Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 10, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman and Farra Bracht

0650 Office of Planning and Research

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3360 California Energy Commission

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 includes $539 million for support of the CEC, a decrease of approximately $95 million, due primarily to the phasing down of the Public Interest Energy Research (PIER) Program and the Renewable Resources Trust Fund (RRTF), and the one-time allocation of funds to the Electric Program Investment Charge.

EXPENDITURES BY FUND (in millions)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ -	$ -	$ 15,000
State Energy Conservation Assistance Account	37,388	2,715	2,505
Motor Vehicle Account, State Transportation Fund	140	141	142
Public Interest Research, Development, and Demonstration Fund	3,047	1,658	-
Renewable Resource Trust Fund	40,333	34,810	34,311
Energy Resources Programs Account	68,342	86,446	88,528
Local Government Geothermal Resources Revolving Subaccount, Geothermal Resources Development Account	6,111	5,607	1,511
Petroleum Violation Escrow Account	2,102	1,985	183
Federal Trust Fund	4,039	10,961	23,978
Reimbursements	13	3,700	3,700
Energy Facility License and Compliance Fund	3,446	3,505	3,518
Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund	25,580	43,439	27,600
Alternative and Renewable Fuel and Vehicle Technology Fund	148,962	153,001	109,634
Electric Program Investment Charge Fund	183,463	290,456	144,789
Greenhouse Gas Reduction Fund	-	-	85,000
Cost of Implementation Account, Air Pollution Control Fund	-	-	7,646
Clean and Renewable Energy Business Financing Revolving Loan Fund	- 1,893	- 3,094	- 3,094
Energy Efficient State Property Revolving Fund	-	-	- 5,000
Total Expenditures (All Funds)	**$521,073**	**$635,330**	**$539,951**

Ongoing Program Adjustments

The CEC budget includes several budget proposals that continue existing programs, convert limited-term positions to permanent, or implement legislation from previous years. These items are listed below for reference.

1. **Continued Support of Energy Infrastructure to Meet 21st Century Policy and Planning Objectives.** The Governor's budget requests the conversion of six limited-term positions to permanent to continue supporting the revival of energy data collection activities and the development of disaggregated energy demand forecasts needed to implement and support statewide energy decisions at the CEC. Total funding request for this proposal is $724,000 from the Energy Resources Program Account (ERPA).

2. **Convert Limited-Term Positions to Permanent.** The Governor's budget requests the conversion of one limited-term position to permanent to continue ongoing implementation of the Acceptance Test Technician Certification Providers (ATTCP), at a cost of $107,000 (ERPA). The budget requests conversion of one position (International Relations Senior Advisor) to permanent to continue coordination with other nations as it relates to greenhouse gas emission reductions, at a cost of $120,000 (ERPA).

3. **Adjustments to Electric Program Investment Charge (EPIC).** The Governor's budget requests an increase of $11.2 million (EPIC) for program and administration funds, as well as $4.5 million in one-time technical assistance for technical support activities, as directed by the California Public Utilities Commission (CPUC).

4. **One-Time Expenditure Authority for Unspent Public Interest Energy Research (PIER) Natural Gas Funds.** The Governor's budget requests approval of unspent funds from the PIER Natural Gas Fund as directed by the CPUC. The CPUC directs the CEC to submit a research plan to utilize $3.6 million in unspent funds, resulting from completed projects that came in under-budget.

5. **Public Goods Charge Ramp-Down.** The Governor's budget identifies the reduction of nine positions and $1.3 million from the Public Interest Research Development and Demonstration Fund, consistent with the sunset of the authority to collect the Public Goods Charge on January 1, 2012.

6. **Legislative Implementation.** The budget requests eight permanent positions and $500,000 in baseline technical support, for a total request of $1.6 million (ERPA), to support the implementation of AB 802 (Williams), Chapter 590, Statutes of 2015, which accelerates energy efficiency through benchmarking and customer data analysis. The budget also requests one permanent position and $135,000 (ERPA) to implement AB 865 (Alejo), Chapter 583, Statutes of 2015, which charges CEC with developing a diversity outreach program to qualified businesses.

Staff Recommendation: Hold open for further review of funding availability.

Issue 1: SB 350 and AB 802 Implementation

Background: SB 350 (de Léon), Chapter 547, Statutes of 2015, requires the CEC to establish annual targets for statewide energy efficiency savings and demand reductions to achieve a cumulative doubling of energy efficiency savings in electricity and natural gas, final end uses of retail customers by January 1, 2030. The bill requires the CEC to prepare an assessment of the effects of these savings on electricity demand statewide, in local service areas, and on an hourly and seasonal basis by 2019. The CEC is charged with increasing the Renewables Portfolio Standard (RPS) to 50 percent by 2030 for publicly-owned utilities (POUs) and to produce guidelines or review integrated resource plans from the 16 largest POUs starting in 2019. By January 1, 2017, the commission must conduct studies on barriers to renewable energy, energy efficiency, and zero -and near-zero emission transportation options for low-income and disadvantaged communities.

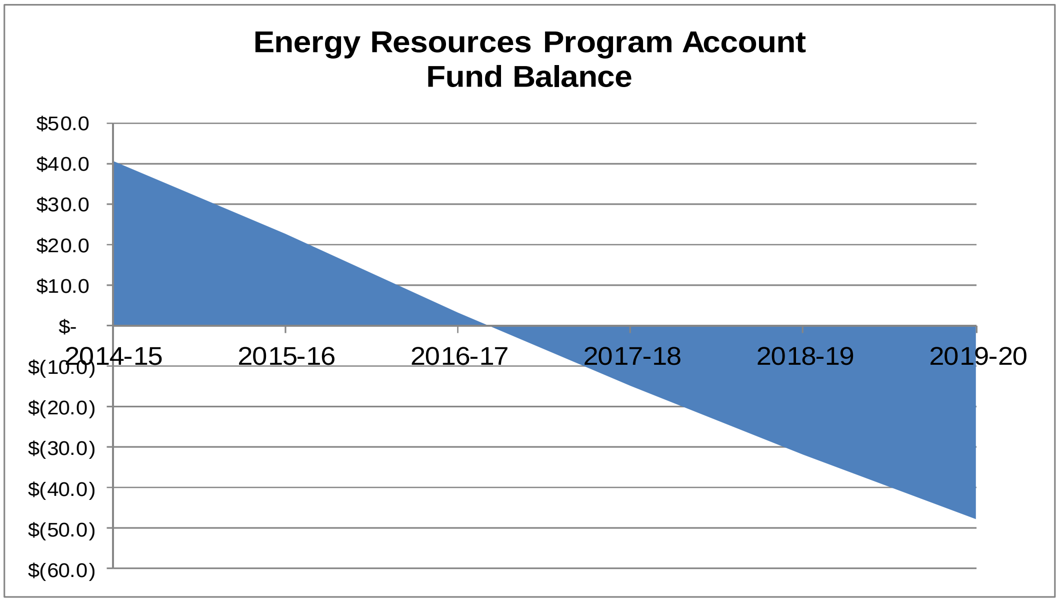
AB 802 (Williams), Chapter 590, Statutes of 2015, establishes a building energy use benchmarking and public disclosure program for nonresidential and multifamily buildings. The bill requires the CEC, in collaboration with the California Public Utilities Commission (CPUC), to implement a statewide public energy efficiency benchmarking program, establish statewide benchmarking and information technology reporting, conduct education and outreach, and assess progress toward efficiency goals and future energy consumption needs.

