 1-2.

Vote:

Items Proposed for Discussion**1. Funding CCC Programs**

Background. The CCC receives about half of its funding from the General Fund with most of the balance coming from reimbursement revenues, state fire fees, bond funds and clean energy funds. When CCC corpsmembers work on projects for other public agencies or private entities, CCC is reimbursed for the labor provided. This reimbursement revenue is used to support the corpsmembers' salaries and benefits as well as department-wide administrative and operational costs. The CCC sets a statewide reimbursement rate target (currently \$18.77 per hour for corpsmember labor) and field staff use this target rate when negotiating contracts with client agencies.

The CCC estimates about 4,000 men and women (the equivalent of about 1,200 full-time positions) will participate in the program during the current year. Corpsmembers earn minimum wage and are assigned to work approximately 40 hours per week. On average, corpsmembers stay in the program for a little over seven months. The current annual cost of the program per corpsmember is in the range of \$40,000 to \$45,000 per full-time equivalent. The current-year budget provides funding for seven residential and 15 nonresidential facilities throughout the state.

Budget Proposal. The Governor's budget includes \$92.8 million for state operations and \$5.2 million for capital outlay projects. This is an increase of about \$4 million from the current year and \$14 million over three years. The majority of increases have been due to General Fund (\$14 million) baseline adjustments. At the same time, the department has increased its efforts to receive reimbursements, resulting in over a \$3 million increase over two years (equaling reimbursements from 2012-13 and decreasing bond fund reliance). In 2013, after the passage of Proposition 39, the department incorporated the Clean Energy Job Fund into its programs.

**2015-16 Proposed Expenditures
(Dollars in Thousands)**

| Function | 2012-13 (Actual) | 2013-14 (Actual) | 2014-15 (Estimate) | 2015-16 (Proposed) |
|-------------------------------------|---------------------|---------------------|-----------------------|-----------------------|
| General Fund | \$31,670 | \$34,861 | \$43,839 | \$46,065 |
| Environmental License Plate Fund | \$313 | \$326 | \$327 | \$322 |
| Collins-Dugan Reimbursement Account | \$33011 | \$30,814 | \$32,015 | \$33,833 |
| State Fire Prevention Fund | \$1488 | \$1,483 | \$1,789 | \$1,899 |
| Bond Funds | \$12,552 | \$4,671 | \$5,400 | \$5,367 |
| Proposition 39 Clean Energy Fund | \$0 | \$4,052 | \$5,000 | \$5,342 |
| Total | \$79,034 | \$76,107 | \$88,381 | \$92,829 |

Changing Fund Sources and Changing Priorities—Focus on the Corpsmember. As can be seen from the table on the previous page, the CCC has managed to maintain its baseline funding while shifting priorities to meet new funding streams. At the same time, the model of the CCC, to develop young people into job-seekers, has remained unchanged, as has the general method of education and development. A traditional focus on local projects, fire support activities and trail building, has shifted to the development of programs including:

- EnergySmart Jobs Program—for example, corpsmembers survey refrigeration units in grocery stores to determine energy savings options.
- Active Transportation—in cooperation with the Transportation Agency and Natural Resources Agency, the CCC are included as in the project selection criteria.
- Drought Response—Administration of \$13 million in emergency drought relief for conservation efforts and fire hazard reduction work.
- Energy Corps—Providing California schools with no-cost energy surveys, and installation of energy-efficient measure.

What is Next for the CCC? Given the changing nature of funds, the CCC continually is asked to reinvent itself. Several questions are appropriate in determining long-term programs and funding for the CCCs.

- Is the fundamental CCC program—that of an on-site, facility-based, education system the correct model?
- As an education program, should more of its funding be included in the Proposition 98 guarantee? Should CCC explore a Community College affiliation under Proposition 98, given that 60 percent of its corpsmembers have their high school diploma?
- What funding is on the horizon for the CCC?
- Should the state employ the CCC to do energy audits of state buildings (including University of California and the community colleges?)
- How should the CCC plan for a future without Proposition 39 energy funding and Proposition 40 bond funds?

Staff Comments: Information Item, no action necessary.

2. Tahoe Base Center

Background. The Tahoe Base Center is a residential and operational facility for corpsmembers. Completed in 2013, the center includes dorm rooms, a multipurpose kitchen building, and administrative offices. In addition, the CCC currently uses a total of 8,600 square feet of storage space at two facilities, for various equipment used by corpsmembers at the center. This storage space includes 5,100 square feet of lease space and 3,500 square feet at a facility owned by CCC that was formerly a California Highway Patrol field office.

Governor's Proposal. The Governor's budget proposes to establish a consolidated storage facility of 12,500 square feet to serve the Tahoe Base Center. This would be accomplished by acquiring and renovating the entire facility currently leased by the CCC. The Governor's budget includes \$2.5 million in lease-revenue bonds to fund the estimated cost of the project. The Administration estimates that annual debt-service payments would be about \$180,000. The Administration provides several reasons for needing the proposed storage facility. First, the facility would provide additional storage space, as is recommended in a warehouse prototype design developed by the DGS for new CCC facilities. This design is based on 10,700 square feet. Second, the proposed location is about a half mile closer to the Tahoe Base Center than the current CCC-owned storage facility. Third, CCC states that it has had to limit the frequency and times that it accesses this facility due to neighborhood complaints.

LAO Assessment. "We find that the proposed project provides some benefits to CCC. However, it is unclear that the proposal provides a necessary and cost-effective approach for two reasons. First, CCC has not identified specific problems with the amount of storage space it currently has available or why it requires a 45 percent increase in storage capacity. Second, the proposal would result in substantially greater long-term costs than the status quo. Lease costs—currently about \$43,000 annually—are significantly lower than the \$180,000 annual debt-service costs for the project. In addition, the estimated annual costs to operate and maintain the new facility (about \$10,000) are greater than at the current facilities (about \$6,000). We find that the proposed facility remains significantly more costly than the current storage facilities even when taking into account other factors, such as inflation and the sale of the CCC-owned facility. We also note that the proposed facility would be significantly more costly per square foot than the existing facilities."

LAO Recommendation. In view of the above concerns, we recommend that the Legislature reject the Governor's proposal to develop a consolidated storage facility for CCC in the Tahoe region.

Staff Comments. Staff agrees with the LAO that there may be issues with funding and square footage requested by the CCC. However, given the compelling issue of neighborhood complaint, staff believes that this project is required should the CCC continue to operate in Tahoe. There may be less costly ways of funding this project that would require less lease-bond resources and more up-front General Fund.

Staff Recommendation. In order to determine a final funding model, and to address local neighborhood issues, staff recommends the LAO and CCC visit the Tahoe Base Center to review options for funding with the Department of Finance capital outlay staff. The department, LAO and DOF should be prepared to return at May Revision with the lowest-cost option.

Vote: