LAO 75 YEARS OF SERVICE

The 2016-17 Budget:

Resources and Environmental Protection

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LAO

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EXECUTIVE SUMMARY

In this report, we assess many of the Governor's budget proposals in the resources and environmental protection areas and recommend various changes. We provide a complete listing of our recommendations at the end of this report.

Budget Provides $9 Billion for Programs

The Governor's budget for 2016-17 proposes a total of $9 billion in expenditures from various sources—the General Fund, various special funds, bond funds, and federal funds—for programs administered by the Natural Resources ($5.3 billion) and Environmental Protection ($3.7 billion) Agencies. This total funding level in 2016-17 reflects numerous changes compared to 2015-16, the most significant of which include (1) decreased bond spending, largely attributable to major one-time appropriations for water- and flood-related activities in the current year; (2) increased special fund spending, particularly for programs designed to reduce greenhouse gas (GHG) emissions; and (3) increased General Fund support for resources departments for debt-service costs and drought-related activities.

Governor Proposes Large Increase in Cap-and-Trade Expenditures

The Governor's budget includes a $3.1 billion cap-and-trade expenditure plan. An estimated $1.2 billion would be continuously appropriated for specified programs consistent with current law, and $1.9 billion would be allocated among numerous agencies for programs designed to reduce GHG emissions. We find that in many cases the administration's proposals provide limited information that the Legislature can use to prioritize among the various options for spending the auction revenues. We recommend that the administration provide additional information that can be considered in this year's budget deliberations. We also recommend establishing an expert committee to provide guidance that would help ensure the Legislature has better information in future years.

Water Policy Continues to Be Important Focus of Budget

The budget includes several notable proposals intended to continue and extend recent efforts related to the ongoing drought and implementation of Proposition 1 (2014).

Drought-Related Funding. As described in greater detail in our recent publication, *The 2016-17 Budget: The State's Drought Response*, the budget includes $323 million for drought-response efforts in 2016-17. We recommend approving most of this funding, specifically the components focused on the most urgent human and environmental drought-related needs. We further recommend requiring the administration to submit two formal reports in coming years that would provide (1) data measuring the degree to which drought response objectives were met and (2) a comprehensive summary of lessons learned from the state's response to this drought.

Proposition 1—2014 Water Bond. The Governor's budget includes two major new Proposition 1 spending proposals—implementing statewide water-related commitments and restoring the Los Angeles River. In our view, the proposals represent a reasonable starting place, but the

specific spending levels requested for each activity are not without trade-offs. We recommend the Legislature adopt a Proposition 1 spending package that reflects its priorities.

Budget Emphasizes Infrastructure

The budget—and the *California Five-Year Infrastructure Plan*—includes multiple significant new infrastructure proposals for resources departments.

California Conservation Corps (CCC) Residential Center Expansion. The Governor's budget for 2016-17 proposes $400,000 from the General Fund to fund the acquisition phase for three residential centers. This represents the first stage of a major facility expansion with eight new centers identified in coming years. The administration estimates that construction of the first six centers would cost roughly $170 million (General Fund and lease revenue bonds) over the next five years, yet would result in only a modest increase of 220 total corpsmembers. We recommend approval of acquisition phase funding for the Ukiah center which would replace an existing center, but recommend that the Legislature defer approval of any other centers until CCC provides more information about expansion-related benefits.

Deferred Maintenance. The budget includes $187 million from the General Fund for deferred maintenance of state facilities managed by resources departments. While the proposal addresses an important state need for these departments, the proposal lacks important details necessary for legislative oversight. We recommend the Legislature require the administration to submit specific lists of projects that would be undertaken before approving the requested funding, as well as require departments to report on the causes of and planned strategies for addressing their deferred maintenance backlogs.

Opportunities for Legislative Oversight

In addition to the issues above, the Governor's budget raises several issues that we believe merit greater legislative oversight. We recommend the Legislature take steps to ensure that the proposals are likely to be consistent with its priorities.

Motor Vehicle Fuel Account Transfer to State Parks. We find that the budget proposal to provide another one-time augmentation to maintain the Department of Parks and Recreation's current operations level makes sense, but the Legislature will want to make a policy decision regarding whether to fund such an augmentation from a special fund benefiting off-highway vehicle recreational users or the General Fund. We also recommend the Legislature require the department to report on the status of various budgetary and programmatic reforms at budget hearings this spring.

Environmental License Plate Fund (ELPF). The Governor's budget provides a package of options for addressing the ELPF structural deficit, including shifting some programs to General Fund support, raising the personalized license plate fee, and creating a new fee for those seeking certain environmental permits. We find that the administration's approach is reasonable, but the Legislature also should consider other available options and approve a funding package based on its priorities for where spending reductions or fee increases should be borne.

OVERVIEW OF GOVERNOR'S BUDGET

Governor's Budget Proposal

Total Proposed Spending of $9 Billion in 2016-17. The Governor's budget for 2016-17 proposes a total of $9 billion in expenditures from various sources—the General Fund, various special funds, bond funds, and federal funds—for programs administered by the Natural Resources and Environmental Protection Agencies. Specifically, the budget includes $5.3 billion for resources departments and $3.7 billion for environmental protection departments.

Budget Reflects Growth Since Recession. As shown in Figure 1, total spending for resources and environmental protection programs had stayed between about $6 billion and $7 billion from 2008-09 through 2013-14. Since then, these programs have experienced significant increases with actual expenditures of about $8 billion in 2014-15, estimated expenditures of over $14 billion in 2015-16, and $9 billion proposed for 2016-17. This growth has been driven by several factors, including General Fund spending on costs for fighting wildfires and debt service for general obligation bonds, as well as spending of special fund revenues to reduce greenhouse gas (GHG) emissions.

Reduction in Budget Year Largely Reflects Lower Bond Expenditures. The proposed budget reflects a decrease of $5.2 billion, or 37 percent, below estimated expenditures for the current year. This reduction in proposed spending is mostly related to spending from bond funds. Specifically, the budget proposes bond expenditures of $538 million in 2016-17 for resources and environmental protection departments, a decrease of $5.4 billion, or 91 percent, from estimated bond expenditures in 2015-16. Much of this decrease reflects two factors. First, in 2015 (as part of the 2015-16 budget and separate legislation), the Legislature made significant new bond appropriations, including $2.1 billion from Proposition 1 (2014) for water-related projects and $1.1 billion from Proposition 1E (2006) for flood control projects. Second, some of the apparent budget-year decrease is related to how bonds are accounted for in the budget, making year-over-year comparisons difficult. Specifically, bond funds that were appropriated but not spent in prior years are assumed to be spent in the current year. The 2015-16 bond amounts will be adjusted in the future based on actual expenditures.

Resources Programs

Budget Continues Modest General Fund Increases for Resources Departments. Figure 2 (see next page) shows spending by fund source

Figure 1

Resources and Environmental Protection Expenditures

(In Billions)

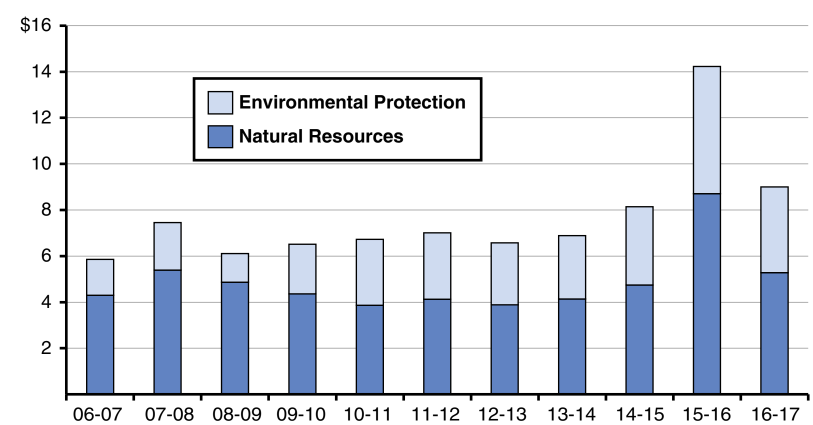
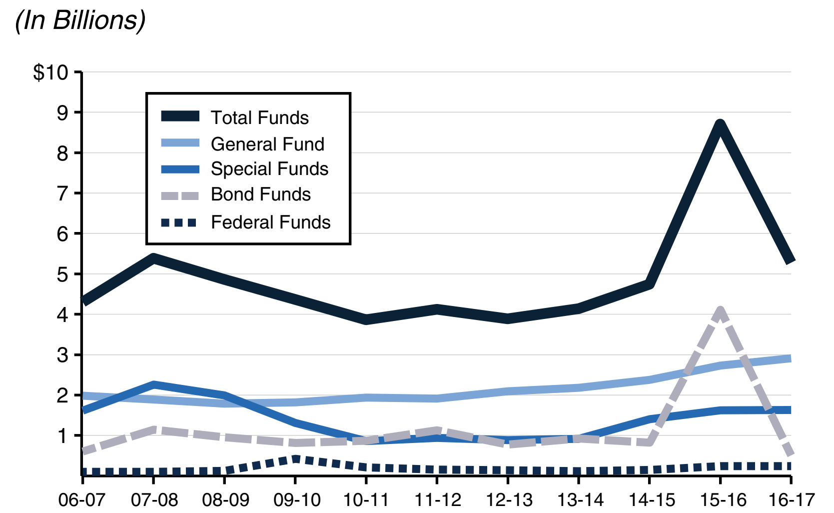


Figure 2

Resources Spending by Fund Source Over Past Decade



for all resources departments since 2006-07. Aside from the current year, which included significant increases in bond funds (discussed above), about half of resources spending has come from the General Fund in recent years. The Governor's budget for 2016-17 continues a recent trend of increasing General Fund expenditures, providing an additional $179 million from the General Fund for these departments compared to 2015-16. This General Fund increase largely reflects (1) increased general obligation bond costs ($75 million), (2) an increase in drought-related funding for the Department of Water Resources (DWR) and the Department of Fish and Wildlife (DFW) ($65 million), and (3) a new proposal to provide California Energy Commission (CEC) with funding to conduct climate change research in the transportation sector ($15 million). (The budget also includes a separate one-time appropriation of $187 million from the General Fund for deferred maintenance at resources facilities.) The Governor's budget proposes no net increase in special and federal fund expenditures in the budget year.

Spending on Largest Resources Departments. Figure 3 shows spending from selected fund sources for the state's five largest resources departments. As the figure shows, the most significant change is a large decrease—$3.2 billion—in bond funds for DWR. In addition, the proposed budget includes funding increases from the Greenhouse Gas Reduction Fund (GGRF)—totaling $322 million—for the California Department of Forestry and Fire Protection (CalFire), DFW, and CEC to implement and expand programs designed to reduce GHG emissions in the state.

Environmental Protection Programs

Budget Continues Recent Spending Increases From Special Funds. Figure 4 (see page 6) shows spending on environmental protection departments since 2006-07. Historically, most environmental protection funding has come from special funds, usually derived from fees. The Governor's budget provides 90 percent of environmental protection funding from special funds and reflects a net increase of $342 million from various special funds, particularly the GGRF.

Spending on Largest Environmental Protection Departments. Figure 5 (see page 7) shows spending and fund source information for the largest departments under the California Environmental Protection Agency. Notable changes include a total increase of $484 million from the GGRF for the Air Resources Board (ARB) and the Department of Resources Recycling and

Recovery (CalRecycle) to implement and expand programs to reduce GHG emissions. In addition, the budget includes a reduction of $360 million in General Fund spending for CalRecycle. This decrease reflects one-time expenditures in the current year for debris removal following wildfires

Figure 3

Budget Summary for Largest Resources Departments—Selected Funding Sources

(Dollars in Millions)

Department	2014-15 Actual	2015-16 Estimated	2016-17 Proposed	Change From 2015-16 Amount	Change From 2015-16 Percent
Water Resources					
General Fund	$123	$106	$153	$47	45%
State Water Project funds	605	2,026	2,036	11	1
Electric Power Fund	972	962	928	-33	-3
Bond funds	532	3,420	252	-3,168	-93
Other funds	33	25	84	59	237
Totals	**$2,265**	**$6,538**	**$3,454**	**-$3,084**	**-47%**
Forestry and Fire Protection					
General Fund	$945	$1,291	$1,297	$6	0.5%
Reimbursements	427	453	477	25	5
Greenhouse Gas Reduction Fund	39	3	182	180	6,524
Public Buildings Construction Fund	20	68	95	27	40
SRA Fire Prevention Fund	74	80	76	-4	-5
Other funds	38	74	69	-5	-7
Totals	**$1,544**	**$1,969**	**$2,197**	**$229**	**12%**
Parks and Recreation					
General Fund	$118	$117	$118	$0.2	0.2%
Parks and Recreation Fund	162	188	180	-9	-5
Off-Highway Vehicle Trust Fund	123	115	92	-24	-21
Harbors and Watercraft Fund	38	63	61	-1	-2
Bond funds	58	70	32	-38	-55
Other funds	53	166	126	-40	-24
Totals	**$552**	**$720**	**$608**	**-$112**	**-16%**
Fish and Wildlife					
General Fund	$96	$86	$97	$11	13%
Fish and Game Fund	121	132	122	-11	-8
Bond funds	24	107	73	-34	-32
Greenhouse Gas Reduction Fund	22	3	60	57	2,161
Oil Spill Prevention Fund	31	37	35	-2	-5
Other funds	147	201	199	-1	-1
Totals	**$440**	**$567**	**$586**	**$20**	**3%**
Energy Commission					
Electric Program Investment Charge	$183	$290	$145	-$146	-50%
ARFVTF	149	153	110	-43	-28
Energy Resources Program Account	68	86	89	2	2
Greenhouse Gas Reduction Fund	—	—	85	85	—
Other funds	120	105	112	7	6
Totals	**$521**	**$635**	**$540**	**-$95**	**-15%**

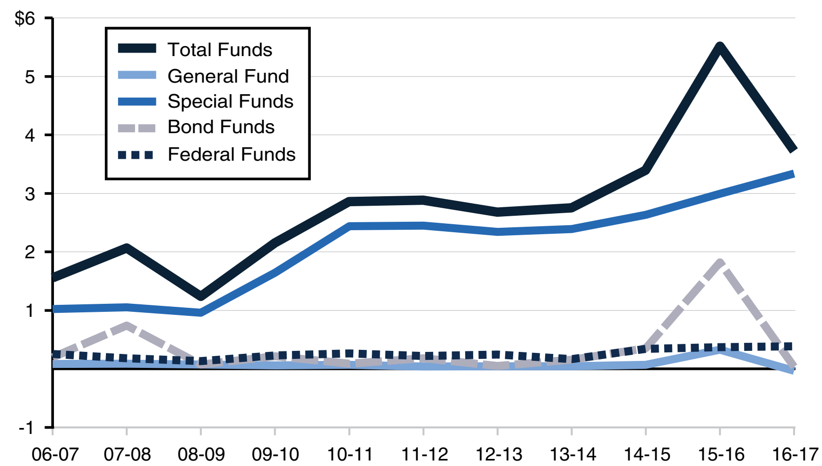
SRA = State Responsibility Area and ARFVTF = Alternative and Renewable Fuel and Vehicle Technology Fund.

that occurred in 2015. These costs are then partially offset by federal reimbursements in the budget year. The budget also reflects a reduction of $1.8 billion in bond funds for the State Water Resources Control Board. This largely reflects the current-year appropriation of Proposition 1 funding.