Governor's Proposal: The Governor's budget requests 29.5 permanent positions, and ongoing contract funds of $3.5 million, for a total request of $7.6 million from the Cost of Implementation Account, Air Pollution Control Fund, to implement SB 350. The budget separately requests eight permanent positions, and $500,000 in baseline technical support, for a total request of $1.6 million from the Energy Resources Programs Account (ERPA), to implement AB 802.

Fund Sources: The Cost of Implementation (COI) fee was established by SB 1018 (Committee on Budget), Chapter 39, Statutes of 2012, as a mechanism to collect and track fees paid by sources of greenhouse gas emissions. The purpose of the fund is to: achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions from sources or categories of sources of greenhouse gases by 2020; and, identify and make recommendations on direct emission reduction measures, alternative compliance mechanisms, market-based compliance mechanisms, and potential monetary and nonmonetary incentives for sources and categories of sources that the state board finds are necessary or desirable to facilitate the achievement of the maximum feasible and cost-effective reductions of greenhouse gas emissions.

The ERPA was established by statute in 1975 to provide for the support of the CEC generally. Revenue is derived from a one-tenth of a mil ($0.0001) surcharge per kilowatt hour. The ERPA surcharge rate is currently at $0.00029 per kilowatt-hour with a cap at $0.0003 per kilowatt-hour. Increasing the surcharge to the cap will generate approximately $2.5 million in additional revenue per year.

As reported in the Governor's budget, ERPA is in a structural deficit of approximately $15-19 million per year resulting in a dramatic reduction in the fund balance in out-years, as seen in the chart below. This may be somewhat offset by annual transfers from EPIC, authorized by the CPUC and transferred to the CEC for administration and other research.



*Revenues and expenditures estimated for 2016-17 and out-years.

Staff Comments: The Governor's budget requests are adequate to implement both statutes, and conform to the specific mandates of each law. Positions and workload justifications were submitted with both proposals that outline how each position will be used to implement the law, and how the Administration intends to meet the statutory deadlines imposed by the laws.

It is unclear, however, why the Administration chose to fund AB 802 with ERPA funds, which supports CEC's general activities, and chose COI to fund SB 350. Both activities are similar, and will likely result in the reduction of emissions, including greenhouse gas emissions, before the 2030 deadline. It is unclear how much greenhouse gas emissions will be reduced before the AB 32 emission deadline of 2020.

The Subcommittee may wish to ask:

- Why did the CEC choose COI for SB 350 and ERPA for AB 802? Is there a plan to increase the ERPA surcharge to the maximum in this calendar year?
- How is the Administration planning to reduce the structural deficit?
- Should the COI be used for this purpose, what precedent does this set for activities not generally associated with the implementation of AB 32?

Staff Recommendation: Hold open.

Issue 2: American Recovery and Reinvestment Act (ARRA) Investments

Background: On February 17th, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA), otherwise known as the Stimulus Package, to restart the economy. The package contains extensive funding for science, engineering research and infrastructure, and more limited funding for education, social sciences and the arts. States received discretionary funding through the ARRA for a variety of programs, and certain programs received funding through block grants. Through 2013, the CEC administered $314 million in energy efficiency and renewable energy pilot programs under ARRA. These pilot programs influenced the administration of current and ongoing programs, and budget proposals under other funding sources, such as the Greenhouse Gas Reduction Fund (GGRF).

When ARRA ended in 2013, over $30 million of funds remained with sub-recipients who administer the programs, mainly in revolving loan funds. The CEC, as part of its evaluation of these programs, determined that certain programs were under-performing and is now proposing to use the funds for a different purpose.

Governor's Proposal: The CEC is requesting $8 million in federal fund authority in the budget year, and $2.5 million through 2026-27, to implement both voluntary and mandatory programs to increase energy efficiency in existing buildings, and to conduct a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings. The proposal also requests federal fund transfer authority to shift $5 million (ARRA funds) to the Department of General Services for the Energy Efficiency State Property Revolving Fund loan program.

Staff Comments: The need to promote energy efficiency at the local level is critical to making the state more energy efficient. The CEC has multiple programs that address this need, and the Legislature has weighed in on many through statute. Over the past year, several ideas have arisen including the idea that this type of program should be directed toward education of public and private entities, and with the idea of lasting benefits to a broad spectrum of the state's energy users. To that end, the Legislature should consider whether or not the CEC should create a new program to allocate the funding, or rather establish a legislatively-directed program that may be more cross-cutting across all aspects of the local jurisdictions, small and medium businesses, and state agencies.

Staff Recommendation: Staff recommends holding open the item for further discussion.

Issue 3: Greenhouse Gas Emission Reduction Investments

Background: The goal of the state's climate plan is to reduce greenhouse gas (GHG) emissions to 1990 levels by the end of this decade. The Cap-and-Trade program, a key element in the Administration's plan to achieve these goals, sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. The Cap-and-Trade program places a "cap" on aggregate GHG emissions from entities responsible for roughly 85 percent of the state's GHG emissions. To implement the Cap-and-Trade program, the Air Resources Board (ARB) allocates a certain number of carbon allowances equal to the cap. Each allowance equals one ton of carbon dioxide equivalent. The ARB provides some allowances for free, while making others available for purchase at auctions. Once the allowances have been allocated, entities can then "trade" (buy and sell on the open market), in order to obtain enough allowances to cover their total emissions for a given period of time or unload allowances they do not need. As part of its program, the ARB will give free allowances to the state's large industrial emitters, as well as the state's electric utilities, in order to reduce the economic impact of the Cap-and-Trade program. Proceeds of the sale of state auctioned allowances (cap-and-trade auction "revenues" or "proceeds") are appropriated by the Legislature in the annual budget process or continuously appropriated by statute.

Subsequent to the passage of AB 32, (Núñez and Pavley), Chapter 488, Statutes of 2006, the Legislature passed several bills related to the reduction of GHGs. These bills have provided guidance to the Administration as it continues to develop expenditure plans for auction proceeds. In addition, the Administration has issued several executive orders that, though not law, have also provided input into the development of the expenditure plan.

Implementing Benefits to Disadvantaged Communities. All auction revenues are subject to the provisions of SB 535 (de Léon), Chapter 830, Statutes of 2012. SB 535 requires 10 percent of cap-and-trade proceeds be invested within the most impacted and disadvantaged communities, and 25 percent of auction proceeds to benefit impacted and disadvantaged communities. The Secretary for Environmental Protection (Cal-EPA) and the Air Resources Board (ARB) are charged with overseeing the implementation of this chapter, including identification of disadvantaged communities and reporting on the implementation as funding is distributed.

SB 535 directs the Secretary for Cal-EPA to identify disadvantaged communities. Identification must be based on geographic, socioeconomic, public health, and environmental hazard criteria. The criteria may include, but are not limited to: (1) areas disproportionally affected by environmental pollution and other hazards that can lead to negative public health effects, exposure, or environmental degradation; and, (2) are characterized by low-income, high unemployment, low levels of homeownership, high rent burden, sensitive populations, or low levels of educational attainment.

Governor's Proposal: The Governor's budget proposes to spend $3.1 billion from cap-and-trade auction revenue in 2016-17. Sixty percent of these funds are based on percentage allocations that are continuously appropriated, pursuant to Senate Bill 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014. The CEC proposes to use $85 million (GGRF) for three programs, and $15 million (General Fund) for a fourth, as follows:

- **Water and Energy Technology Program.** The budget proposes $30 million (GGRF) to the Energy Commission to begin implementation of a program to provide funding for innovative technologies that reduce GHG emissions by: (1) achieving significant energy and water savings; (2) demonstrate actual operation beyond the research and development state; and, (3) document readiness for rapid, large-scale deployment.

- **Consumer Rebate Program.** The budget proposes $30 million (GGRF) to implement a consumer rebate program for the replacement of energy-inefficient, water-consuming appliances, such as dishwashers and washing machines.

- **BioFuel Facility Investments.** The budget proposes $25 million (GGRF) to the Energy Commission's Alternative and Renewable Fuel and Vehicle Program to provide incentives for in-state biofuel production through the expansion of existing facilities or the construction of new facilities.

- **Climate Change Research, Development and Demonstration for the Transportation Sector.** The budget proposes $15 million (one-time, General Fund) to support research projects that inform near-term adoption and implementation of low carbon fuels. The proposal states that the final research topics will be developed through engagement with other state agencies, the research community, and the public. Funding will be awarded via competitive solicitations and will support research and pre-commercial development of low-carbon alternative fuels, including light-duty vehicles and sustainable freight.

Legislative Analyst's Office (LAO) Comments: The LAO conducted an extensive analysis of the cap-and-trade program, as well as review of individual proposals. The LAO bottom line analysis concludes that the Administration's budget proposals provide limited information that can be used to prioritize among the various options for spending. The LAO recommends establishing an expert committee to provide guidance that would help ensure the Legislature has better information in future years about how to target funds most efficiently. The LAO expressed concern about program interactions and "free-riders," as follows:

> **No Accounting for Interactions with Existing Regulations or Programs.** As described above, some of these programs likely interact with other regulations, such as the cap–and–trade program and the Low Carbon Fuel Standard (LCFS). For example, ARB's biofuel production subsidies and CEC's funding for capital investments for biofuel facilities might not change the overall amount of biofuel consumed in California. Rather, these programs might simply reduce the costs of biofuel production that would have occurred under the incentives provided by the LCFS. While the Legislature might consider reducing companies' compliance costs a valuable use of cap–and–trade revenue, the Administration fails to mention or account for this likely interaction when estimating and describing GHG reductions and net benefits. Thus, the GHG reductions associated with these proposals are likely overstated.
>
> **No Accounting for "Free–Riders."** It is likely that some portion of the grants or rebates funded under the Governor's plan would go toward activities that would have occurred anyway. In economic terms, households or businesses that access government rebates or subsidies for activities they would have undertaken anyways are sometimes referred to

as free–riders. The Administration's estimates of benefits do not account for free–riders and, consequently, likely overestimate GHG reductions and co–benefits. For example, the CEC estimates of water savings and GHG reductions from the clothes washer rebate program assume that every household that receives a rebate would have purchased a less efficient model without the rebate. However, a recent study evaluating a similar appliance rebate program several years ago found that over 90 percent of the rebates went to households that would have purchased the more efficient clothes washer anyway. By ignoring free–riders, the Administration likely overstates GHG reductions and water saving benefits. Furthermore, ignoring potential free–riders could lead to missed opportunities to target the funds in a way that are more likely to encourage changes in behavior.

Staff Comments: Staff agrees with the LAO that, even when the characteristics of the Administration's proposals are relatively clear, the expected outcomes often are either unclear or subject to considerable uncertainty. Specific to the CEC proposals, it is unclear why rebates are prioritized, rather than programs that would provide incentives to the broader business and residential community by influencing purchasing choices at multiple levels.

Staff Recommendation: Hold open.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (CPUC) is responsible for the regulation of privately-owned telecommunications, electric, natural gas, and water companies, in addition to overseeing railroad/rail transit and moving and transportation companies. The CPUC's primary objective is to ensure safe facilities and services for the public at equitable and reasonable rates. The CPUC also promotes energy conservation through its various regulatory decisions.

Budget Overview: The Governor's budget proposes $1.8 billion and 1,039 positions to support the CPUC in the budget year, as shown in the figure below. This is a decrease of 81 positions and an increase of $260.5 million, mainly due to an increased appropriation for the increasing California LifeLine Program's wireless subscriber caseload.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2014-15	2015-16	2016-17	2014-15*	2015-16*	2016-17*
6680	Regulation of Utilities	434.3	478.2	450.1	$677,798	$759,681	$737,748
6685	Universal Service Telephone Programs	28.7	36.1	35.1	517,694	723,618	1,003,903
6690	Regulation of Transportation	168.1	168.4	156.4	27,406	30,513	30,508
6695	Office of Ratepayer Advocates	145.0	168.0	167.0	26,559	30,745	32,901
9900100	Administration	222.4	269.3	230.3	44,055	45,829	51,888
9900200	Administration - Distributed	-	-	-	-44,053	-45,829	-51,888
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		998.5	1,119.9	1,038.9	$1,249,459	$1,544,557	$1,805,060

FUNDING		2014-15*	2015-16*	2016-17*
0042	State Highway Account, State Transportation Fund	$4,220	$4,479	$4,897
0046	Public Transportation Account, State Transportation Fund	6,303	6,150	6,539
0412	Transportation Rate Fund	2,965	2,134	2,437
0461	Public Utilities Commission Transportation Reimbursement Account	13,918	14,770	16,210
0462	Public Utilities Commission Utilities Reimbursement Account	96,961	95,878	111,723
0464	California High-Cost Fund-A Administrative Committee Fund	35,195	43,455	43,054
0470	California High-Cost Fund-B Administrative Committee Fund	16,065	22,536	22,281
0471	Universal Lifeline Telephone Service Trust Administrative Committee Fund	295,780	345,702	625,505
0483	Deaf and Disabled Telecommunications Program Administrative Committee Fund	42,092	64,652	67,915
0493	California Teleconnect Fund Administrative Committee Fund	102,083	148,766	147,514
0890	Federal Trust Fund	5,095	8,097	5,549
0995	Reimbursements	44,491	61,444	61,844
3015	Gas Consumption Surcharge Fund	531,530	600,242	562,057
3089	Public Utilities Commission Ratepayer Advocate Account	26,282	27,745	29,901
3141	California Advanced Services Fund	26,479	98,507	97,634
TOTALS, EXPENDITURES, ALL FUNDS		$1,249,459	$1,544,557	$1,805,060

Enacted Legislation

Issue 1: AB 693 – Multifamily Affordable Housing Solar Roofs Program

The budget proposes $262,000 from the Public Utilities Commission Reimbursement Account (PUCURA) and 1.75 permanent positions, annually through fiscal year 2030, to administer and evaluate the Multifamily Affordable Solar Roofs Program, as required by AB 693 (Eggman), Chapter 582, Statutes of 2015. AB 693 creates the new Multifamily Affordable Solar Roofs Program which would provide monetary incentives (annually, $100 million or 10 percent, whichever is less, of the investor-owned utilities cap-and-trade allowance revenues) for the installation of qualified solar energy systems on multifamily affordable housing properties. AB 693 requires the CPUC to decide the most appropriate program administration structure for the Multifamily Affordable Solar Roofs Program and to complete assessments of the program every third year, so that the CPUC can evaluate and adjust the program so that the goals are being met. The proposed staff would provide analysis and support for a commission rulemaking, and manage program implementation and administration.