Figure 4

Environmental Protection Spending by Fund Source Over Past Decade

(In Billions)



CROSS-CUTTING ISSUES

Cap-and-Trade Expenditures

LAO Bottom Line. In many cases, the administration's budget proposals provide limited information that can be used to prioritize among the various options for spending billions of dollars of cap-and-trade auction revenues. We recommend the Legislature direct the administration to provide additional information that can be considered in this year's budget deliberations. We also recommend 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.

Background

AB 32 and Cap-and-Trade. The Global Warming Solutions Act of 2006 (Chapter 488 [AB 32, Núñez/Pavley]), commonly referred to as AB 32, established the goal of reducing GHG emissions statewide to 1990 levels by 2020. The legislation directed ARB to adopt regulations to achieve the maximum technologically feasible and cost-effective GHG emission reductions by 2020. As shown in Figure 6, (see page 8) the plan adopted by ARB includes a wide variety of regulations intended to help the state meet its GHG goal, including cap-and-trade, the low carbon fuel standard (LCFS), energy efficiency programs, and the renewable portfolio standard.

One of the primary regulations adopted by the ARB intended to ensure the state meets these goals is the cap-and-trade regulation. The cap-and-trade regulation places a "cap" on aggregate GHG emissions from large GHG emitters, such as large industrial facilities, electricity generators and importers, and transportation fuel suppliers. Capped sources of emissions are responsible for roughly 85 percent of the state's GHG emissions. The cap declines over time, ultimately arriving at the target emission level in 2020. To implement the cap-and-trade program, ARB issues carbon allowances equal to the cap, and each allowance

Figure 5

Budget Summary for Largest Environmental Protection Departments—Selected Funding Sources

(Dollars in Millions)

Department	2014-15 Actual	2015-16 Estimated	2016-17 Proposed	Change From 2015-16 Amount	Change From 2015-16 Percent
Resources Recycling and Recovery					
General Fund	—	$243	-$117	-$360	-148%
Beverage container recycling funds	$1,325	1,313	1,308	-5	-0.3
Electronic Waste Recovery	93	102	102	0.2	0.2
Greenhouse Gas Reduction Fund	19	2	100	98	6,004
Other funds	112	141	134	-6	-5
Totals	**$1,549**	**$1,800**	**$1,528**	**-$272**	**-15%**
State Water Resources Control Board					
General Fund	$36	$47	$48	$1	2%
Underground Tank Cleanup	196	300	294	-7	-2
Waste Discharge Fund	117	125	127	2	2
Bond funds	348	1,822	34	-1,788	-98
Other funds	415	620	504	-116	-19
Totals	**$1,112**	**$2,914**	**$1,006**	**-$1,908**	**-65%**
Air Resources Board					
Greenhouse Gas Reduction Fund	$130	$187	$573	$386	206%
Motor Vehicle Account	131	137	134	-3	-2
Air Pollution Control Fund	112	118	116	-3	-2
Other funds	132	122	133	11	9
Totals	**$506**	**$565**	**$956**	**$391**	**69%**
Toxic Substances Control					
General Fund	$27	$27	$29	$2	7%
Hazardous Waste Control	58	64	61	-2	-4
Toxic Substances Control	46	66	57	-9	-13
Other funds	80	74	70	-4	-5
Totals	**$210**	**$230**	**$218**	**-$13**	**-5%**
Pesticide Regulation					
Pesticide Regulation Fund	$85	$88	$94	$6	7%
Other funds	3	3	3	-0.01	-0.3
Totals	**$88**	**$91**	**$97**	**$6**	**7%**

is essentially a permit to emit one ton of carbon dioxide equivalent. Entities can also "trade" (buy and sell on the open market) the allowances in order to obtain enough to cover their total emissions.

Auctions Generate Billions of Dollars in State Revenue. One important aspect of implementing a cap-and-trade program is determining how to distribute allowances. In theory, allowances can be issued in one of three general ways: (1) they can be given away for free, (2) they can be auctioned by the state, or (3) some portion can be freely allocated while the other portion is auctioned. In 2015, ARB auctioned about half of 2015 allowances and gave about half away for free. The ARB has conducted 13 quarterly cap-and-trade auctions since November 2012—generating roughly $3.5 billion in state revenue. These revenues are deposited in the GGRF, which ARB is responsible for administering.

Figure 6

Regulations Expected to Help State Meet 2020 Greenhouse Gas Emissions Goal

Regulations	MMTCO2E Reduction
Cap-and-trade	23
Low carbon fuel standard	15
Energy efficiency and conservation	12
33 percent renewable portfolio standard	12
Refrigerant tracking, reporting, and repair deposit program	5
Advanced clean cars	3
Reductions in vehicle miles traveled (SB 375)	3
Landfill methane control	2
Other regulations	5
Total	**78**

MMTCO2E = million metric tons of carbon dioxide equivalent.

State Law Requires Auction Revenue Be Used to Reduce GHGs. Statutes enacted in 2012 direct the use of auction revenue. For example, Chapter 807 of 2012 (AB 1532, Perez) requires auction revenues be used to further the purposes of AB 32. Revenues must be used to facilitate GHG emission reductions in California. In addition to reducing GHGs, to the extent feasible, funds must be used to achieve other goals, such as:

- Maximize overall economic, environmental, and public health benefits to the state.
- Complement efforts to improve air quality.
- Lessen the effects of climate change on the state (also known as climate adaptation).
- Direct investment toward the most disadvantaged communities and households in the state.

In addition, Chapter 830 of 2012 (SB 535, de León) requires that at least 25 percent of auction revenue go to projects that benefit disadvantaged communities (as determined by the Office of Environmental Health Hazard Assessment) and at least 10 percent go to projects located within disadvantaged communities.

There is currently a court case challenging whether the state can continue collecting revenue from auctions. In a lawsuit against ARB, plaintiffs argue that the Legislature did not provide ARB the authority to auction allowances and collect state revenue. They further argue that even if the Legislature gave ARB the authority to collect auction revenue, such revenue constitutes an illegal tax. In November 2013, the superior court ruled that the charges from the auction have characteristics of a tax as well as a fee, but that, on balance, the charges constitute legal regulatory fees. This ruling has been appealed, and final decisions from the appellate courts on these issues may take years. If the courts' final decision on these questions is to determine that ARB has the authority to collect auction revenue, it is likely that the courts would establish some limits on how revenues can be used. The courts would likely require the state to target spending to GHG reduction activities since that is the primary goal of AB 32. The extent to which the courts would allow the state to use the funds in a way that is intended to achieve other AB 32 goals (such as improving air quality and minimizing costs for households) or for activities with less certain effects on GHGs is unclear.

How Has Auction Revenue Been Spent So Far? As illustrated in Figure 7, auction revenue has been used to fund various programs and projects. For revenue collected in 2015-16 and beyond, statute continuously appropriates (1) 25 percent for the state's high-speed rail project, (2) 20 percent for affordable housing and sustainable communities grants (with at least half of this amount for affordable housing), (3) 10 percent for intercity rail capital projects, and (4) 5 percent for low carbon transit operations. The remaining 40 percent is available for annual appropriation by the Legislature. Statute also requires that an outstanding loan of $400 million in auction revenues to the General Fund be repaid to the high-speed rail project when needed by the project.

Administration Required to Provide Two Major Reports to Inform Spending Decisions. State law directs the administration to submit two major reports to the Legislature intended to guide cap-and-trade spending decisions: (1) a three-year investment plan intended to provide general guidance for how to target funding and (2) an annual March report on project outcomes. As part of the investment plan, the administration must:

- Identify the state's near-term and long-term GHG reduction goals and targets by sector.
- Analyze gaps in current state strategies to meeting the state's GHG emission reduction goals.
- Identify priority investments that will facilitate the achievement of feasible and cost-effective GHG reductions.

The annual March report must include information about the status of projects funded and their outcomes, including a description of how agencies have met the requirements to provide benefits to disadvantaged communities.

Administration Recently Released an Updated Investment Plan. On January 25, 2016, the administration released an updated investment plan. The plan identifies three major priority areas of spending: (1) transportation and sustainable communities, (2) clean energy and energy efficiency, and (3) natural resources and waste diversion. Within each category, the plan identifies many different programs that could potentially help reduce GHG emissions and achieve other goals. It also identifies two potential cross-cutting approaches—local "integrated projects" in disadvantaged communities and "efficient financing mechanisms" for GHG reduction projects. Integrated projects could include several different components that potentially reduce

Figure 7

Cap-and-Trade Revenue Expenditures

(In Millions)

Program	2013-14	2014-15	2015-16[a]
High-speed rail	—	$250	$600
Affordable housing and sustainable communities	—	130	480
Transit and intercity rail capital	—	25	240
Transit operations	—	25	120
Low carbon transportation	$30	200	90
Low-income weatherization and solar	—	75	70
Agricultural energy and operational efficiency	10	25	40
Urban water efficiency	30	20	20
Sustainable forests and urban forestry	—	42	—
Waste diversion	—	25	—
Wetlands and watershed restoration	—	25	—
Other administration	2	10	31
Totals	**$72**	**$852**	**$1,691**

[a] Based on LAO projection of $2.4 billion in revenue in 2015-16. The fund balance is projected to be $1.6 billion by the end of 2015-16.

GHGs. For example, an integrated project might include a combination of affordable housing near transit, a new transit line, zero emission busses, bicycle and walking paths, and tree planting. Efficient financing mechanisms for GHG emission reduction projects could include such things as revolving loan funds and loan guarantee programs.

Governor's Proposal

The Governor's 2016-17 budget includes a $3.1 billion cap-and-trade expenditure plan, as shown in Figure 8. The expenditure plan generally provides funding for programs that are identified as priority areas in the Investment Plan. An estimated $1.2 billion would be continuously appropriated consistent with current law. The remaining $1.9 billion in expenditures included in the budget are described below.

Transportation ($1 Billion). The Governor's plan includes over $1 billion for programs intended to reduce transportation-related GHG emissions. These programs are:

- ***Low Carbon Vehicles.*** The ARB would receive $460 million largely to continue existing programs that provide incentives for zero-emission vehicles (such as electric cars) and clean trucks and buses. The ARB estimates that up to $90 million would be used to provide rebates to households, businesses, and governments that will be put on a waiting list in 2015-16 due to insufficient funds in the current year. The remaining amount would be used to provide rebates and grants through 2016-17.

- ***Transit and Intercity Rail Capital.*** The California Transportation Agency would be provided with $400 million in funding to expand the transit and intercity rail capital program. (This amount is in addition to the amount that would be continuously appropriated under current law.) This proposal is part of the Governor's transportation funding package.

- ***Low Carbon Road Program.*** The California Department of Transportation would be allocated $100 million to provide funding for a new program to support city and county transportation projects that reduce vehicle emissions. Eligible projects could include installing roundabouts, optimizing traffic signals, and projects that promote pedestrian and bicycle safety.

- ***Biofuel Production Subsidies.*** The ARB would receive $40 million for a new program that would provide a subsidy to in-state biofuel facilities for each gallon of low-carbon fuels they produce. Biofuels are fuels produced from living matter, such as plants or animal waste.

- ***Biofuel Facilities Capital Support.*** The CEC would receive $25 million to expand a program that supports construction or expansion of in-state biofuel facilities. The funds would be added to the roughly $20 million from the CEC's existing Alternative and Renewable Fuel and Vehicle Technology Program that supports similar activities.

Carbon Sequestration ($280 Million). The Governor's plan includes $280 million for projects intended to reduce GHGs in the atmosphere largely by sequestering carbon dioxide.

- ***Healthy Forests.*** CalFire would be allocated $150 million for a variety of activities intended to improve forest health in order to improve forest carbon sequestration and reduce wildland forest fire fuels to avoid emissions associated with wildfires. This program expands and combines existing programs that focus on certain types of forest health activities, such as reforestation and forest pest

Figure 8

Governor's 2016-17 Cap-and-Trade Expenditure Plan

(In Millions)

Continuous Appropriations[a]	**$1,200**
High-speed rail	500
Affordable housing and sustainable communities	400
State transit assistance	200
Transit and intercity rail capital	100
Transportation	**1,025**
Low carbon vehicles	460
Transit and intercity rail capital	400
Low carbon road program	100
Biofuel production subsidies	40
Biofuel facilities capital support	25
Carbon Sequestration	**280**
Healthy forests	150
Wetland and watershed restoration	60
Urban forestry	30
Green infrastructure	20
Carbon sequestration in soils	20
Energy Efficiency and Renewable Energy	**200**
Low-income energy efficiency and solar	75
UC and CSU energy efficiency	60
Energy efficiency for state buildings	30
I-Bank energy financing program	20
Conservation Corps energy efficiency	15
Short-Lived Climate Pollutants	**195**
Waste diversion	100
Wood stove replacement	40
Dairy digesters	35
Refrigeration unit replacements	20
Local Climate Program	**100**
Water Efficiency	**90**
Water efficiency technology	30
Agricultural water efficiency	20
Rebates for efficient clothes washers	15
Low-income household water efficiency upgrades	15
Commercial and institutional water efficiency	10
Total	**$3,090**

[a] Continuous appropriations based on Governor's $2 billion revenue estimate.
GHG = greenhouse gas; CSU = California State University; and UC = University of California.

control activities. Under the new program, CalFire would fund large landscape-level forest health projects that might include several different types of projects.

- ***Wetland and Watershed Restoration.*** The DFW would receive $60 million to continue to restore Delta and coastal wetlands and mountain meadows, as well as expand the program to include desert ecosystems.
- ***Urban Forestry.*** CalFire would be allocated $30 million to continue to assist local governments, special districts, and nonprofits with urban forestry by providing grants for and technical assistance with tree planting, biomass diversion projects, and reclamation of blighted urban land for urban forestry purposes.
- ***Green Infrastructure.*** The California Natural Resources Agency (CNRA) would be provided with $20 million to reduce GHGs through investments in green infrastructure, such as green roof projects

to reduce energy usage and projects that mitigate storm water runoff to reduce water needs. This program is modeled after a program that funded similar activities with bond funds.