Issue 2: SB 793 – Green Tariff Renewables

The budget proposes $160,000 from PUCURA for three years to fund limited-term staff to administer the Green Tariff Shared Renewables (GTSR) program, as modified by SB 793 (Wolk), Chapter 587, Statutes of 2015. SB 43 (Wolk), Chapter 413, Statutes of 2013, established GTSR and the CPUC recently finalized the first stage of implementation. The first GTSR customers for each utility should begin enrolling in the first quarter of 2016. SB 793 requires the CPUC to create a nonbinding estimate of reasonably anticipated GTSR bill credits and bill charges for a period of up to 20 years. The requested budget authority will facilitate the administration of this program, and help to provide transparency and predictability of charges and credits and associated with the provision of green tariff and enhanced community renewable options.

Issue 3: SB 541 – For-Hire Transportation Carriers: CPUC Enforcement

The budget proposes $372,000 from the Public Utilities Commission Transportation Reimbursement Fund for two years for a $250,000 contract and limited-term staffing to implement SB 541 (Hill), Chapter 718, Statutes of 2015. CPUC has authority over 11,000 non-rail passenger carriers and 1,000 household goods movers, and is required to license carriers, and investigate and enforce safety and consumer protection laws for passenger stage corporations, transportation charter-party carriers, private carriers of passengers, and household goods carriers. A 2014 State Auditor report found that the CPUC's transportation enforcement branch does not adequately ensure that passenger carriers comply with state law. SB 541 requires the CPUC to hire an independent entity to assess the agency's capabilities, in consultation with carrier trade associations, related to specific goals and to report its findings to the Legislature. The additional staff resources are intended to administer the contract, develop outreach, and address the report's findings.

Staff Recommendation: Hold these items open.

Issues Proposed for Discussion/Vote

Issue 4: eFiling Administration Support (eFast) Platform Creation and Business Configuration Projects

Governor's Proposal: The budget proposes $5.35 million in 2016-17 from various CPUC funds for a one-time software customization (for a total IT contract of $7.1 million over 2016-17 and 2017-18) and 6.3 permanent positions in 2016-17, and an additional 3.7 positions in 2017-18 for a total of 10 positions on an on-going basis. The proposed funding will be distributed across 10 funds.

Background: The CPUC regulates privately-owned public utilities operating in California, and performs regulatory work, such as maintaining official judicial records; implementing regulation of electric, natural gas, water, telecommunications, railroad, rail transit, and passenger transportation entities; and providing for timely processing of payments associated with CPUC regulations. This work involves filing documents (such as reports, advice letters, applications, or program claims) and submitting financial payments by regulated entities. For the most part, these functions are currently conducted using manual processes and, in many cases, using non-electronic documents.

With this proposal the CPUC intends to implement a standard, enterprise-wide technology platform, known as eFiling Administration Support (eFAST) which will serve as the hub for customer interaction. This platform will provide the foundation for and automate:

- Maintaining customer accounts and contacts.
- Receipt, processing, and disposition of documents and data.
- Submittal of inquiries and follow up responses.
- Receipt of payments for various fees and programs.
- Scaling, configuring and deploying for future business applications.

The eFAST project is made up of three components:

1) **Transportation Carrier Portal.** CPUC regulates four types of transportation carriers and the current intake processing of applications, renewals, updates, payments, and reports is highly manual. Some of this clerical work can be automated.

2) **Informal Submissions Portal.** CPUC receives over 5,000 advice letters (informal filings) about desired changes to rates and services for public utilities and transportation companies via paper, email or CD. This would allow for electronic submission of advice letters and other informal submissions.

3) **Program Claims Management System.** This would provide a single centralized system for claims processing, program tracking, and reporting systems for CPUC Public Purpose Programs that help to provide universal access to telecommunication services.

Staff Questions:

1) Will the proposed IT solution be an off-the-shelf product that is modified, or will this proposal develop a completely new IT system? How will CPUC work with the California Department of Technology to deliver a successful project?

2) How will the implementation of eFAST give Commissioners better access to the records of proceedings?

Staff Comment: CPUC uses many manual processes to perform its work. These processes can be time consuming, costly, and can impede transparency and result in delays. Automating some of these processes would be an improvement at CPUC.

Staff Recommendation: Hold open.

Issue 5: Human Resources Workforce Planning and Development

Governor's Proposal: The budget proposes $672,000 annually for workforce and succession planning and training to fund two permanent positions and four two-year limited term positions from PUCURA funding sources distributed across CPUC special funds.

Background: According to CPUC, its human resources workload has increased since the 2012 restructure and the addition of responsibilities related to critical areas of performance management and training. This increased workload is a result of the CPUC's shift from a former reactive mode to a proactive strategy. In addition, in the past five fiscal years, the CPUC has hired 397 external employees, in addition to 486 internal promotions and transfers. These numbers indicate that over 85 percent of the CPUC's current workforce is new to their position in the past five years. Three hundred and fifty-eight separations over the same interval mandated a concentrated progression of hiring.

The chart below shows the number of separations by type, for each of the last three years. As shown below, retirements are the primary reason for staff turnover followed by voluntary departures. The highest percentage of turnovers in the last three years occurred in the following divisions: Administrative Law Judge, Water, and Consumer Services and Information Division. The average turnover for each of the last three years is five percent in 2013, eight percent in 2014, and 10 percent in 2015.

Reasons for Staff Separation at CPUC

Type of separation	2013	2014	2015	Total by Type
Retirement	23	36	56	115
Voluntary	24	37	36	97
Adverse/Death/Transfer	7	10	16	33
Total by Year	**54**	**83**	**108**	**NA**

This request for two additional full-time permanent positions and funding for limited-term resources emerged from analysis of past training needs assessment reports from 2005 and 2011, and an analysis of the work output over the 2014-2015 year. Further, the CPUC's overall training needs assessment identified, through internal and external reports, the number of staff necessary to effectively execute the critical training/employee development needs in support of the CPUC's mission. CPUC asserts that in order to mitigate workforce performance issues and to continue building an effective and efficient CPUC, a strong and specialized learning and development unit is necessary. This unit is focused on recruitment, development, and retention of employees.

Deliverables from this proposal include a strategic workforce and succession plan; training modules and pop-up learning events; a leadership program; recruitment efforts to bring on and train entry-level employees; reduced dependence on retired annuitants; and the development of a library of core training. In addition, CPUC will conduct an "engagement survey" to assess its progress in this area.

Staff Questions:

1) Please describe the retention issues at the CPUC.

2) What performance measures does CPUC intend to use to assess the value added by the addition of the proposed staff?

Staff Comment: Turnover has increased in the last couple of years at CPUC and most of this is due to an increase in the number of retirements. Many state agencies are experiencing increased retirements due to the aging baby boomers and having to make additional investments in training and succession planning. This proposal does not include any performance metrics that could be tracked over time to show how these additional resources result in specific outcomes and improvements.

Staff Recommendation: Hold open and have CPUC report back at budget hearings on performance metrics that could be reported on annually to assess the value of the additional human resources staff.

Issue 6: California LifeLine Program Increased Appropriation

Governor's Proposal: The Governor's budget proposes to increase the appropriation for the Universal LifeLine Telephone Service Trust Administrative Committee Fund by $281.6 million ($267.4 million for local assistance and $14.2 million for state operations.

Background: The Moore Universal Telephone Service Act, in 1984, set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The act requires the PUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level), and set rates for the lifeline services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service," that has included only traditional wireline (landline), has been considered in a broader context of new technologies and trends towards voice, video, and data services.