- ***Carbon Sequestration in Soils.*** The California Department of Food and Agriculture (CDFA) would be allocated $20 million to implement a new Healthy Soils Program designed to reduce GHG emissions and increase carbon sequestration through alternative soil management practices, such as mulching and adding organic matter to the soil.

Energy Efficiency and Renewable Energy ($200 Million). The Governor's plan includes $200 million for programs that promote energy efficiency in buildings and renewable energy. These programs are:

- ***Low-Income Energy Efficiency and Solar.*** The Department of Community Services and Development (CSD) would be allocated $75 million to continue a program that supports weatherization, solar installation, and other energy efficiency projects for low-income households. Project examples include insulating homes, repairing and replacing windows, and upgrading heating and cooling systems.

- ***UC and CSU Energy Efficiency.*** The budget includes a total of $60 million for the state's university systems—including $35 million for California State University (CSU) and $25 million for the University of California (UC)—to perform energy efficiency upgrades in existing buildings. Projects could include such things as installing new insulation and lighting.

- ***Energy Efficiency for State Buildings.*** The Department of General Services would be provided $30 million to expand a loan program for energy efficiency retrofits in state buildings, such as replacing heating and cooling systems and lighting. These loans are repaid using the energy savings achieved by the projects.

- ***I-Bank Energy Financing Program.*** The Governor's Office of Business and Economic Development would receive $20 million to expand the I-Bank's California Lending for Energy and Environmental Needs loan financing program for public energy efficiency and infrastructure improvement projects that reduce GHGs and conserve energy.

- ***Conservation Corps Energy Efficiency.*** The proposal provides the California Conservation Corps (CCC) with $15 million to expand the Energy Corps Program. This program focuses on performing energy efficiency and water conservation surveys in public buildings and performing retrofit projects that save energy.

Short-Lived Climate Pollutants ($195 Million). The Governor's budget proposes $195 million for programs intended to reduce short-lived climate pollutants (SLCPs). These pollutants are a type of GHG that have a relatively short lifetime in the atmosphere compared to carbon dioxide (the most common GHG). The Governor's proposals are:

- ***Waste Diversion.*** CalRecycle would receive $100 million to continue grants, demonstration projects, and loans to divert waste from landfills to recycling facilities, anaerobic digesters, or composting facilities with the goal of reducing methane emissions from landfills (methane is an SLCP).

- ***Wood Stove Replacement.*** The plan provides $40 million to ARB for a new residential wood burning device replacement incentive program to reduce GHG emissions from wood smoke. Wood smoke is source of black carbon, which is an SLCP. The incentive program would be based on past programs implemented at the local level.

- ***Dairy Digesters.*** The CDFA would receive $35 million to continue the Dairy Digester Research and Development Program. Dairy digesters are designed to reduce GHGs by capturing methane emitted from dairy operations and converting it into energy in the form of electricity and renewable fuel.

- ***Refrigeration Unit Replacements.*** The ARB would be allocated $20 million to provide incentives for commercial grocery stores and markets in disadvantaged communities to replace their refrigeration systems with units that leak fewer GHGs.

Local Climate Program ($100 Million). The Governor's plan includes $100 million to fund integrated local projects intended to reduce GHG emissions in disadvantaged communities.

Water Efficiency ($90 Million). The Governor's plan includes $90 million for programs intended to improve water efficiency and save energy. A significant amount of energy is used to pump, transport, heat, and treat water. Therefore, reducing water consumption or improving the energy efficiency of existing water-related activities can reduce energy consumption and GHGs. The water efficiency programs included in the cap-and-trade expenditure plan are:

- ***Water Efficiency Technology.*** The CEC would receive $30 million to fund a new program for innovative water efficiency technologies. The program would provide incentives for three different areas of emerging technologies that, according to the administration, are not yet widely deployed: (1) agricultural water efficiency; (2) industrial, commercial, and residential water efficiency; and (3) energy efficiency in desalination facilities.

- ***Agricultural Water Efficiency.*** The CDFA would be allocated $20 million to continue funding for the Statewide Water and Efficiency Enhancement Program. This program was developed to reduce GHGs and save water by providing incentives for (1) efficient irrigation methods that reduce the need to pump water, (2) energy efficient water pumps, and (3) other measures.

- ***Rebates for Efficient Clothes Washers.*** The CEC would receive $15 million for a new program that would provide $100 rebates to households that purchase water and energy efficient clothes washers. This program would be similar to an appliance rebate program that operated several years ago as part of the federal stimulus package.

- ***Low-Income Household Water Efficiency Upgrades.*** The CEC, in partnership with CSD, would be provided with $15 million to install water and energy efficient appliances, shower heads, and faucets in low-income households. The CEC would design the new program and provide funding to CSD, which would perform the installations at the same time as its other low-income energy efficiency upgrades described above.

- ***Commercial and Institutional Water Efficiency.*** The DWR would receive $10 million to provide grants for water management projects and programs. According to DWR, the program would focus on projects within the commercial or institutional buildings—such as schools, hospitals, or government buildings—that result in more efficient water and energy use. This would be a modified version of an existing program that largely funds residential water efficiency projects.

Governor's Revenue Estimates Slightly Lower, but Reasonable

As shown in Figure 9, our office's estimates of cap-and-trade revenues are similar to those of the administration. The primary difference is that our 2016-17 estimate ($2.3 billion) is a few hundred million dollars higher than the Governor's ($2 billion). Our estimates assume that all of the allowances offered for sale at auctions will sell for the minimum price established by the ARB. Under the Governor's estimated revenues and proposed expenditures, there would be a $500 million fund balance remaining at the end of 2016-17. Under our revenue estimate, the fund balance would be $120 million higher and 60 percent of the higher revenues would be dedicated to the continuously appropriated programs ($180 million).

Interactions With Regulations Has Implications for Evaluating Spending Options

Understanding and estimating the net benefits of different GHG reduction programs is difficult for many reasons. One factor contributing to the difficulty is that, in certain cases, spending funds on GHG reduction activities interacts with other climate regulations. Such interactions can be complex, but they have important implications for how the Legislature might want to target spending and how it evaluates the net benefits of different projects. Below, we describe the interaction that spending has with one key regulation—the cap-and-trade regulation—and the implications it has for evaluating different spending options.

Current Requirement to Spend on GHGs Creates Policy Challenges. In a report issued in January 2016, we described and assessed the relationship between the cap-and-trade regulation and the auction revenue that is generated as a result of the program. (For more details, see our report *Cap-and-Trade Revenues: Strategies for Promoting Legislative Priorities*.) In this report, we describe how, from a policy standpoint, the cap-and-trade regulation is key to ensuring that the state meets its GHG goals cost-effectively. In contrast, the revenues generated from the cap-and-trade auctions can be considered more of a byproduct of the program rather than as a primary goal of the program.

At first glance, spending on activities that reduce GHGs would appear to encourage additional emission reductions. However, spending auction revenue on GHG emission reductions in the capped sector can interact with the cap-and-trade regulation in somewhat complicated and perhaps unexpected ways. As a result, the current legal requirement creates several policy challenges.

- ***Spending Likely Not Needed to Meet GHG Goals.*** As long as the cap is limiting emissions, subsidizing an emission reduction from one capped source—including transportation fuels and electricity generation—will simply free-up allowances for other emitters to use. The end result is a change in the sources of emissions, but no change in the overall level of emissions.

- ***Spending Likely Increases Overall Costs of Emission Reductions.*** The cap-and-trade regulation generally creates a financial

Figure 9

Comparison of Administration and LAO Cap-and-Trade Revenue Estimates

(In Millions)

	LAO	Administration	Difference
2015-16	$2,400	$2,400	—
2016-17	2,300	2,000	$300

incentive for households and businesses to find the least costly mix of emission reductions. Therefore, using state funds to encourage a different mix of GHG emission reductions would likely be more costly.

- ***Limits Flexibility to Achieve Other Goals.*** The requirement to spend on GHG reductions limits the Legislature's flexibility to use the revenue in a way that could achieve its non-GHG goals, such as (1) reducing costs for energy users; (2) promoting other climate-related goals, such as climate adaptation; and (3) promoting other legislative priorities unrelated to climate change, such as improving the state's transportation infrastructure.

To address these challenges, one option for the Legislature would be to remove the legal requirement to spend on GHG reductions by reauthorizing cap-and-trade with a two-thirds vote. This would give the Legislature greater flexibility to return the revenue directly to households and businesses and/or use the funds to address its highest priorities. Moreover, as long as the cap is in place, the state will likely achieve its GHG goals from major sources of emissions. Alternatively, if the requirement to spend on GHG reductions remains in place, the Legislature might want to consider a mix of the following strategies as a way to maximize different legislative priorities: (1) spend on emission reductions from uncapped sources to achieve net GHG reductions, (2) target spending to reduce overall costs of emission reductions, (3) prioritize projects that also achieve non-GHG goals, and (4) offset other types of state spending to enable greater budget flexibility.

Analyses That Can Help Legislature Target Spending Under Requirement to Reduce GHGs. Although the requirement to spend on activities that reduce GHGs creates some challenges, the funds can still be used to provide significant benefits. However, allocating the funds in a way that achieves the greatest level of benefits should be informed by reliable information about the degree to which different projects help achieve desired benefits, as well as how those benefits are distributed to different households and businesses. Below, we outline two general types of analyses that, in our view, could help the Legislature evaluate various cap-and-trade spending proposals.

- ***General Framework for Spending.*** It is important to first establish a general framework for evaluating spending options. In our view, such a framework should be based on an analysis of how the spending interacts with the cap-and-trade regulation, as we described above, and other regulations. This analysis could then inform the development of strategies for targeting spending in ways that achieve different priorities. For example, if the priority is to encourage net GHG reductions, a framework might identify the types of programs that most likely help achieve this goal, such as targeting uncapped sources of emissions. The analysis could also identify efforts that would target emissions from capped sources in ways that minimize the overall costs of reductions. To the extent that a priority is to address other goals—such as reducing costs for businesses or households in disadvantaged communities or improving co-benefits like air quality—the framework could identify ways for funds to be targeted that help achieve these goals most effectively. Currently, the three-year investment plan is intended to be the document that provides such a framework. However, as we discuss below, we find that the investment plan currently does not provide a robust analytical framework.

- ***Reliable Estimation of Net Benefits of Specific Programs or Projects.*** A general framework for spending can provide guidance for evaluating different spending options and identifying categories of spending that achieve different state priorities most effectively. However, in the end, the Legislature will have to allocate funds to specific programs based on its assessment of which programs provide the greatest overall benefits. In our view, accurate and reliable estimates of the net benefits—including of both GHG and non-GHG benefits—associated with different programs could inform such decisions.

Proposal Lacks Key Information to Help Legislature Prioritize Spending

Many of the proposals offered by the administration might have significant merit. However, in our view, the Governor's plan lacks a robust analytical framework and reliable estimates of benefits. This missing information makes it difficult to evaluate which programs provide the greatest overall benefits. The analysis that would be needed to provide reliable information is difficult and likely requires expert knowledge of different regulatory and market conditions, as well as a general understanding of the programs being considered. Furthermore, there is an inherent level of uncertainty around the benefits of new programs and new types of technologies. Despite these challenges, given the significant amount of funding that would be allocated under this year's expenditure plan—as well as the billions of dollars that will be available in future years—we think the Legislature would benefit from more reliable information in these areas.

Investment Plan Lacks Robust Analysis Needed to Develop Framework for Spending. In our view, the investment plan does not provide a robust analytical framework for evaluating spending options. This is evident in the "gaps and needs assessment" included for each category of spending. The gap assessment describes different types of programs that could reduce GHGs within the priority areas of spending identified by the administration. However, the administration does not provide a clear analytical justification for why spending of auction revenues on each of these programs is likely to achieve state priorities most effectively compared to alternative options. In particular, the investment plan does not include the following analyses:

- ***Assessment of How Spending Options Interact With Cap-and-Trade Regulation.*** The plan does not discuss the interactions with the cap-and-trade program and its implications for assessing different spending options. As a result, it fails to identify strategies for targeting spending in ways that achieve additional net GHG emission reductions or promote the most cost-effective mix of emission reductions from capped sources.

- ***Assessment of How Spending Options Interact With Other Regulations.*** The investment plan does not explicitly address how new programs might interact with existing regulations or programs. For example, biofuel production is identified as one potential priority area for investment. Financial support for biofuel production likely interacts with the LCFS regulation. The LCFS is another market-based mechanism administered by ARB that requires a 10 percent reduction in the carbon intensity of fuels by 2020. Increased biofuel production is expected to be one of the primary ways the regulated communities will comply with the regulation. Providing additional state subsidies for biofuel production might not change the overall carbon intensity of the fuel. Instead, it might simply reduce the costs for businesses that would produce biofuels under the regulation. While there may be a strong rationale for supporting biofuel production, the investment plan does not discuss this type of interaction when evaluating the role of spending in the context of other regulations.

Certain Budget Proposals Lack Details About Projects. Some of the new or significantly modified proposals lack details about what types of projects will be funded and which types of projects will be selected. For example, the overall mix of forestry projects that will be selected as part of CalFire's new landscape-scale forest health proposal is unclear. In addition, the Strategic Growth Council program for local climate projects in disadvantaged communities provides very little detail about what types of projects are funded. In this case, the lack of detail is largely due to the design of the program—which is to rely on local communities to make proposals that identify the types of projects that are likely to provide the greatest overall benefits to that specific community. Other programs for which the types of projects will be funded is somewhat unclear include DWR's commercial and institutional water efficiency program and the Low Carbon Road Program. These programs could have significant merit, but the lack of information about what types of projects will be implemented makes it particularly difficult to assess the potential benefits and outcomes.

Expected Benefits of Proposals Are Often Unclear or Uncertain. Even when the characteristics of the projects are relatively clear, the expected outcomes often are either unclear or subject to considerable uncertainty. First, the administration has not provided estimated benefits—including GHG reductions or co-benefits—for several of the programs, including the wetland restoration or urban forestry proposals. Other proposals include GHG estimates, but do not provide information about the expected co-benefits. For example, the CCC Energy Corps proposal includes estimates of GHG reductions, but not financial savings from improved energy efficiency that would accrue to building owners or occupants.

Second, even in instances when the administration provides estimates of benefits, we frequently identified limitations associated with the methods used to produce such estimates. For example, a couple of the methodological concerns that we identified are:

- ***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 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.

Accounting for interactions with other regulations and free-ridership can be difficult. However, these factors can have significant implications for the overall type, level, and distribution of benefits of a particular program.