Under federal and state LifeLine program rules, multiple participants are permitted at a single residential if the participants are separate households. A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old unless emancipated) contributing to and sharing the household's income and expenses. Only one discount is provided per household.

For each household enrolled in the program, CPUC provides telephone companies (carriers) a maximum monthly state subsidy that is based on 55 percent of the most expensive basic landline service from the four largest carriers. The subsidy is meant to offset the lower rate charged to the consumer. In 2016, the maximum state subsidy is about $13 a month. The federal government also administers the federal Lifeline program that provides a monthly discount of about $9. In addition, the state provides (1) a per enrollee monthly payment to cover carriers' administrative costs, (2) a one-time connection subsidy for new enrollees or enrollees that switch plans, and (3) a subsidy to cover other telephone taxes and surcharges for LifeLine enrollees.

The revenues to fund the program are collected from a surcharge on telephone bills for non-LifeLine customers. The CPUC adjusts the level of the surcharge based on its projections of the amount of revenue needed to cover the costs of the program.

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the CPUC issued a decision authorizing voluntary participation in the program by wireless service providers to offer discounted wireless service plans to low-income households that include wireless voice, text, and data services. Since this change, there has been substantial growth in the program and the number of subscribers doubled from fiscal year 2013-14 to 2014-15—with all of the growth in the number of wireless subscribers and a reduction in the number of wireline subscribers. The table below shows the year –over-year growth in the number of subscribers since 2006-07. Program costs also have increased substantially over the same time period and the surcharge to fund the program was recently increased to 5.5 percent.

Changes in the LifeLine Program Since 2006-07

TABLE 1

	A	B	C	D	E	F	G	H	I	J	K
1	FY	Surchage	State Operations including TPA	TPA	Carrier claims	# of Applications	Wireline subscribers	Wireless subscribers	Total subsrcribers	Eligible Households (150% FPL)	Participation Rate
2	FY 06/07	1.29%	$41,599,002	$31,789,749.00	$ 252,426,883	7,152,297	3,012,892	-	3,012,892.00	2,522,407.00	119%
3	FY 07/08	1.15%	$39,466,669	$34,868,887.00	$ 224,944,358	9,497,381	2,371,842	-	2,371,842.00	2,468,051.00	96%
4	FY 08/09	1.15%	$55,059,418	$34,081,995.00	$ 205,737,424	10,237,685	2,037,062	-	2,037,062.00	2,542,795.00	80%
5	FY 09/10	1.15%	$38,954,760	$28,661,742.25	$ 203,572,985	6,909,963	1,846,711	-	1,846,711.00	2,649,959.00	70%
6	FY 10/11	1.15%	$30,970,208	$17,036,031.53	$ 219,352,498	5,964,323	1,691,348	-	1,691,348.00	2,897,943.00	58%
7	FY 11/12	1.15%	$23,940,469	$16,160,291.00	$ 231,848,942	6,886,264	1,518,763	-	1,518,763.00	3,063,944.00	50%
8	FY 12/13	1.15%	$22,149,437	$16,012,453.00	$ 199,706,702	3,170,943	1,173,692	-	1,173,692.00	3,059,176.00	38%
9	FY 13/14	1.15%	$20,896,962	$13,780,815.00	$ 172,014,995	2,740,319	947,959	90,656	1,038,615.00	3,085,547.00	34%
10	FY 14/15	2.40%	$18,327,290	$14,006,955.00	$ 277,400,000	4,755,441	727,526	1,439,796	2,167,322.00	3,066,894.00	71%
11	FY 15/16 (Jul - Nov 15)	3.80%	$32,822,252	$31,684,607.00	$ 82,238,170	1,033,561	664,365	1,552,303	2,216,668.00	3,066,894.00	72%
		5.50%									

Below letters corresponds to the letters above

B 1.15% effective April 1, 2007
2.40% effective January 1, 2015
3.80% effective August 1, 2015
5.50% effective October 1, 2015

C State Operation increased in FY 08/09 due to increased in Marketing expenses.

Wireless Plans Are Diverse, but Many Plans Are Free to Enrollees. A diverse set of wireless plans are available for LifeLine customers. Although all plans currently include at least 1,000 monthly voice minutes, plans offer different monthly rates, additional voice minutes, text messaging, and data. As of August 2015, there were 34 LifeLine wireless plans available and 21 of the available plans (62 percent) were offered at no cost to customers. Of the 21 plans that were offered for no cost:

- 14 plans included unlimited voice minutes.
- 14 plans included unlimited text messages.
- 7 plans included some data.

Ensuring Eligibility and Minimizing Fraud. Prior to 2007, participants self-certified their eligibility and carriers enrolled participants. The very high participation rate in 2006 triggered the CPUC and Federal Communications Commission to require a third-party administrator (TPA) to determine eligibility and manage the consumer participation in the program. Shortly after the introduction of a TPA, participation decreased sharply in 2007 and 2008. Today, participants establish eligibility either through evidence of participation in other federal public assistance programs (i.e. CalFresh, Medicare, Section 8 housing) or by submitting evidence of income. Applications to determine both initial eligibility and annual renewals; however program eligibility does not require an annual verification of income eligibility. Applicants provide supporting documentation and information under penalty of perjury.

In addition to the automated, upfront fraud checks performed by the TPA, periodic detailed queries are conducted to detect and eliminate fraudulent behavior. As an example, the TPA, at the CPUC's request, examined all addresses where more than one participant receives discounts. The CPUC is working with Federal Communications Commission to investigate the results of this analysis. Another example is an annual manual fraud analysis performed jointly by the TPA and the commission. Participants with duplicative information (some variant of shared social security numbers, date of birth, name, or address) are grouped into four-tiers. A detailed manual comparison of all information submitted by consumers, including qualifying program documentation, is used along with results of identity verification to detect fraud. This process takes about three to four months to complete. The program removes activity determined to be fraudulent immediately. In addition, potential duplicates that are identified are removed. Participants identified either as fraudulent or duplicative are provided with an opportunity to appeal.

In addition to automated and manual fraud preventions measures, carrier claims are periodically audited. The CPUC is currently in a procurement process to select auditors who will audit the wireless carriers claims submitted in 2014.

As a result of the automated anti-fraud mechanisms, applications are identified and rejected as being duplicative. These potential participants never receive discounts. Since September 2014, approximately 2,920 of the 2.4 million California LifeLine participants have been identified and removed for fraudulent behavior. Very few of these participants have appealed.

LAO Analysis:

Enrollment Estimates Subject to Substantial Uncertainty. The relatively recent addition of wireless service to the LifeLine program creates uncertainty about future enrollment and expenditures. The Administration's enrollment projections were based on the following key assumptions: (1) about 4.2 million households are eligible for the program and (2) 90 percent of the eligible households will enroll in the program by the end of 2016-17. There is significant uncertainty about both of these assumptions. For example, it's unclear how many eligible households will ultimately enroll in the program by the end of the budget year. In addition, recent enrollment data provided by CPUC indicates that actual enrollment in recent months has been less than the enrollment projections used to develop the budget request. Specifically, the Administration's projection assumed that there would be 2.7 million subscribers by January 2016, but actual enrollment was only 2.2 million, 20 percent less than projected. The lower enrollment might have been affected by the commission's decision to suspend the connection subsidy for wireless service in July 2015, which could have resulted in higher costs for consumers. The connection subsidy was reinstated in December 2015.

May Revision Generally Used to Update Enrollment Estimates for Other Programs. Generally, the Governor's May Revision provides updated expenditure estimates for caseload-driven programs, such as Medi-Cal and other health and human services programs. These updated estimates help the Legislature make budget allocations that are based on the most up-to-date information available. However, historically, enrollment and cost estimates for the LifeLine program are not updated at the time of the May Revision. The Administration indicates that it does not currently plan to provide updated enrollment and cost information for the LifeLine program with this year's May Revision. By relying on the best possible estimates for program expenditures, the Legislature can be more confident that it is providing an amount of funding that is adequate to cover program costs, while also preventing higher-than-necessary costs for non-LifeLine customers.

Direct Administration to Provide Updated Caseload and Cost Estimates With May Revision. The LAO recommends the Legislature withhold action on the proposal at this time and direct the Administration to provide updated caseload and cost estimates for the LifeLine program with the Governor's May Revision. There is significant uncertainty regarding future enrollment in the program, and the updated information would help the Legislature make budget allocations that best reflect the likely costs of the program. In addition, this approach would be consistent with general practice for other programs with budgets that are substantially affected by program enrollment. The LAO raises no concerns with the proposed budget bill language to provide DOF with flexibility to increase the appropriation for this program during the budget year.

Additional Issues for Legislative Consideration. The LifeLine program is intended to help ensure low-income households have access to affordable basic telephone services. To achieve this goal, state law gives CPUC authority to establish the major characteristics of the program. The commission's decision to include wireless service appears to be consistent with legislative direction and goals. However, there are inherent trade-offs in the way CPUC has developed the program, such as how it has determined the amount of the wireless subsidies. These decisions affect the overall level of service provided, the discounts available to wireless LifeLine customers, and the overall costs of the program paid by non-LifeLine telephone customers. Through a formal proceeding, CPUC is continuing to evaluate the structure of the program, including developing standards for assessing affordability and analyzing whether current discounts align with program goals.

As the Legislature considers the Administration's request for additional funding for the LifeLine program, it might want to assess the degree to which the current structure of the program is consistent with its priorities and the intent of the program. In particular, as a result of recent changes, a wide variety of free wireless plans are available to LifeLine enrollees, including ones that contain features—such as text messaging and data—that exceed the minimum standards established by CPUC. The availability of such plans can provide substantial benefits to low-income households enrolled in the program. However, the recent changes have also contributed to a substantial increase in the surcharges paid by non-LifeLine customers.

Staff Questions for the Commission:

1) Is the LifeLine program structured in a way that is consistent with the Legislature's view of what constitutes (1) basic communication needs and (2) affordability for low-income households?

2) Does the program appropriately balance the goal of making telephone service affordable for LifeLine customers while limiting the financial burden on non-LifeLine telephone customers? Is the pace of growth sustainable? Should strategies be considered to help moderate growth?

Staff Comment: LifeLine program participation is growing rapidly, resulting in CPUC needing to increase the surcharge that non-LifeLine telephone customers pay. In addition, the cost of the service is resulting in some of those that are eligible for the program receiving free telephone services. The Legislature may wish to consider ways to more equitably distribute the rising costs of this program and take steps to ensure that only eligible low-income persons participate in the program. Moreover, to better ensure that the appropriate level of funding is budgeted for the program, the Legislature should direct the Administration to provide updated caseload and cost estimates for the LifeLine program with the Governor's May Revision.

Staff Recommendation: Hold open and direct the Administration to provide updated caseload and cost estimates for the LifeLine program with the Governor's May Revision.

Issue 7: Funding for Network Engineering Consultants (Service Quality)

Governor's Proposal: The budget proposes $1 million in reimbursable authority for a one-time contract for network engineering consultants. It is expected that the total contract cost would be $1.5 million, with $1 million to be spent in 2016-17 and $500,000 in 2017-18.

Background: Currently, there are about 1.7 million wirelines, or landlines, in California, 7.4 percent of all telephone lines. CPUC's service quality program contains five service quality measures and related standards for assessing the quality of telephone service. The out-of-service (OOS) metric is to repair 90 percent of outages of landlines within 24 hours. The results for this metric are collected monthly and reported quarterly. AT&T and Verizon, which have between 85 percent and 88 percent of the residential and small business wireline customers in the state, have consistently failed to meet this metric. Specifically, during the years 2010 through 2014, AT&T's average annual OOS repair results within 24 hours were: 50 percent, 67 percent, 71 percent, 67 percent, and 60 percent, respectively. For the same period, Verizon's average annual OOS repair results within 24 hours were: 76 percent, 73 percent, 72 percent, 70 percent, and 68 percent respectively.

Pursuant to a CPUC decision, CPUC staff is directed to retain a consulting firm with communications network experience to examine AT&T's and Verizon's network facilities, review company policies and procedures for network maintenance, repair and replacement; advise Communications Division management and CPUC decision makers' on technical telephone and communications network issues; prepare a report on the results of the examination and testify before the CPUC should hearings be held.

The purpose of the examination is to gauge the condition of both companies' network infrastructure and facilities used in the provision of telecommunications services within California to ensure that the facilities and practices support a level of service consistent with public safety and customer needs. The results of the examination are intended to provide the CPUC with information that may be used to change service quality policies, rules, measures, and standards.

CPUC is also considering the need to establish penalty provisions for missed service quality standards in a current rulemaking proceeding.

Staff Questions:

1) How will an examination of AT&T and Verizon's networks improve the quality of wireline telephone service and the reliability of 911 emergency services? What would be the next steps after analyzing the results of this examination?

Staff Comment: The proposed examination could provide CPUC with useful information that could help it to better ensure the reliability of the state's wireline telephone service.

Staff Recommendation: Hold open.

Issue 8: SB 350 – Clean Energy and Pollution Reduction Act and AB 802 – Energy Efficiency

Governor's Proposal: The budget proposes $3.35 million annually from the PUCURA for 23 permanent positions to implement SB 350 (de León) Chapter 547, Statutes of 2015 and AB 802 (Williams), Chapter 590, Statutes of 2015.

Background: Last year, the Legislature passed SB 350 and AB 802 which will result in new areas of work including the development of an integrated resources planning (IRP) process and modeling capabilities and electrification of the entire transportation sector; and work in the areas of energy efficiency (EE) and renewable portfolio standard (RPS). Some of the key changes of these two pieces of legislation are:

- Encouraging widespread transportation electrification such as funding electric vehicle charging infrastructure.
- Requiring doubling of EE savings from electricity and natural gas end users by 2030 and expands California's definition of energy efficiency.
- Increasing target to obtain 40 percent of total retail electricity sales from renewable resources by December 31, 2024; 45 percent by December 31, 2027; and 50 percent by December 31, 2030 (from 33 percent by 2020).
- Requiring resource optimization and for CPUC to adopt processes for investor-owned utilities and publically-owned utilities to file integrated resource plans to ensure utilities are meeting RPS requirements, helping the state meet its greenhouse gas (GHG) targets, and minimizing costs for ratepayers, and ensuring system reliability.
- Expressing intent for regional expansion of the California Independent System Operator (CAISO).
- Considering disadvantaged communities in the CPUC decision-making process.

These changes will result in new workload for CPUC that includes the expansion of renewable procurement and energy efficiency targets; creating a new integrated resource planning structure; establishing new policies and procedures for transportation electrification; managing the regionalization of the CAISO; considering impacts on disadvantaged communities; providing oversight, as well as legal, technical and policy support, for a minimum of five new and four amended rulemaking proceedings, as well as for an expected 5-10 new utility applications annually; and facilitating the processing of a minimum of 350 advice letters.