No Comprehensive Approach to Maximizing Benefits for Disadvantaged Communities. State law requires a minimum of 25 percent of funds go to projects that benefit disadvantaged communities and a minimum of 10 percent go to projects located in disadvantaged communities. Some proposals indicate the portion of program funds that will be targeted to disadvantaged communities. For example, the CCC indicates that it plans to use at least 60 percent of the funding to improve energy efficiency in public buildings located in disadvantaged communities. However, the administration has not provided a comprehensive plan for how it will achieve the overall disadvantaged communities goal. Furthermore, the administration has not provided an estimate of the disadvantaged community benefits for each proposal, the total amount of funding that will be used for projects that benefit disadvantaged communities, the types of benefits that will be provided, and how those benefits will be distributed across different households and regions. Without this information, it is difficult to evaluate the degree to which the Governor's plan is consistent with legislative direction.

LAO Recommendations

Based on our assessment, we recommend the Legislature (1) direct the administration to provide more robust estimates of benefits, (2) allocate funds based on policy priorities and level of confidence in outcomes, and (3) establish an expert advisory committee to help target future spending.

Direct Administration to Provide More Robust Estimates of Benefits. In the short run, we recommend the Legislature direct the administration to report the following information for consideration in budget hearings: (1) detailed estimates of GHG and co-benefits associated with each proposal, including the methodologies used to produce such estimates, and (2) what portion of these benefits will accrue to households located in disadvantaged communities. This information could help the Legislature evaluate the degree to which each program promotes legislative priorities. As always, our office would be available to assist in evaluating the information provided by the administration.

Allocate Funds Based on Policy Priorities and Level of Confidence in Outcomes. Ultimately, the Legislature's allocation of funds in the 2016-17 budget will depend on its assessment of the expected benefits associated with different programs, as well as the relative weight it gives to GHG emission reductions versus other co-benefits. There is some inherent level of uncertainty about the outcomes that will be achieved by each of these programs. Therefore, for programs where the types of projects would be funded are unclear—such as for new programs—and for programs where expected outcomes are most uncertain, the Legislature might want to consider allocating a relatively small amount of funds in the first year and waiting for program outcomes to be available prior to allocating additional funds in future years.

Establish a Committee to Develop a More Robust Investment Plan. We recommend the Legislature establish an independent advisory committee consisting primarily of economic experts and scientists to assist the administration in developing a more robust strategy for targeting funds in future years in ways that encourage the most cost-effective GHG reductions and promote other co-benefits. In particular, greater economic expertise could help provide guidance about how to target funds most cost-effectively under existing market and regulatory conditions. The committee could also provide recommendations regarding the methods that could be used to estimate benefits prior to awarding funds and evaluate the outcomes of different types of projects after they have been implemented.

State's Drought Response

Recent Report Summarized State's Response, Recommended Next Steps. Our recent publication, *The 2016-17 Budget: The State's Drought Response*, contains a detailed assessment of the Governor's 2016-17 drought package. The report (1) describes the current drought and its impacts across the state, (2) summarizes the state's drought response appropriations and activities thus far, (3) assesses the Governor's drought-related budget proposals for 2016-17, and (4) recommends steps the Legislature can take to address drought both in the coming year and the future. Below, we summarize our major findings.

Background

State Experiencing Exceptionally Dry Period. California has been experiencing a serious drought for the past four years. In fact, by some measures the current drought actually began in 2007, with one wet year—2011—in the middle. While there are optimistic signs that El Niño weather patterns will bring California a wet winter in 2016, how much precipitation will fall as snow in the state's northern mountain ranges—a major source of the state's water throughout the year—remains uncertain. Moreover, the cumulative deficit of water reserves resulting from multiple years of drought is sufficiently severe that some degree of drought conditions likely will continue at least through 2016. Scientific research also suggests that climate change will lead to more frequent and intense droughts in the future.

State Has Employed Multifaceted Response to Current Drought. The state has deployed numerous resources—fiscal, logistical, and personnel—in responding to the impacts of the current drought. This includes appropriating $3 billion to 13 different state departments between 2013-14 and 2015-16. In addition to increased funding, the state's drought response has included certain policy changes. Because current drought conditions require immediate response but are not expected to continue forever, most changes have been authorized on a temporary basis, primarily by gubernatorial executive orders or emergency departmental regulations. For example, one of the most publicized temporary drought-related policies has been the Governor's order (enforced through regulations) to reduce statewide urban water use by 25 percent.

Governor's Proposal

Governor Proposes \$323 Million for Drought Response Activities in 2016-17. The Governor's budget proposal provides \$212 million from the General Fund, \$90 million from GGRF—auction revenues from the state's cap-and-trade program—and \$21 million from other special funds for drought response efforts in 2016-17. This funding would primarily support the continuation of initiatives funded in recent years that address emergency drought response needs. For example, the proposal includes funding for increased wildland firefighting, to provide various forms of human assistance in drought-affected communities (such as drinking water, food, financial assistance, and housing and employment services), and to monitor and assist at-risk fish and wildlife. The GGRF monies would fund four conservation programs intended to improve water and energy efficiency—two new, one existing, and one modified.

LAO Recommendations

Adopt Most of Governor's Drought-Related 2016-17 Budget Proposals. We believe the Governor's approach to focus primarily on the most urgent human and environmental drought-related needs makes sense. The severity of enduring drought conditions supports the continued need for these response activities. As such, we recommend the Legislature adopt the components of the Governor's drought package that meet essential human and environmental needs and that are likely to result in immediate water conservation. This would include all of the proposals supported by General Fund (\$212 million) and non-GGRF special funds (\$21 million). We believe additional information is needed, however, before adopting the Governor's four GGRF-funded conservation proposals. Whether these proposals represent the best approach to achieving water and energy savings and reducing GHGs is unclear. We therefore recommend the Legislature delay deciding on whether to fund these programs until the administration has provided additional information to justify the request.

Learn Lessons to Apply to Future Droughts. Given the certainty that droughts will reoccur, and the possibility that subsequent droughts might be similarly intense, we recommend the Legislature continue to plan now for the future. Such planning can be facilitated by (1) learning from the state's response to the current drought, (2) identifying and sustaining short-term drought-response activities and policy changes that should be continued even after the current drought dissipates, and (3) identifying and enacting new policy changes that can help improve the state's response to droughts in the future. We recommend the Legislature spend the coming months and years vetting various drought-related budget and policy proposals for their potential benefits and trade-offs, and enacting changes around which there is widespread and/or scientific consensus. This could include both changes that remove existing barriers to effective drought response, as well as proactive changes that improve water management across the state. The Legislature can gather such information through a number of methods, including oversight hearings and public forums, but we also recommend the administration submit two formal reports: one that provides data measuring the degree to which intended drought response objectives were met, and one that provides a comprehensive summary of lessons learned from the state's response to this drought.

Proposition 1—2014 Water Bond

LAO Bottom Line. The Governor's two major new 2016-17 Proposition 1 spending proposals—implementing statewide water-related commitments and restoring the Los Angeles

River—represent a reasonable starting place, but the specific spending levels he has selected for each activity are not without trade-offs. We recommend the Legislature adopt a Proposition 1 spending package that represents its priorities.

Background

Proposition 1 Provides $7.5 Billion in General Obligation Bonds. In November 2014, voters approved Proposition 1, a $7.5 billion water bond measure aimed primarily at restoring habitat and increasing the supply of clean, safe, and reliable water. Most of the projects funded by Proposition 1 will be selected on a competitive basis, based on guidelines developed by state departments. While the measure prohibits the Legislature from allocating funding to specific projects, a few spending categories are subject to more legislative discretion, as discussed below.

Bond Included Certain Accountability Provisions. The bond measure also included some accountability provisions, including a requirement that CNRA annually publish a list of all program and project expenditures on its website. This website is also to include fields to display project outcomes based on pre-determined performance metrics, such as acreage of land restored or volume of water recycled. This is similar to how the agency reported on a previous resources bond (Proposition 84).

State in Midst of Implementing Proposition 1. As shown in Figure 10 (see next page), the bond provides funding for eight categories of activities. These funds will be distributed across 16 state departments (including ten state conservancies). As shown in the figure, the Legislature already has appropriated a combined $2.1 billion of available bond funding. Specifically, $270 million was appropriated via emergency drought legislation in March 2015 (Chapter 1 of 2015 [AB 91, Committee on Budget]) and $1.8 billion via the *2015-16 Budget Act*. The $2.7 billion for water storage projects is not subject to legislative appropriation but rather is continuously appropriated to the California Water Commission (CWC). As such, $2.8 billion in authorized Proposition 1 funding remains for the Legislature to appropriate.

Of the $2.8 billion from Proposition 1 remaining for the Legislature to appropriate, $1.8 billion represents funding to continue activities initiated in 2015-16. (Departments do not plan to submit formal funding requests in future budget change proposals for this $1.8 billion unless they wish to deviate from the multiyear plan described below.) The remaining $1 billion represents funding for new activities that are not yet underway and for which the Legislature has not yet approved any appropriations. These three activities are: (1) statewide obligations and agreements ($475 million), (2) Los Angeles River restoration ($100 million), and (3) flood protection ($395 million).

Administration Has Developed Multiyear Appropriation Schedule. Figure 11 (see page 23) displays the administration's multiyear funding plan for spending Proposition 1 bond funds. As shown, funding for many categories was "front-loaded," with large appropriations in the current year and smaller amounts expected to be apportioned in subsequent years. Two primary exceptions are water storage and flood protection, for which the administration expects most funding will be allocated after 2019-20. This lag is because the CWC still is in the process of developing specific eligibility criteria for potential storage projects and because the state still has significant funding available for flood protection from prior bond measures.

Bond Sets Aside $475 Million for Certain Statewide Commitments. The largest portion of Proposition 1 funding remaining for the Legislature to appropriate consists of $475 million for statewide obligations and agreements (from the section of the bond that dedicates funds for watershed protection and restoration). These funds are intended to help meet water-related commitments into which the state has entered. The bond explicitly identifies four such agreements for which the funding can be used—the Central Valley Project Improvement Act (CVPIA), the Salton Sea Restoration Act, the San Joaquin River Restoration Settlement Act, and the Tahoe Regional Planning Compact. In addition, Proposition 1 states that funding for statewide commitments can be used for a multiparty agreement that meets a number of specific characteristics, all of which

Figure 10

Summary of Proposition 1 Bond Funds

(In Millions)

Purpose	Implementing Departments	Bond Allocation	Prior Appropriations[a]	2016-17 Proposed
Water Storage		**$2,700**	**$5**	**$4**
Water storage projects	CWC[b]	2,700	5	4
Watershed Protection and Restoration		**$1,496**	**$173**	**$605**
State obligations and agreements	CNRA	475	—	465
Watershed restoration benefiting state and Delta	DFW	373	37	37
Conservancy restoration projects	Conservancies	328	98	44
Enhanced stream flows	WCB	200	39	39
Los Angeles River restoration	Conservancies	100	—	11
Urban watersheds	CNRA	20	<1	9
Groundwater Sustainability		**$900**	**$844**	**$1**
Groundwater cleanup projects	SWRCB	800	784	—
Groundwater sustainability plans and projects	DWR	100	60	1
Regional Water Management		**$810**	**$232**	**$57**
Integrated Regional Water Management	DWR	510	33	55
Stormwater management	SWRCB	200	102	2
Water use efficiency	DWR	100	98	—
Water Recycling and Desalination		**$725**	**$342**	**$1**
Water recycling	SWRCB	725	292	—
Desalination	DWR		50	1
Drinking Water Quality		**$520**	**$469**	**$5**
Drinking water for disadvantaged communities	SWRCB	260	244	2
Wastewater treatment in small communities	SWRCB	260	225	2
Flood Protection		**$395**	**—**	**—**
Delta flood protection	DWR and CVFPB	295	—	—
Statewide flood protection	DWR and CVFPB	100	—	—
Administration and Oversight		**—**	**$1**	**$1**
Administration[c]	DWR and CNRA	—	1	1
Totals		**$7,546**	**$2,066**	**$673**

[a] Includes $267 million from Chapter 1 of 2015 (AB 91, Committee on Budget) and $1.8 billion from the *2015-16 Budget Act*.

[b] With staff support from DWR.

[c] Bond does not provide a specific allocation for bond administration and oversight, but allows a portion of other allocations to be used for this purpose.

CWC = California Water Commission; CNRA = California Natural Resources Agency; DFW = Department of Fish and Wildlife; WCB = Wildlife Conservation Board; SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; and CVFPB = Central Valley Flood Protection Board.

the Klamath Hydroelectric Settlement Agreement meets. (Drafters of the bond indicate that the Klamath agreement was considered as a prime candidate for this funding. As such, we describe that agreement below.) The bond did not specify how much—if any—of this funding should be allocated to each commitment. Moreover, as noted in the descriptions below, the total cost to fulfill all of these commitments greatly exceeds $475 million. Proposition 1 left it to the Legislature to determine how best to allocate this funding amongst the five potential commitments.

- ***CVPIA.*** Enacted by Congress in 1992, the CVPIA included numerous changes for federal water operations in California. Among these was a commitment to provide a guaranteed annual water supply to 19 state, federal, and privately owned wildlife refuges in the Central Valley that serve as critical wetland habitat to numerous wildlife species. The federal government committed to providing the *baseline* amount of water needed by the wildlife ("Level 2"), and to paying 75 percent of the costs of providing the *optimal* amount of water needed ("Level 4"). The legislation included a commitment for California to contribute the remaining 25 percent towards the costs of providing Level 4 water supplies (which can be met through in-kind contributions such as staff support). Despite the more than two decades since enactment of the CVPIA, not all of the refuges have acquired permanent Level 4 water supplies. According to the U.S. Fish and Wildlife Service, government agencies struggle to acquire the additional water because "usually there are too few willing sellers, too little funding to buy their water, or both." Additionally, some locations still lack the infrastructure needed to convey all the water mandated by CVPIA to the refuges. The administration states that because of accounting difficulties with the federal agencies involved, estimates are not available for the total cost of ensuring Level 4 water supplies, the state's share of that cost, or the amount the state has contributed thus far.