The budget proposes 23 additional staff in the following areas to implement SB 350 and AB 802:

Section/ Division	**Number of Positions**
Program and Project Supervisors	2
Renewable Portfolio Standard	2
Energy Efficiency	7
Integrated Resource Planning	2
Procurement Plan Review and Implementation	1
Transportation Electrification	1
Disadvantaged Communities	1
Legal Division	1
Administrative Law Judge Division	4
Information Technology	2
Total	**23**

Staff Questions:

1) In what areas is the CPUC most vulnerable in its ability to effectively implement the provisions of SB 350 and AB 802?

2) How will the CPUC work with the Energy Commission and the Air Resources Board to implement these two bills?

Staff Comment: Without additional resources, the ability of CPUC to manage the increase in proceedings and oversight will be hampered and other workload may suffer as well. The Legislative Analyst's Office has not raised any concerns with this request for funding and positions.

Staff Recommendation: Hold open.

Issue 9: AB 1266 – Electric and Gas Corporations—Excess Compensation

Governor's Proposal: The budget proposes $160,000 annually from the PUCURA for two new permanent half-time positions for proceedings and reviews of excess compensation as required by AB 1266 (Gonzalez), Chapter 599, Statutes of 2015.

Background: Every three years, all utilities regulated by the CPUC are required to undergo a general rate case to request funding for distribution and generation costs associated with their service. CPUC reviews executive compensation as part of this process. AB 1266 prohibits an electrical or gas corporation from recovering from taxpayers' expenses for excess compensation (greater than $1 million) paid to an officer of the utility for five years following a "triggering event" occurring after January 1, 2013, unless approved by the CPUC. A triggering event is defined as when an electrical corporation or gas corporation violates a federal or state safety regulation with respect to the plant and facility of the utility and, as a proximate cause of that violation ratepayers incur a financial responsibility in excess of $5 million. The bill requires an electrical or gas corporation to file an application to the CPUC prior to paying or seeking recovery of excess compensation. CPUC is required to open a proceeding to evaluate the application and issue a written determination whether excess compensation should be recovered in rates or if previously authorized in rates should be refunded to taxpayers.

Staff Questions:

1) How often does CPUC anticipate needing to evaluate executive compensation as a result of a triggering event (especially after the definition of a "triggering event" was narrowed)?

2) How was it determined that the proposed process was the most efficient means to implement AB 1266?

3) Has CPUC considered conducting an evaluation of its process to assess if this approach is an efficient means of limiting excess compensation when there is a triggering event?

Staff Comment: AB 1266 did not contain a sunset, or a review, to assess if the procedure put in place to limit excess compensation when there is a triggering event is effective. The Legislature may want to consider adopting trailer bill language to put a sunset review in place for 2021.

Staff Recommendation: Hold open.

Issue 10: Trailer Bill Language: Biogas Study

Governor's Proposal: The budget proposes trailer bill language that would request the California Council on Science and Technology undertake and complete a study analyzing the regional and gas corporation specific issues relating to the minimum heating value specifications adopted by the CPUC for biomethane before it can be injected into common carrier gas pipelines.

Background: The California Renewables Portfolio Standard Program requires the CPUC to adopt policies and programs that promote the in-state production and distribution of biomethane and that facilitate the development of a variety of sources of in-state biomethane. Existing law requires the CPUC to adopt 1) standards for biomethane that specify the concentrations of constituents of concern that are reasonably necessary to protect public health and ensure pipeline integrity and safety, as specified, and 2) requirements for monitoring, testing, reporting, and recordkeeping, as specified. Existing law requires a gas corporation to comply with those standards and requirements and requires the CPUC to require gas corporation tariffs to condition access to common carrier pipelines on the applicable customer meeting those standards and requirements.

If the California Council on Science and Technology agrees to undertake and complete the study, the bill would require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study with the cost recoverable in rates, but would authorizes the CPUC to modify a specified decision to allocate money that would be made available for certain incentives to instead be made available to pay for costs of the study so as to not further burden ratepayers with additional expense.

If the study is completed, the bill would require the CPUC to reevaluate requirements adopted by the CPUC for injection of biomethane into common carrier pipelines and, if appropriate, change those requirements or adopt new requirements, giving due deference to the conclusions and recommendations made in the study.

Staff Comment: There is currently legislation moving through the policy process on this topic.

Staff Recommendation: Reject without prejudice and move this item to the policy committees for discussion.

Vote:

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analyses. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR maintains and updates the General Plan Guidelines, the California Environmental Quality Act (CEQA) Guidelines, and operates the CEQA Clearinghouse. OPR also houses and supports the Strategic Growth Council (SGC).

Budget Overview: The Governor's budget proposes $546.3 million and 40.4 positions to support OPR in the budget year, as shown in the figure below. This is an increase of two positions and an increase of $24.6 million, mainly due to increased funding from the Greenhouse Gas Reduction Fund for the new Transformational Climate Communities Program.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2014-15	2015-16	2016-17	2014-15*	2015-16*	2016-17*
0360	State Planning & Policy Development	17.9	10.7	12.5	$13,981	$9,507	$14,410
0365	California Volunteers	15.2	21.7	21.9	25,397	32,141	31,730
0370	Strategic Growth Council	5.6	6.0	6.0	795	480,000	500,141
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**38.7**	**38.4**	**40.4**	**$40,173**	**$521,648**	**$546,281**

FUNDING		**2014-15***	**2015-16***	**2016-17***
0001	General Fund	$10,507	$8,861	$13,979
0890	Federal Trust Fund	27,570	28,471	27,980
0995	Reimbursements	1,008	4,019	4,022
3228	Greenhouse Gas Reduction Fund	795	480,000	500,000
9740	Central Service Cost Recovery Fund	293	297	300
TOTALS, EXPENDITURES, ALL FUNDS		**$40,173**	**$521,648**	**$546,281**

Items Proposed for Vote-Only

Issue 1: CEQANet 2.0 Database Transfer, Upgrade, Hosting, and Maintenance

The budget proposes in 2016-17, $200,000 one-time funding from the General Fund and on-going annual funding of $57,600 General Fund beginning in 2017-18, to upgrade the state's CEQA database. Statute requires the State Clearinghouse at the OPR to coordinate state agency review and comment of CEQA environmental documents and notices. In that capacity, OPR receives approximately 10,000 notices and environmental documents per year from both state and local public agencies. This proposal would transfer the CEQANet database which was developed in the early 1990's from the University of California, Davis to the Department of Technology to upgrade, host, and maintain. This database is no longer maintained by UC Davis. The upgraded database would allow on-line submission, posting, transmittal, and comment on all CEQA notices and environmental documents, as opposed to the current paper process. The funding also would provide for upgrades that allow for better GIS functionality, mapping, and project impact analyses. The on-going costs are for the long-term operational needs of the upgraded CEQANet 2.0. An electronic document management system for CEQA documents could result in cost-savings across the state.

Issue 2: SB 246 – Integrated Climate Adaptation and Resiliency Program (Enacted Legislation)

The budget proposes $300,000 General Fund in 2016-17, and on-going annual funding of $283,000 General Fund, for two permanent positions to develop and support a clearinghouse website for local and regional climate adaptation information. OPR will contract with the Department of Technology for the development of the website, long-term hosting, and maintenance. SB 246 (Wieckowski), Chapter 606, Statutes of 2015, establishes the Integrated Climate Adaptation and Resiliency Program (ICARP) and an advisory council to support ICARP; requires OPR to coordinate an effort to update the California Adaptation Planning Guide; and, establish an information clearinghouse for local and regional plans. ICARP should allow for greater coordination with external research organizations and support consistency in work related to understanding local and regional climate change vulnerability and adaptation.