- ***Salton Sea Restoration Act.*** In 2003, the Legislature ratified a collection of agreements—referred to as the Quantification Settlement Agreement (QSA)—that both reduced and reallocated the state's share of Colorado River water. Because this agreement requires the transfer of water from primarily agricultural users in the Imperial Valley to other areas of Southern California, one

Figure 11

Administration's Multiyear Proposition 1 Funding Plan

Category	Bond Allocation	2014-15 and 2015-16	2016-17	2017-18	2018-19	2019-20 and After
Water storage	$2,700	$5	$4	$418	$411	$1,808
Watershed protection and restoration	1,495	173	605	173	136	379
Groundwater sustainability	900	844	1	35	1	1
Regional water management	810	232	57	302	7	197
Water recycling and desalination	725	342	1	133	233	2
Drinking water quality	520	469	5	24	4	8
Flood protection	395	—	—	—	—	387
Totals[a]	**$7,545**	**$2,066**	**$671**	**$1,085**	**$791**	**$2,782**

[a] Appropriation amounts exclude $151 million to pay for statewide bond costs, including $1.4 million in 2016-17.

result will be a reduction in the amount of agricultural runoff that historically has fed the Salton Sea—the state's largest lake. Reducing this inflow is expected to dramatically shrink the lake (exposing toxic dry soils and damaging air quality) and increase its already high salinity levels (ruining the habitat for fish and migrating birds). As such, the state required that water continue to flow into the lake for several years so that a mitigation plan could be developed. The full transfers (and the corresponding decrease in runoff to the lake), however, are scheduled to begin phasing-in in 2017. As a component of the QSA, the state assumed responsibility for paying most of the costs to mitigate the air quality impacts resulting from the transfer. After many years of study and numerous proposals, in fall 2015 a task force convened by the Governor recommended steps for addressing the Salton Sea. These included an immediate short-term goal of undertaking 9,000 to 12,000 acres of habitat creation and dust suppression projects at the lake. The CNRA still is in the process of developing a long-term plan for managing the lake, along with associated funding estimates and sources. (Earlier proposals for restoring the lake had associated costs of several billions of dollars.) An earlier bond measure, Proposition 84, provided $47 million for initial restoration efforts and planning at the Salton Sea.

- ***San Joaquin River Restoration Settlement Act.*** In 2009, the federal government enacted legislation to implement a legal settlement stemming from a lawsuit over the negative impacts of dam construction. The legislation established a long-term effort to restore flows within the San Joaquin River (from Friant Dam to the confluence of Merced River) and to restore a self-sustaining Chinook salmon fishery in the river. While not a party to the lawsuit, the state formally committed to contribute at least $200 million to this effort. (Under the settlement terms, the federal government and the Friant Water Users Authority will pay most of the project costs.) Project managers estimate the remaining cost of completing the long-term project to be between $1.2 billion and $1.7 billion. Thus far, the state has allocated about $110 million from various bonds towards the river restoration.

- ***Tahoe Regional Planning Compact.*** In 1969, California and Nevada enacted a statutory agreement (later ratified by Congress) intended to improve the quality both of human development and the environment at Lake Tahoe. The agreement also establishes the bi-state Tahoe Regional Planning Agency to oversee development activities in the region. The agency has the regulatory authority to set and enforce environmental standards and land use policies for the Lake Tahoe Basin. In 1997, the two states, federal government, and stakeholders developed an Environmental Improvement Program to identify activities that will advance the objectives of the Compact. Reflecting the share of the lake located in each state, California generally is expected to contribute two-thirds of the two states' share of funding to implement the Compact and related activities, with Nevada contributing one-third. According to CNRA, over the last two decades California has contributed nearly $700 million to help fulfill the Compact and the associated environmental program. A recent long-range plan developed by regional stakeholders set a funding target of $920 million to support Compact-related projects over the next decade, and set California's share of that target at $200 million. This target, however, does not represent a legally binding commitment.

- ***Klamath Hydroelectric Settlement Agreement.*** In 2010, numerous stakeholder groups including federal agencies, state agencies from California and Oregon, Indian tribes, counties, irrigators, and conservation and fishing groups signed two agreements—the Klamath Basin Restoration Agreement and Klamath Hydroelectric Settlement Agreement—to address long-standing disputes over water management and environmental conditions in the Klamath River Basin. (A third compact, the Upper Klamath Basin Comprehensive Agreement, was developed in 2014.) These agreements include provisions to restore habitat for several species of threatened or endangered fish, as well as assurances for future water allocations to irrigators, tribes, and wildlife refuges within the river basin. A key component of the agreements is removal of four privately owned hydroelectric dams along the Klamath River (three in California and one in Oregon) that have affected downstream water quality and blocked the migratory path of salmon and other fish species. The state of California agreed to pay up to $250 million towards the estimated $450 million cost of removing the dams, with customers from the utility company that owns the dams contributing the other $200 million. Over the past several years the company has collected nearly the full $200 million from its utility ratepayers—about 90 percent of whom live in Oregon and 10 percent in California. The state has not yet appropriated any funding for the project. Several components of the agreements, however, expired in January 2016 when they failed to receive Congressional ratification. As such, how the overall approach to addressing issues in the Klamath River Basin will proceed and which components of the agreements ultimately will be implemented is now uncertain.

Bond Included $100 Million for Projects to Protect and Enhance the Los Angeles River. The Legislature also has yet to appropriate $100 million dedicated by the bond for projects to improve the Los Angeles River. Proposition 1 states that this funding must be spent pursuant to plans adopted by the Santa Monica Mountains Conservancy and the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy. The bond, however, does not specify how funds should be allocated between the two conservancies, leaving this decision to the Legislature. (This funding is in addition to the $30 million each of the two conservancies will receive from the section of Proposition 1 that provides funding to all of the state's ten conservancies.)

Governor's Proposal

Appropriates $673 Million From Proposition 1. As shown in Figure 10, the Governor proposes appropriating $673 million, or 9 percent of total authorized Proposition 1 funding, in 2016-17. This is roughly one-third of the amount that has already been appropriated. Of this total, however, only $476 million represents new funding proposals. These are detailed in Figure 12 (see next page). The remaining $197 million represents continuations of efforts initially funded in 2015-16, consistent with the administrations multiyear funding plan.

Dedicates Funding for Four Statewide Commitments. As shown in Figure 12, the Governor proposes appropriating the full portion

Figure 12

Governor's New Proposition 1 Proposals

2016-17 (In Millions)

Activity	Amount
Statewide Obligations and Agreements	**$464.9**
Klamath Hydroelectric Settlement Agreement (CNRA)	250.0
Central Valley Project Improvement Act (CNRA)	89.9
Salton Sea Restoration Act (DWR)	80.0
San Joaquin River Restoration Settlement Act (DWR, DFW)	45.0
Los Angeles River Restoration	**$11.1**
Santa Monica Mountains Conservancy	11.1
Total	**$476.0**

CNRA = California Natural Resources Agency; DWR = Department of Water Resources; and DFW = Department of Fish and Wildlife.

of funding for statewide obligations towards four of the five commitments mentioned in Proposition 1. This includes $464.9 million in 2016-17 as shown, plus an additional $150,000 each year for the next four years for the CVPIA. The remaining $9.5 million—2 percent of the $475 million—is set aside for bond administration costs. The proposal would provide sufficient funding to fully meet the state's agreed-upon contribution for the Klamath Hydroelectric Settlement Agreement, and likely would be enough to complete the planned dam removals. In contrast, the proposed amounts for the other three commitments are expected to fund just a portion of the state's remaining obligations. (As discussed below, the total amount of the state's obligation is not clearly defined for three of the five potential commitments.)

In addition to this Proposition 1 funding, the Governor's proposal includes $638,000 for staff work on the Salton Sea restoration effort. This consists of: (1) $300,000 from the General Fund for three existing staff from the DFW to conduct biological surveys and monitoring activities; (2) $138,000 from the General Fund and one new position at the State Water Resources Control Board to support related workload, including convening and participating in meetings, workshops, and hearings; and (3) $150,000 from Proposition 1 and $50,000 from the General Fund to fund the Assistant Secretary of Salton Sea Policy at CNRA, who is helping to coordinate the state's efforts in the region.

The Governor's proposal would not allocate any funding from the Proposition 1 set-aside for statewide commitments towards implementing the Tahoe Regional Planning Compact—the only statewide commitment cited in the bond for which no funding is provided. The administration states this is because other funding sources are available to implement associated activities, including from other portions of Proposition 1—specifically, $15 million for the Tahoe Conservancy; $2 million to the region for integrated regional water management planning; and eligibility for competitive watershed restoration grants overseen by DFW. Additionally, the administration notes that the state has invested nearly $700 million to implement restoration activities related to the Compact and associated Environmental Improvement Program over the past two decades, and that other interested parties (including the state of Nevada and the federal government) must play a significant role in funding continued activities as well. The Governor's budget also includes a separate proposal to provide $550,000 from the Lake Tahoe Science and Lake Improvement Account (plus an additional $400,000 in reimbursement authority) to implement activities related to the Compact.

The administration states that it developed its overall plan for these funds based on an assessment of the amount needed to meet each obligation, past investments made by the state, and the availability of other funds. Additionally, the administration states that while it is requesting that the Legislature appropriate the full amount of funding in 2016-17, it may request to modify the proposed allocation plan over time based on updates to the status of the agreements, progress on the projects, or the availability of other funding.

Provides Funding for Los Angeles River Restoration. The Governor also proposes making an initial allocation from the $100 million set aside for Los Angeles River restoration projects. Specifically, the budget includes $11 million for the Santa Monica Mountains Conservancy for this purpose. The proposal does not include any funding for the other conservancy involved in this effort, the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy.

LAO Assessment

Governor's Proposals Generally Reasonable, but Alternative Approach Could Be as Well. While the Governor's new Proposition 1 proposals generally are reasonable and consistent with bond language, they do not represent the only approach to allocating funding set aside for statewide commitments and the Los Angeles River. While our review did not identify any significant concerns with the Governor's approach, there are trade-offs associated with his specific choices. This is particularly true with regard to allocating funding amongst the statewide commitments, for which total needs exceed available funds. Below, we identify issues for the Legislature to consider as it determines how best to apportion funds across the potential commitments. We also highlight considerations for the Los Angeles River restoration funding. Finally, we highlight a shortcoming with the administration's plans for reporting on Proposition 1 outcomes.

Legislature Faces Trade-Offs in Deciding How to Fund Statewide Commitments. As discussed above, the administration has chosen to allocate funding for four of the five statewide obligations cited in Proposition 1. We find the rationale behind the Governor's choices to be sound. The proposed approach would address some urgent needs, advance projects the state has identified as priorities, and take other funding sources into account. We believe, however, that distributing the funds somewhat differently also would be reasonable. Additionally, significant uncertainties surrounding some of the commitments raise questions as to the specific level of obligations the state faces. The Legislature could modify (1) which commitments to fund and (2) how much funding to provide for each. Figure 13 (see next page) summarizes important factors to consider for each potential commitment. As indicated in the figure, we have identified three key considerations for evaluating the trade-offs associated with each commitment:

- ***Urgency.*** Some of the commitments carry more pressing implementation considerations than others. For example, absent remediation efforts, health conditions at the Salton Sea will rapidly deteriorate for both humans and wildlife beginning in 2017 when water transfers increase and runoff into the lake decreases. With regard to the Klamath River, parties have spent many years developing an agreement and laying the groundwork for dam removal. The administration believes a timely show of the state's continued commitment to the agreement is a vital step in sustaining this effort, and that delays might further derail the entire plan for the Klamath Basin (particularly after the broader package of agreements failed to receive Congressional ratification). In contrast, the other three commitments

Figure 13

Factors to Consider in Determining How to Fund Statewide Commitments

Klamath Hydroelectric Settlement Agreement (Governor's Proposal: $250 Million)

Estimated State Obligation: $250 million.
Urgency: Removing dams is key step in river restoration effort. Proceeding with removal could sustain momentum for implementing broader solutions in Klamath Basin.
Responsibility and Funding: State shares responsibility with energy company, which already has secured its share of funding for the project. Governor's proposed amount would fulfill state's commitment and likely could fully complete dam removal.
Major Uncertainties: Status of overall Klamath Basin approach and commitment of other parties uncertain after Congress opted not to ratify package of Klamath agreements.

Central Valley Project Improvement Act (Governor's Proposal: $89.9 Million)

Estimated State Obligation: Unknown.
Urgency: Birds and wildlife have had to manage with less than optimal water levels for many years, with situation exacerbated during drought years. Making infrastructure improvements now could help in future droughts. Pace of project implementation depends on amount of available resources.
Responsibility and Funding: Federal government has primary responsibility. State can also meet its obligation through in-kind contributions. Level of state contributions could influence level of federal contributions.
Major Uncertainties: Amount required to meet state's current commitment has not been quantified.

Salton Sea Restoration Act (Governor's Proposal: $80 Million)

Estimated State Obligation: Unknown, likely in the billions of dollars.
Urgency: Lack of action ultimately could have serious consequences for health of nearby residents (air quality) and wildlife (salinity). Conditions likely will begin to deteriorate further beginning in 2017.
Responsibility and Funding: State is principal responsible party for addressing restoration needs. Unclear what other funding sources might be available. Total costs likely well in excess of funding currently available.
Major Uncertainties: Long-term plan and associated costs for addressing issues has not yet been developed.

San Joaquin River Restoration Settlement Act (Governor's Proposal: $45 Million)

Estimated State Obligation: $90 million (remaining from original $200 million commitment).
Urgency: Pace of project implementation depends on amount of available resources.
Responsibility and Funding: Federal government and local water agency have primary responsibility. State can also make contributions through San Joaquin River Conservancy depending on projects. Level of state contributions could influence level of federal contributions.

Tahoe Regional Planning Compact (No Governor's Proposal)

Estimated State Obligation: Unspecified.
Urgency: Pace of project implementation depends on amount of available resources.
Responsibility and Funding: State shares responsibility with Nevada and other partners. No fixed amount of obligated funding. State can also make contributions through Tahoe Conservancy and regional water planning funds. Additional $550,000 proposed in Governor's budget from Lake Tahoe Science and Lake Improvement Account.

represent multiyear efforts that are already underway. Providing additional funding would help sustain or accelerate implementation of these projects—which do have statewide importance—but does not seem to be an essential component of averting an impending crisis.

- ***Responsibility and Funding.*** The role—and potential impact—of state funding in implementing the activities associated with each commitment varies. The state holds primary responsibility for implementing the activities associated with just one of the five commitments—Salton Sea restoration. In this case, state funding is essential for project implementation. For the other commitments, the state shares responsibility with other parties, and in two cases (CVPIA and San Joaquin River), the state has a relatively small role compared to federal agencies. As such, the potential impacts of state contributions are somewhat dependent upon the level of effort put forth by other parties. Moreover, the state should not bear more than its share of implementing agreed-upon activities. The relative benefits of funding a particular commitment should be weighed against both contributions made by other partners and potential alternative funding sources. For example, with regard to the Klamath agreement, the additional funding necessary to remove the dams has already been collected, meaning the state contribution could result in project completion. In contrast, the effects of state funding in implementing the CVPIA and the Tahoe Compact are less clear, given that total project scope and costs remain unclear or undefined. The administration believes providing state funding will help spur additional federal spending for CVPIA and the San Joaquin River. As noted in Figure 13, additional state funding is available from other sources for the Tahoe Compact and potentially for the San Joaquin River (through the related conservancy).

- ***Major Uncertainties.*** Key information regarding three of the commitments included in the Governor's proposal still is unknown, making evaluating and quantifying the potential impacts of providing the funding somewhat difficult. Specifically, the overall status of the Klamath River Basin agreements is extremely uncertain after Congress opted against ratifying them. Many questions remain about the efficacy and implications of implementing one portion of the agreements (dam removal) without commitments to fulfill the others (including restoration work and clarification of future water allocations). Additionally, as noted above, the state's specific fiscal obligations for the Salton Sea, CVPIA, and Tahoe Compact are unspecified or unknown. As such, how far the Governor's proposal would go towards satisfying the state's obligations or fulfilling overall project objectives also is unclear.

Governor's Overall Funding Plan for Los Angeles River Lacks Some Detail. The Legislature faces both budget-year and out-year decisions regarding how to approach another section of remaining Proposition 1 funding—$100 million for Los Angeles River restoration projects. While the Governor's budget includes a proposal for 2016-17, key details regarding how he proposes to allocate funds in future years remain unclear. The Governor's multiyear "rollout plan" would provide roughly $19 million for Los Angeles River projects in each of the next four years (beginning in 2017-18). However, it does not specify how it would apportion funds between the two conservancies. This lack of clarity over intended funding amounts and timing prohibits the conservancies from developing longer-term approaches for their restoration efforts.

Administration's Reporting Approach Provides Considerable Information, but Can Be Difficult to Digest. We are concerned that a lack of consolidated information on bond-funded projects will make it somewhat difficult for the Legislature to oversee Proposition 1 implementation. As noted earlier, Proposition 1 requires the administration to report on program and project expenditures on its website, and the website also includes fields for reporting on specific project outcomes. The website is relatively easy to navigate, and the administration should be commended for the amount of information it plans to make available. Such information is vital in enabling the Legislature and public to track distribution of bond funds and understand what benefits expenditures achieve. The large volume of available information, however, can make it difficult to obtain a comprehensive picture of implementation, particularly with regard to project outcomes. While Proposition 1 projects are still being selected and as such have not yet been posted to the website, the Proposition 84 website provides an example of how information will ultimately be portrayed. Some performance metrics can be viewed by accessing links for individual projects, but no compilation of measurable outcomes or achievements is provided. The administration will provide biannual reports tracking bond allocations, but does not currently plan to provide summary updates or comprehensive status reports on Proposition 1 project *outcomes*.

LAO Recommendations

Allocate Funding Across Statewide Commitments Consistent With Legislative Priorities. We recommend the Legislature allocate funding across the potential statewide obligations in a way it believes best meets statewide needs. Based on careful consideration of the trade-offs discussed above, this might involve modifying the Governor's proposed approach. For example, if the Legislature is especially concerned about the urgency of addressing the rapidly deteriorating environmental conditions at the Salton Sea, it may opt to provide additional funding for those restoration efforts beyond what the Governor has proposed. As another example, if the Legislature has reservations about appropriating funding for removing dams on the Klamath River in light of the uncertainty surrounding other basinwide agreements, it could set aside the $250 million to potentially appropriate in the future when related commitments have been more clearly defined.

Develop Multiyear Plan for Funding Los Angeles River Restoration That Reflects Legislative Priorities. We recommend the Legislature develop a multiyear plan for allocating funding for Los Angeles River restoration efforts that specifies how much it plans to appropriate each year to each of the two conservancies involved. This would enable the conservancies to develop longer-term strategies for implementing their restoration activities. As a component of its plan, the Legislature could consider providing more—or less—total funding for restoration projects in 2016-17, and/or also providing some funding in the budget year for the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy for projects on the lower portion of the river.

Require Administration to Submit Annual Summary Report on Proposition 1 Implementation. We also recommend that the Legislature require the administration to submit an annual status update on Proposition 1 summarizing funded activities and outcomes. Specifically, we recommend this report include a summary of major activities, accomplishments, challenges, and outcomes, as well as appropriations and encumbrances. Outcome reporting should include a compilation of *measurable* performance data (such as the volume of water desalinated or acres of wetland preserved), and how *actual* outcomes compared with the intended outcomes that were identified in projects' grant applications. Adopting this recommendation likely would not require departments to collect any additional data; however, the administration would have to compile and summarize the available information.

Such a report would provide a consolidated, single source of information on the implementation of Proposition 1, and the discussion of accomplishments and challenges would exceed what currently is included on the administration's website. We believe this type of report would both facilitate legislative oversight and help inform subsequent decisions for how best to implement future allocations of Proposition 1 funding. Moreover, such information could help shape potential future bonds or state programs by identifying lessons learned, as well as the programs and practices that were (and were not) successful at achieving desired outcomes.

Continue Ongoing Oversight, Modify Course if Needed. We recommend the Legislature continue to monitor Proposition 1 through oversight hearings and information provided by stakeholders and the administration (for example, through the report we recommend above). While the Legislature has approved most of the administration's multiyear funding plan, it has the authority to revisit this approach each year via the annual budget act if it has concerns about bond implementation.

Environmental License Plate Fund

LAO Bottom Line. The Governor's budget provides one reasonable package of options to address the Environmental License Plate Fund (ELPF) structural deficit, but the Legislature has other available options. We recommend that it approve a funding package based on its priorities for how spending reductions and/or fee increases should be borne.

Background

The ELPF was established in 1979 to fund various resources and environmental protection programs. The fund is primarily supported from the sale and renewal of personalized motor vehicle license plates, as well as a portion of fees on the sale and renewal of certain specialty plates (such as "Whale Tail" plates). Roughly 800,000 personalized license plates are issued or renewed annually. Existing state law restricts the use of ELPF monies to program administration and the following purposes:

- Control and abatement of air pollution.
- Acquisition, preservation, and restoration of natural areas or ecological reserves.
- Purchase of real property for park purposes.
- Environmental education.
- Protection of nongame species and threatened and endangered plants and animals.
- Protection, enhancement, and restoration of fish and wildlife habitat, and related water quality.
- Reduction of the effects of soil erosion and the discharge of sediment into the waters of the Lake Tahoe region.
- Scientific research on the impacts of climate change on California's natural resources and communities.

As shown in Figure 14 (see next page), the state spent $41.5 million from the ELPF in 2014-15. The fund currently supports activities in more than 20 state departments, boards, conservancies, and commissions.

Higher Ongoing Spending and Slow Growth in Revenues Resulted in a Structural Deficit. In each of the past couple years, the administration has identified a structural deficit in the ELPF. Based on our review of recent ELPF expenditures and revenues, we estimate that the fund has an underlying structural deficit of about $9 million annually. This deficit is primarily caused by (1) slower-than-expected growth in revenues from the sales of personalized license plates since the early 2000s (and even some declines in more recent years) and (2) increases in expenditures over the past couple years due to rising employee compensation and administrative costs.

Figure 14

ELPF Is Used to Support Many Departments

(In Thousands)

Department	2014-15
Fish and Wildlife	$15,511
Conservancies (ten)	9,556
Secretary of the Natural Resources Agency	3,419
Tahoe Regional Planning Agency	3,998
Parks and Recreation	2,713
Delta Protection Commission	866
Office of Environmental Health Hazard Assessment	781
Delta Stewardship Council	604
Water Resources	773
Pesticide Regulation	461
Forestry and Fire Protection	432
Education	403
California Conservation Corps	320
Wildlife Conservation Board	281
Other	1,375
Total	**$41,493**

ELPF = Environmental License Plate Fund.

Governor's Proposal

The Governor's budget proposes several changes to address the above shortfalls in the ELPF, as summarized in Figure 15. These include both shifting certain costs to other state funds, as well as increasing the personalized plate fee by about 5 percent. The administration projects these changes will result in $12.5 million in savings in 2016-17 and $12 million in ongoing savings after 2016-17.

Most Savings Achieved Through Fund Shifts. The budget proposes to reduce expenditures from the fund by $11 million in 2016-17 and $9.5 million ongoing by shifting support for several programs to other funding sources. The proposal includes the following fund shifts: (1) shifting funding for the Tahoe Regional Planning Agency from ELPF to the General Fund, (2) shifting $3 million in funding for the Department of Parks and Recreation (DPR) to the State Parks and Recreation Fund (SPRF), (3) funding the second year of the 4th Climate Assessment with General Fund instead of ELPF, and (4) shifting funding for some DFW permitting activities to the Fish and Game Preservation Fund (FGPF).

New Fee Proposed to Offset Increased Costs to the FGPF. The administration proposes implementing a new fee to cover some of the costs associated with processing California Endangered Species Act (CESA) incidental take permits. These permits are required for projects that might result in the "take"—generally, the killing or harm—of an endangered or threatened species, and are processed by DFW. The fee would offset some of the costs associated with

Figure 15

Governor's Proposal to Address the ELPF Shortfall

(In Thousands)

	Esitmated Savings	
Action	2016-17	Ongoing
Shift funding for TRPA to GF	$3,998	$3,998
Shift DPR expenditures to SPRF	3,000	3,000
Shift second year funding for Climate Assessment to GF	2,500	—
Implement CESA permit fee and shift DFW costs to FGPF	1,500	2,500
Increase plate fee by 5 percent	1,500	2,500
Total Savings	**$12,498**	**$11,998**

ELPF = Environmental License Plate Fund; TRPA = Tahoe Regional Planning Agency; GF = General Fund; DPR = Department of Parks and Recreation; SPRF = State Parks and Recreation Fund; CESA = California Endangered Species Act; DFW = Department of Fish and Wildlife; and FGPF = Fish and Game Preservation Fund.

processing these permits. Fee revenue would be deposited in the FGPF, and ELPF support for DFW would be reduced by a commensurate amount.

LAO Assessment

Governor's Proposal Offers One Reasonable Option to Address Shortfall . . . The proposal provides a reasonable approach to addressing the deficit without reducing funding for supported programs. Yet, the specific package of changes proposed has trade-offs. For example, while shifting DPR support from ELPF to SPRF creates savings in the ELPF, it worsens the existing structural deficit in SPRF. (The budget also includes a one-time shift of $31 million in motor vehicle fuel tax revenue that would otherwise go to the Off-Highway Vehicle Trust Fund to SPRF to address that fund's deficit in 2016-17.) The proposal also results in higher costs to the General Fund, buyers of personalized license plates, and entities doing projects that require a CESA incidental take permit.

. . . But There Are Other Alternatives Available. The Legislature has several choices regarding how to address the ELPF shortfall. First, the Legislature could reduce funding for any of the programs currently supported by ELPF. Second, the Legislature could increase the plate fee beyond the level proposed by the Governor, or could index the fee for inflation in order to better ensure that revenue keeps pace with growth in employee compensation and administrative costs. However, this option increases costs for the buyers of personalized plates even more than the administration's proposal does, and, if the fee is increased significantly, could result in fewer plate sales.

Third, the Legislature could shift programs other than those proposed by the Governor to other funds. As shown in Figure 16, several programs funded by ELPF were once supported by another funding source—usually the General Fund. Other new programs were also added since 2002. The Legislature could shift some of these programs to the General Fund depending on its other budgetary priorities and if it has higher priorities for the ELPF.

There also could be alternative special funds available for a couple activities. For example, it might be possible to fund some activities within the California Environmental Protection Agency or CalFire with special funds. However, other special funds have competing demands, and shifting program support to these funds could impact their ability to support other activities. Additionally, the

Figure 16

Departments With Programs Recently Added to the Environmental License Plate Fund

(In Thousands)

Department	Year	At Time Transferred	Current	Previous Funding Source
Secretary for Resources	2002	$2,300	$4,203	General Fund
California Tahoe Conservancy	2002	2,800	3,582	General Fund
Fish and Wildlife	2002	—[a]	—[a]	Public Resources Account/General Fund
Tahoe Regional Planning Agency	2002	3,000	3,998	General Fund
Sierra Nevada Conservancy	2005	4,406	4,406	New program
Fish and Wildlife	2005	500	500	Marine Life and Marine Reserve Account
Ocean Protection Council	2005	1,200	1,300	New program
Delta Stewardship Council	2009	792	792	New program
Sacramento-San Joaquin Delta Conservancy	2009	77	77	New program
Totals		**$15,075**	**$18,858**	

[a] The administration was unable to identify a specific dollar amount due to other fluctuations in the Department of Fish and Wildlife's budget that occurred simultaneously.

Legislature will want to ensure that any activities shifted are appropriate for the alternative funding source.

Understanding Trade-Offs Key to Choosing an ELPF Funding Package. As it considers an ELPF funding package, the Legislature could substitute any of the alternative options we identify in place of ones in the administration's proposal. As described above, each of the options available to the Legislature comes with trade-offs, in many cases regarding who—personalized plate purchasers, general taxpayers, or fee payers into other funds, for example—will bear the associated costs. Implicitly, in choosing a funding package, the Legislature will be making choices about who will bear those costs.

We also note that the additional options we identify could be utilized to generate additional savings above those identified by the Governor. These additional savings could then be directed to new activities or programs of high priority. Alternatively, the Legislature could choose to enact a package that results in lower savings than proposed by the Governor. We note, for example, that the Governor's proposal is projected to result in $12 million in ongoing savings—$3 million more than the current structural deficit. Savings of this amount could result in an increasing fund balance in the longer term. However, the Legislature could also choose a somewhat higher level of spending compared to the Governor, rather than continue to build the fund balance. While this option increases funding available for environmental activities, reducing the out-year savings level could contribute to shortfalls in the future to the extent that revenues declined or expenditures increased significantly.

LAO Recommendations

Adopt Funding Package Based on Legislative Priorities. We find that the Governor provides a reasonable approach, but it is just one option to address the deficit. There are others—as we discussed above—that could be considered. Each option, however, has trade-offs. We recommend that the Legislature choose a package of savings that is most consistent with its priorities, which requires policy decisions about where the Legislature wants certain costs to be borne and the support levels for various programs. To the extent that the Legislature is interested in shifting some activities to other special funds to achieve savings, we recommend requiring the administration to provide more specific information at budget hearings on ELPF-supported environmental protection and forestry activities in order to determine if other fund sources are appropriate.

Prioritize Expenditures for Potential Shortfalls in Future. We also recommend that the Legislature reevaluate ongoing spending priorities for the ELPF in statute to ensure the best use of this limited fund. There are several options available. For example, uses of the fund could be placed in preference-based order in statute so that the Legislature's highest priorities are clear. This could involve creating "funding buckets" that receive revenue in a specified order as money is available, so that the highest priorities are protected from shortfalls and lower priorities are funded only when additional revenues are available. The Legislature could also narrow the statutory uses of the ELPF to more specific goals or programs and eliminate from statute those uses deemed no longer of high priority.