Issues Proposed for Discussion/Vote

Issue 3: Affordable Housing and Sustainable Communities Program (Oversight)

Governor's Proposal: The Governor's budget proposal is consistent with Senate Bill 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, which continuously appropriates 20 percent of all cap-and-trade auction revenues to the Affordable Housing and Sustainable Communities (AHSC) program. This amount is estimated to be $400 million in 2016-17.

Background: The Cap-and-Trade program, a key element in the Administration's plan to reduce greenhouse gas (GHG) emissions to 1990 levels by the end of this decade, sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. Subsequent to the passage of AB 32, (Núñez and Pavley), Chapter 488, Statutes of 2006, the Legislature passed several bills related to the reduction of GHGs. These bills have provided guidance to the Administration as it develops expenditure plans for auction proceeds. In addition, the Administration has issued several executive orders that, though not law, have also provided input into the development of the expenditure plan. All auction revenues are subject to the provisions of SB 535 (de Léon), Chapter 830, Statutes of 2012. SB 535 requires 10 percent of cap-and-trade proceeds be invested within the most impacted and disadvantaged communities, and 25 percent of auction proceeds to benefit impacted and disadvantaged communities.

The AHSC program at SGC was established to further the purposes of AB 32 and SB 375 (Steinberg), Chapter 728, Statutes of 2008, by investing in projects that reduce greenhouse gas emissions (GHG) emissions by supporting more compact, infill development patterns, encouraging active transportation and transit usage, and protecting agricultural land from sprawl development. This is achieved through two distinct programs: AHSC and the Sustainable Lands Conservation (SALC) program.

Affordable Housing and Sustainable Communities. AHSC projects are designed to integrate land use and transportation to reduce GHG emissions, benefit disadvantaged communities, link key destinations, and provide affordable housing. Three types of projects are funded:

1. Transportation oriented development that provides affordable housing near transit stations;

2. Integrated connectivity projects that encourage mode shifts, such as to transit, walking, or biking and complete streets that support all modes of transportation; and,

3. Rural innovation project areas that encourage transportation mode shifts in rural areas.

Funding is available as grants to entities including local governments, public housing authorities, redevelopment successor agencies, transit operators, school districts, joint powers authorities, for- and non-profit developers, and others. In addition, affordable housing developments are also eligible for loans. In 2015 there were two funding rounds (in June and December) and 36 projects were awarded totaling $154.4 million. Concept applications for the next round of funding ($320 million) are due in March 2016, and projects are expected to be awarded in September 2016.

Sustainable Agricultural Lands Conservation. SALC projects are intended to protect at-risk agricultural lands from conversion to more GHG-intensive land uses, such as urban or residential development, in order to promote growth within existing jurisdictions, ensure open space remains available, and support a healthy agricultural economy, and resulting food security. Two project categories are available: 1) strategy and outcome grants that support cities and counties with developing local and regional land use policies, and strategies that protect critical agricultural land; and 2) agricultural conservation easements grants to permanently protect the cropland and rangelands of willing landowners that are at risk of conversion. In 2015-16, $2.5 million was provided for strategy grants and $35.7 million for easement grants. SGC anticipates that awards for these funds will be made in July 2016.

AHSC Technical Assistance. SB 101 (Committee on Budget and Fiscal Review), Chapter 321, Statutes of 2015, appropriated $500,000 from the Greenhouse Gas Reduction Fund for SGC to provide technical assistance to disadvantaged communities and required SGC to report on the use of these funds at legislative budget hearings. SGC has identified three third-party technical assistance providers to help with the 2015-16 AHSC funding round. Assistance is available to applicants with projects located in disadvantaged communities that applied for AHSC funding in 2014-15, but were unsuccessful.

Questions:

1) Please provide an overview of the AHSC projects that have been awarded. What types of projects have these been? How many units of housing are they intended to result in building? What are the estimated GHG emission reductions when the projects are completed? Have non-housing projects been awarded funds?

2) What are the primary challenges this program faces and how will these be addressed in the future?

3) What have you learned from the $500,000 that was appropriated for the purposes of providing technical assistance to disadvantaged communities?

4) How will SGC and/or ARB hold awardees of funds accountable for achieving the estimated GHG emission reductions proposed in the project application? Is SGC or ARB planning to independently assess, evaluate, and quantify the GHG emission reductions that completed projects yield, or will the results be self-reported?

Staff Recommendation: Informational only.

Issue 4: Transformational Climate Communities Program at the Strategic Growth Council

Governor's Proposal: The budget proposes one-time funding of $100 million Greenhouse Gas Reduction Fund (GGRF) for the Transformational Climate Communities Program to support local climate action in the state's top five percent disadvantaged communities through projects that integrate multiple, cross-cutting approaches to reduce greenhouse gas (GHG) emissions. The program would combine climate investments within a local area, including investments in energy, transportation, active transportation, housing, urban greening, land use, water and waste efficiency, and other areas, while also increasing job training, economic, health and environmental benefits. Of the $100 million requested, $5 million will be available to the SGC for support costs associated with the program.

Background: The Global Warming Solutions Act of 2006, AB 32 (Nunez and Pavley), Chapter 488, Statutes of 2006, requires California to reduce statewide GHG emissions to 1990 levels by 2020 and to maintain and continue reductions beyond 2020. The Air Resources Board (ARB) has developed a market-based cap-and-trade program as a key element of its overall GHG reduction strategy. The program establishes a statewide emissions limit on the sources responsible for 85 percent of GHGs and creates a financial incentive for investment in clean and efficient technologies. Strategic investment of the auction proceeds is intended to further the goals of AB 32.

This proposal supports the 2016 Cap-and-Trade Auction Proceeds Investment Plan's goal of improved integration and collaboration between agencies and governments. The SGC will work with local and regional governments on the implementation of the program. The target for these funds is the top five percent of disadvantaged communities, and therefore SGC will be coordinating with the local stakeholders to implement funded projects in these disadvantaged communities. SGC will also collaborate with regional governments to ensure that funded projects meet the region's Sustainable Communities Strategies goals.

Program funding will be coordinated by the council to leverage and support the collective goals of ongoing state efforts, as well as to support greater efficiencies of local assistance funding to those who may be eligible to receive funding within these programs. According to the request for funding, "the program projects are envisioned as larger in scale and impact than existing, individual state climate programs, and link investments to maximize GHG reduction and community benefits at the district, neighborhood or larger scale. The program shall support a holistic, collaborative approach to project development and implementation at the local level, and projects may be multi-phase or multiyear."

Staff Questions:

1) What are the Administration's plans for moving this proposal from a concept to a more specific program? Does the Administration intend to propose trailer bill language?

2) How will SGC coordinate this program with the Affordable Housing and Sustainable Communities program (the item previously discussed) and the Transportation Agency's Active Transportation Program? How has the Administration determined that there is a greater demand for funding for these types of programs?

Staff Comment: According to SGC, this proposal is intended to be a high-level placeholder to promote discussions that are to come about the structure of the program. There is no timeline for when the structure will be developed and trailer bill language has not been made available yet. This concept has merit and should be considered as part of the larger cap-and-trade spending package.

Staff Recommendation: Hold open.