Summary of New Natural Resources Capital Outlay Projects

The Governor's budget proposes $4.1 million in funding for the acquisition and planning phases for nine new capital outlay projects for three departments within CNRA, as shown in Figure 17. Projects include construction of three residential centers for CCC, the replacement and installation of CalFire telecommunications infrastructure at seven sites, and a campground replacement and wetland restoration project at McGrath State Beach. Total costs for completion of all proposed projects is expected to be $147 million.

The Governor proposes funding the projects from various sources, including a total of $55.6 million from the General Fund ($2.1 million in 2016-17). In addition, a total of $84.8 million would be funded from bond funds—lease revenue bonds, Proposition 84 (2006), or Proposition 40 (2002)—which will be paid back with interest from the General Fund over a few decades. For most of the projects proposed, we do not have any specific concerns. However, for additional comments about the CCC projects, please see our analysis of the department's budget proposals later in this report.

Deferred Maintenance

LAO Bottom Line. While the Governor's deferred maintenance proposal addresses an important state need for several CNRA departments, the proposal lacks important details. We recommend the Legislature require the administration to submit specific lists of projects that would be undertaken with the proposed funding, then adopt a funding package that reflects its priorities. We also recommend the administration report on the causes of and planned strategy for addressing the deferred maintenance backlog at CNRA departments.

Background

Natural Resources Departments Responsible for Maintenance of Many Physical Assets. Many state departments own and operate facilities and other types of infrastructure. Figure 18 (see next page) illustrates the considerable amounts of property and physical assets held by several large departments within CNRA. As shown, this includes nearly 1,600 miles of Central Valley levees managed by DWR; thousands of miles of trails and tens of thousands of campsites and other facilities spread over 1.6 million acres of park land managed

Figure 17

New Resources Capital Outlay Projects Proposed

(Dollars in Thousands)

Project	2016-17 Funding	2016-17 Phase	Total Project Cost	Fund Source
California Conservation Corps				
Napa: new residential center	$200	A	$28,000	General Fund, PBCF
Pomona: new residential center	100	A	28,020	General Fund, PBCF
Ukiah: residential center replacement	100	A	28,020	General Fund
Department of Forestry and Fire Protection				
Statewide: communications facilities	1,677	P	21,348	General Fund
Department of Parks and Recreation				
El Capitan State Beach: entrance improvements	358	P	3,430	Proposition 84 bonds
Topanga State Park: rebuild Trippet Ranch parking lot	316	P	3,798	Proposition 84 bonds
McArthur-Burney Falls State Park: group camp development	62	P,W	928	Reimbursements
McGrath State Beach: campground relocation and wetland restoration	1,029	P	27,790	Proposition 40 bonds
Prairie City State Vehicular Recreation Area: initial erosion control	275	P	5,522	OHV Trust Fund
Totals	**$4,117**		**$146,856**	

A = acquisition; P = preliminary plans; W = working drawings; PBCF = Public Buildings Construction Fund; and OHV = Off-Highway Vehicle.

by DPR; nearly 250 ecological reserves and wildlife areas held by DFW; nearly 300 fire stations, camps, and bases used by CalFire to combat forest fires; and seven CCC residential centers.

Maintenance Needs Are Significant. Maintaining this infrastructure is the responsibility of each department. Maintenance needs are driven by the number, age, types, and uses of a department's assets. As illustrated in Figure 18, many CNRA departments have a large quantity of diverse assets, contributing to significant maintenance needs. Additionally, as is the case for much of California's public infrastructure, many of these facilities were built a long time ago. For example, many of the levees and channels making up the Central Valley flood control system are over 100 years old; do not meet current engineering design criteria; and have been structurally compromised by erosion, rodents, vegetation, and pipe penetrations. Similarly, roughly three-fourths of CalFire's facilities were built prior to 1950 and most of them have exceeded the 50-year operational period for which they were designed. This has resulted in a high rate of facility deterioration, which drives increases in maintenance costs. In addition, many facilities were not designed for the amount and type of use required of them today. For example, the older park units operated by DPR were designed for far fewer visitors when they were constructed. This contributes to deterioration and damage of many park properties and facilities, thereby necessitating more frequent repairs and modifications.

Figure 18

Resources Departments: Key Assets Maintained

Holdings	Quantity
Department of Water Resources (Central Valley Flood Control System)	
Linear feet of bank protection	More than 800,000
Acres of channels and floodways	348,000
Miles of levees	1,595
Flood control structures	55
Department of Parks and Recreation	
Acres of land	1,613,413
Campsites	14,421
Archeological sites	10,271
Picnic sites	7,647
Miles of non-motorized trails	4,456
Historic buildings	3,375
Cabins and other overnight facilities	709
Miles of motorized trails	579
Park units	280
Department of Fish and Wildlife	
Acres of land	1,146,073
Ecological reserves	136
Wildlife areas	111
Fish hatcheries	20
Department of Forestry and Fire Protection	
Fire stations	228
Communications towers	112
Lookouts	66
Conservation camps	39
Air and helitack bases	22
California Conservation Corps	
Residential centers	7

Deferred Maintenance Is a Chronic Issue. Facilities require routine maintenance and repair to keep them in acceptable condition and to preserve and extend their useful lives. When such maintenance is delayed or does not occur, we refer to this as deferred maintenance. If maintenance is routinely delayed—due to a lack of funding or resources, the diversion of maintenance funding to other priorities, poor maintenance practices, or growth in maintenance costs—a backlog of deferred maintenance forms and grows. As discussed below, CNRA departments have identified a large backlog of deferred maintenance needs. Departments state that this backlog has developed from a combination of increasing maintenance costs (due to aging infrastructure) and insufficient resources (partially due to funding reductions during the recession). The 2015-16 budget provided $22 million on a one-time basis to address deferred maintenance needs at two resources departments, as discussed below.

Governor's Proposal

$187 Million for Deferred Maintenance Within Resources Departments. Figure 19 details the Governor's 2016-17 proposal to provide $187 million from the General Fund on a one-time basis for deferred maintenance across seven departments within CNRA. This is a subset of a larger proposal to provide a total of $500 million for deferred maintenance across 24 statewide departments. (We discuss the Governor's overall deferred maintenance proposal—affecting both CNRA and other state departments—in greater detail in our report, *The 2016-17 Budget: Governor's General Fund Deferred Maintenance Proposal*.) As shown in the figure, the Governor's proposal would significantly increase the level of deferred maintenance funding for the two CNRA departments that received such funds in the current year—from $22 million in 2015-16 to $68 million in 2016-17. As we discuss below, most departments have submitted lists of all of their identified deferred maintenance needs, but which of those projects would be prioritized has not yet been specified.

Largest Share of Funding Is for Flood Protection. While funding for most departments displayed in Figure 19 would be used for various unspecified deferred maintenance needs, the Governor proposes to target the largest proposed allocation ($100 million to DWR) for a specific type of project—levee maintenance and enhanced flood protection. This funding would be focused primarily on components of the State Plan of Flood Control (SPFC) system in the Central Valley, which includes levees, channels, and facilities along the Feather, Sacramento, and San Joaquin rivers. Although the state holds ultimate responsibility and liability for the SPFC infrastructure, the state tasks local flood control agencies with maintaining the majority of its levees.

Also in contrast to the other departments that would receive deferred maintenance funding, DWR

Figure 19

Deferred Maintenance Funding and Needs for Resources Departments

General Fund (In Millions)

State Entity	2015-16[a]	2016-17 Proposed	Identified Needs[b]
Water Resources (flood control)	—	$100.0	$13,100.0
Parks and Recreation	$20.0	60.0	1,150.0
Fish and Wildlife	—	15.0	21.0
Forestry and Fire Protection	2.0	8.0	18.2
Science Center	—	3.0	9.5
Conservation Corps	—	0.7	0.7
San Joaquin River Conservancy	—	0.2	0.2
Totals	**$22.0**	**$187.0**	**$14,299.6**

[a] Includes $2 million in one-time General Fund for Department of Forestry and Fire Protection deferred maintenance projects that was included in Chapter 1 of 2015 (AB 91, Committee on Budget).

[b] As identified in the *2016 California Five-Year Infrastructure Plan*.

has proposed a general approach for allocating the funds, rather than providing a comprehensive list of potential projects. Specifically, the department indicates it would allocate the proposed funding as follows:

- $50 million to local agencies that maintain SPFC levees, allocated proportionally based on the number of levee miles for which each agency is responsible. Projects would be identified by the agencies and approved by DWR.
- $40 million on a competitive grant basis to local flood control agencies from around the state (not just the Central Valley) to address levee erosion, maintain channels, and repair facilities, with a focus on maximizing protection of nearby public assets.
- $10 million for DWR to repair SPFC facilities, purchase equipment, and conduct property rights surveys to define which areas are the state's responsibility.

In addition to this one-time funding for flood-related deferred maintenance, the Governor's budget also proposes $11.5 million in ongoing General Fund support for DWR to conduct levee maintenance and flood response activities. This funding would reinstate the full amount of General Fund support that during the recession was partially eliminated and partially shifted to bond funds.

Reporting of Projects Required Prior to Expenditures. Rather than appropriating the deferred maintenance funding within individual departments' budgets, the Governor proposes to allocate the funds through a budget control section. (This approach is also being used in 2015-16.) Control Section 6.10 does not identify the specific projects that departments would undertake with the proposed funding. Instead, the budget requires the Department of Finance (DOF) to provide a list of projects to the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating associated funds. The proposal further requires DOF to notify the JLBC quarterly regarding any changes to the approved list of projects.

LAO Assessment

While the Governor's deferred maintenance proposal addresses an important state need, the proposal lacks important details that would allow the Legislature to evaluate the specific funding allocations and understand how deferred maintenance funding is affecting the accumulated backlog. Below, we discuss our specific concerns.

Proposal Addresses Clear Problem. We believe the Governor's focus on addressing deferred maintenance is positive. The state has invested many billions of dollars in its infrastructure assets—which play critical roles in the state's economy and overall well-being—and has a strong interest in ensuring they are maintained in safe working order. Continuing to neglect maintenance needs eventually can result in more expensive obligations, such as emergency repairs (when systems break down), capital improvements (such as major rehabilitation), or replacement. Moreover, in some instances the state could be liable for potentially catastrophic consequences resulting from neglected maintenance, such as if SPFC levees located near highly populated areas were to breach during a flood event.

As shown in Figure 19, CNRA departments have identified a deferred maintenance backlog of over $14 billion. While the Governor's proposal would fund just a small portion of identified maintenance needs for DWR flood control infrastructure (less than 1 percent) and DPR (5 percent), it would address a large share (71 percent) of identified deferred maintenance needs for DFW, and all identified needs for CCC and the San Joaquin River Conservancy.

The proposal would also make some progress on addressing the identified backlog for CalFire (44 percent) and the Science Center (32 percent).

Limited Information on How Projects Would Be Prioritized. While the administration has provided lists of deferred maintenance projects making up the total funding need displayed in Figure 19, it has not provided a list of the specific projects (by department) it would undertake with the proposed 2016-17 funding. This lack of specificity makes it difficult for the Legislature to evaluate whether these projects would address the highest state priorities. For example, the Legislature may wish to prioritize funding certain types of projects (such as those that address fire, life, and safety issues) over other types of seemingly less urgent projects (such as such as new carpets and interior painting proposed by CCC). Similarly, a comprehensive prioritized list of levee maintenance needs might lead the Legislature to prioritize funding for repairs on the most risky or compromised stretches of SPFC levees, rather than spreading funding proportionally across the entire system as proposed by DWR. (While DWR has provided more information than some other departments about how it would allocate the proposed funding, it has not yet provided a list of the specific projects it would fund.) We also note that the Legislature might prefer to prioritize DPR projects that could increase the amount of park fees collected, given that the Legislature has sought opportunities for revenue enhancement at state parks in recent years.

At the time of this analysis, most departments still were in the preliminary stages of determining how they might use the proposed deferred maintenance funding. Some departments have identified general criteria they would use to prioritize projects. For example, DPR indicates that it would focus on projects that could be completed within two years and that support core functions, including fire, life, safety; water and wastewater; drought (dead and dying trees); and coastal erosion and climate change mitigation. Based on our review of DPR's deferred maintenance list, however, there appear to be many more projects that fit these criteria than can be completed with the proposed funding. How the department will select among its higher priority projects is unclear.

Proposal Does Not Address Underlying Problems. Providing one-time funding, while a positive step in addressing the state's accumulated deferred maintenance backlog, is only a short-term solution if facilities are not maintained in subsequent years. For most departments, the administration has not identified a long-term plan for working through the rest of the deferred maintenance backlog. Moreover, the administration generally does not include an assessment of, or a plan to address, the underlying causes of the accumulation of deferred maintenance. Without such a strategy, departments may not have the necessary tools or resources to address the underlying causes of their deferred maintenance backlogs, or to ensure that such problems do not get worse. The proposal to provide $11.5 million in ongoing General Fund support for DWR's flood-related operations and maintenance is one notable exception.

Notification Process for Projects Is Inadequate. As indicated above, the Governor's proposal does not require the identification of specific projects prior to passage of the budget or prior to changing the approved projects list. Instead, Control Section 6.10 includes a JLBC notification process. This approach raises a few concerns. First, the process would identify projects proposed for funding after the Legislature has made its decisions on the budget. This would divorce decision making on the amount of funding provided to each department from the set of projects to be funded. As a result, the funding amounts might not correspond with the projects that would be prioritized by the Legislature. Second, the proposed JLBC process provides the Legislature with less time to review proposed projects than the traditional budget process and is less transparent to the public. For this reason, the JLBC process typically is reserved for midyear changes to the budget rather than for the initial identification of projects proposed for funding. Third, the proposed process to allow the administration to move forward with changes to funded projects without legislative approval would diminish the Legislature's control over how the funds are spent and could result in the funding of projects that are not consistent with legislative priorities.

LAO Recommendations

While we believe addressing the state's deferred maintenance backlog has merit, we recommend that the Legislature request additional information before approving the Governor's funding proposals, and that it use a different approach for appropriating the funds. We discuss our specific recommendations below.

Require Lists of Proposed Projects, Adopt Package That Reflects Legislative Priorities. We recommend the Legislature require the administration to provide lists of specific projects that would be funded by each department. These lists would enable the Legislature to assess whether the proposed projects align with its priorities. In order to enable the Legislature to consider the lists during its budget deliberations, we recommend the administration provide the required information by April 1, 2016.

If the Legislature is comfortable with these lists, we recommend approving them as proposed. If, however, the lists include projects that it deems to be of lower priority—such as those that address aesthetic rather than health and safety issues—we recommend the Legislature adjust the funding levels proposed for departments accordingly. Finally, if departments are unable to provide project lists by April 1, 2016 or are unable to justify their proposed projects to the Legislature's satisfaction, we recommend that the Legislature reject the administration's proposed funding for those specific departments.

Require Individual Departments to Report at Budget Hearings. We also recommend the Legislature use its budget hearings to gather more information regarding what factors led to the accumulation of deferred maintenance for specific departments. This would enable the Legislature to better assess the nature of the backlog and assist it in crafting policies to ensure that departments effectively manage their maintenance programs on an ongoing basis. Furthermore, we recommend that the Legislature seek information on departments' longer-term plans for (1) addressing accumulated deferred maintenance backlogs and (2) ensuring that appropriate ongoing maintenance is sustained so that deferred maintenance does not continue to accumulate.

Require Projects Be Listed in Supplemental Report. Because we recommend that departments be required to provide lists of proposed projects by April 1, 2016 and that the Legislature reject funding for departments that fail to provide these lists, we believe the proposed language requiring a report to JLBC prior to allocating funds is unnecessary. Instead, we recommend that all projects approved by the Legislature be included in the Supplemental Report of the 2016-17 Budget Package. We recognize there will likely be some instances when departments have reasonable rationales for changing the projects on their proposed lists after the budget is adopted. We therefore recommend including control section language that allows departments to modify their proposed lists. However, we recommend that the language require that these changes occur no sooner than 30 days after notifying the JLBC.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

CalFire, under the policy direction of the Board of Forestry and Fire Protection, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. These areas of CalFire responsibility are referred to as "state responsibility areas" and represent approximately one-third of the acreage of the state. In addition, CalFire regulates timber harvesting on forestland owned privately or by the state and provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The Governor's budget proposes $1.6 billion from various funds for support of CalFire in 2016-17. This is an increase of $177 million, or 12 percent, from current-year estimated expenditures. This is primarily due to an increase of $180 million from the GGRF for forest health and urban forestry activities that reduce GHGs. (This proposal is discussed in our analysis of the Governor's cap-and-trade expenditure plan earlier in this report.)

Professional Standards Program

LAO Bottom Line. We recommend that the Legislature approve the proposed funding for a new professional standards program on a three-year limited-term basis—rather than on an ongoing basis as proposed—in order to allow the department to evaluate the program's ongoing workload and effectiveness after it has been in place for a period of time.

Background

State law has various mechanisms in place intended to minimize employee misconduct and to respond to such misconduct when it occurs. The department conducts administrative investigations in response to concerns regarding employee behavior. The department also is required to conduct internal administrative investigations under specific circumstances, such as whenever a formal complaint is filed against a peace officer or when a complaint or suspicion of employee misconduct is filed via the California Whistleblower's Protection Act. In addition, CalFire, in compliance with statute, requires background investigations on all public safety dispatchers, peace officers, public officers, and Emergency Medical Technicians.

Currently, CalFire does not have a unit dedicated specifically to these responsibilities and reports that some of these functions are performed in the field with minimal oversight and redirected staff. When investigations become too complex to pursue with existing resources, CalFire contracts with another department to perform the investigation. In contrast, some other departments have designated units that perform these activities. For example, within CNRA, DPR and DFW have units that conduct internal investigations.

Governor's Proposal

The Governor's budget proposes $4.4 million ($3.7 million ongoing) primarily from the General Fund and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties. Under the proposal, much of the proposed workload in 2016-17 would focus on developing new disciplinary policies and processes, as well as training all department managers and supervisors on implementing these procedures. After 2016-17, the nature of the workload would shift to focusing on ongoing training, document review, routine investigations, and oversight. The program is in part a response to recent concerns regarding the department's hiring and promotion practices and other allegations of employee misconduct.

LAO Assessment

We find that it is reasonable for the department to standardize its policies and procedures, increase its oversight of activities in the field, and make its training program more robust. However, we find that the ongoing workload for the new program is unclear for several reasons.

Estimate of Future Workload Uncertain. First, the proposed program is new, and its estimated ongoing workload is a projection based on recent workload. While this serves as a reasonable starting point for estimating future workload, actual ongoing workload might change. For example, the number of investigations in recent years might be above average due to increased concerns that arose from a high-profile case and related events over the past couple of years. Basing the ongoing workload on the number of investigations in recent years could overestimate the program's needs. In addition, the number of background investigations could fluctuate based on future position authority and vacancy rates.

Impact of New Professional Standards Unit on Ongoing Workload Unclear. Second, it is unclear how the creation of a new professional standards unit will affect the ongoing workload because some of the unit's activities could influence the number of required investigations or adverse actions undertaken. For example, if the improved education and training successfully prevent misconduct in the future, the new unit might have fewer cases of employee misconduct to process in the long run.

Specific Staff Needed in Long Run Unclear. Third, because the make-up of activities is proposed to shift, the number and classifications of staff might not be appropriate for the ongoing workload. For example, it is not clear that the same classifications needed to undertake policy development and training are best suited for the ongoing investigations workload.

LAO Recommendation

Approve Request on Limited-Term Basis. Given the uncertainty about the department's ongoing workload related to the new professional standards program, we recommend that the Legislature approve the additional ongoing resources proposed on a three-year limited-term basis. This timeframe would allow the department to fully implement the program over a period of time before evaluating the program's ongoing workload needs. This would also provide an opportunity for the Legislature and administration to evaluate the effectiveness of the proposed program before committing ongoing resources.

DEPARTMENT OF PARKS AND RECREATION

The state park system, administered by DPR, contains 280 parks and serves over 75 million visitors a year. State parks vary widely by type and features, including state beaches, museums, historical sites, and rare ecological reserves. The size of each park also varies, ranging from less than one acre to 600,000 acres. In addition, many parks have their own campsites, water and waste water systems, generators or power supply, visitor information centers, and ranger stations.

For 2016-17, the Governor's budget proposes $608 million in total expenditures for the department. This includes $483 million for state park operations and facilities, and $125 million for local assistance grant programs. The proposed budget total represents a decrease of $112 million, or 16 percent, below the estimated level of current-year spending for state parks. This in large part reflects one-time capital outlay spending in 2015-16.

Motor Vehicle Fuel Account Transfer

LAO Bottom Line. Another one-time budget augmentation to maintain DPR's current operations level as proposed by the Governor makes sense, but the Legislature will need to make a policy decision regarding whether to fund such an augmentation from a special fund benefiting off-highway vehicle (OHV) recreational users or the General Fund. We also recommend the Legislature require DPR to report on the status of various budgetary and programmatic reforms at budget hearings this spring.

Background

Major Funding Sources for State Parks. The state park system receives funding from many sources. The major sources for funding include:

- ***SPRF.*** In recent years, the department's largest fund source has been SPRF, which has provided roughly one-third of the department's funding. The fund is supported primarily by revenues collected from fees charged to park users to help support various operation and maintenance costs. Parks frequently charge user fees, including for parking, park entrance, and specific recreational activities (such as the use of overnight campsites). The SPRF also receives revenue from contracts with state park concessionaires that provide certain services, as well as some revenue from the Highway Users Tax Account and the Motor Vehicle Fuel Account for constructing and maintaining highways in state park units.

- ***General Fund.*** With a few exceptions, state parks cost more to operate and maintain than they currently generate in revenue. For this reason, the state park system is partly funded from the state General Fund. The annual state budget has provided about $117 million in General Fund for support of DPR in each of the past couple years. However, as we discuss in more detail below, the amount of General Fund support for the parks has declined since 2006-07.

- ***OHV Trust Fund.*** The department also receives roughly $90 million annually from the OHV Trust Fund for the support of the Off-Highway Motor Vehicle Recreation Division of DPR. Revenue for the OHV Trust Fund primarily comes from (1) fuel taxes that are attributable to the recreational use of vehicles off highway, (2) OHV registration fees, and (3) fees collected at State Vehicular Recreation Areas (SVRAs). This fund primarily is spent to operate and expand the state's eight SVRAs, to acquire land for new SVRAs, and make grants to agencies for OHV trails on other public lands.

- ***Other Funds.*** State parks also receive support from various special funds, including revenue from the state boating gas tax, federal highway dollars for trails, and various state revenue sources earmarked for natural resource habitat protection. The department also receives state bond funds to support one-time infrastructure projects.

Recent SPRF Shortfalls. Changes to DPR's budget since 2011-12 have resulted in a SPRF operating deficit and depletion of the SPRF balance. During the recent recession, the 2011-12 and 2012-13 budgets reduced baseline General Fund support for the department by a total of $22 million to achieve General Fund savings. In response to the reduction, the Legislature provided additional SPRF funding on a temporary basis rather than close state parks. The Legislature also took other actions to encourage parks to become more self-sufficient through increased revenue generation, which we discuss in more detail below. This too increased SPRF expenditures by providing the initial funding for new projects and activities intended to generate revenue.

These changes coupled with other one-time spending caused expenditures from SPRF and its subaccounts to increase by more than $65 million between 2011-12 and 2015-16. Revenues and transfers to the fund did not increase at the same rate over that period. As shown in Figure 20, these trends resulted in a structural deficit and the virtual depletion of the SPRF fund balance by the end of 2015-16.

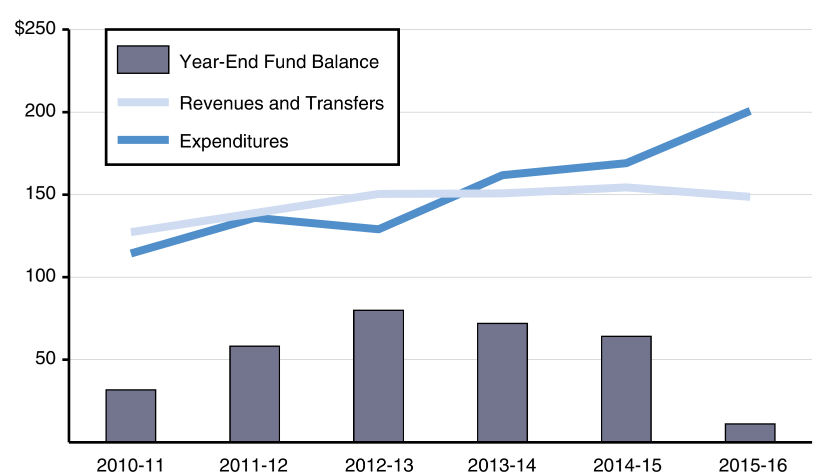
Revenue Generation Program and Fund Established. In 2012, the Legislature passed two bills requiring DPR to develop a revenue generation program in order to improve its financial situation. Budget trailer legislation (Chapter 39 of 2012 [SB 1018, Committee on Budget and Fiscal Review]) as part of the 2012-13 budget package directed DPR to maximize revenue generation activities that are consistent with the mission of the department and each park district. It required the department to establish revenue targets for each district and provide revenue incentives for districts by allowing them to retain half of any revenue earned above those targets. In addition, Chapter 530 of 2012 (AB 1478, Blumenfield) created the State Parks Enterprise Fund and required the department to establish a revolving loan program to improve infrastructure and provide services that generate revenue.

Parks Forward Commission and Transformation Team Created to Address Issues. The California State Parks Stewardship Act of 2012 (Chapter 533 of 2012 [AB 1589, Huffman]) and AB 1478 called for the formation of a multidisciplinary advisory council to conduct an independent assessment of the state parks system and make recommendations for improvement of the management, planning, and funding of state

Figure 20

SPRF Expenditures Exceed Revenues in Recent Years

(In Millions)



Note: Includes the State Parks Revenue Incentive Subaccount.

SPRF = State Park and Recreation Fund.

parks. In response, the California Parks Forward Commission was formed, and it issued its final recommendations in February 2015. Among the recommendations was the creation of a dedicated Transformation Team to implement and oversee changes—including developing a sustainable ongoing budget for DPR—within two years.

Governor's Proposal

The Governor's budget includes two related proposals: (1) another one-time augmentation in SPRF authority to maintain spending at current-year levels and (2) a one-time transfer of fuel tax revenues to cover the costs of this augmentation, as well as to address the SPRF structural shortfall.

Continues One-Time SPRF Augmentation. The Governor proposes a one-time $17 million increase in SPRF spending authority. This would provide a similar funding level from SPRF as in the past two fiscal years. (Similar one-time increases were included in the past two budgets as well.) The department anticipates providing an ongoing budgetary solution as part of the 2017-18 budget.

Redirect Fuel Taxes From OHV Trust Fund to SPRF. Due to the structural shortfall in SPRF and the depletion of the SPRF fund balance, the administration requests a one-time redirection of $31 million in fuel tax revenues to SPRF. This money would otherwise be deposited in the OHV Trust Fund to support the state's eight SVRAs and other programs for OHV users. The OHV Trust Fund balance is significant. Even with the proposed transfer, the Governor's budget estimates a year-end fund balance of $149 million in 2016-17.

LAO Assessment

OHV Revenue Transfer Is Legal . . . We note that fuel tax revenues have been redirected from the OHV Trust Fund in the past. Specifically, the *2010-11 Budget Act* provided for a redirection to the General Fund of about $10 million per year in fuel tax revenue that had previously been designated for deposit in the OHV Trust Fund. At that time, the California Attorney General issued an opinion that such a redirection was legal because (1) the OHV Trust Fund was established by the Legislature, and (2) the redirected revenue is not subject to constitutional restrictions on spending gas tax revenues since it is from OHVs rather than from motor vehicles used on public streets and highways. Thus, the Governor's proposed redirection to SPRF would be legal for the same reasons.

. . . But Raises Policy Questions. Current statute requires that this fuel tax revenue go to the OHV Division. Consequently, the proposed redirection would not only reduce revenues to support OHV activities, it would also represent a policy shift in the use of the funds. The revenue deposited in the OHV Trust Fund is intended to reflect tax revenues from purchases made by OHV users. Therefore, using the money for SVRAs and other activities that support OHV recreation provides a direct benefit to these tax payers. However, if the Legislature does not wish to redirect this money to SPRF, it would need to either (1) provide a one-time transfer from another funding source—such as the General Fund—to maintain parks funding at its current level or (2) reduce the level of state funding for parks operations and capital projects.

We note that in 2014-15, the Legislature adopted budget trailer legislation requiring the California Department of Transportation to reevaluate how the amount of fuel sales attributable to recreational use of OHVs is calculated. That report was due January 1, 2016 but has not yet been provided to the Legislature. The report could potentially impact the amount of revenue for the OHV Trust Fund.

Difficult to Determine Effect of Revenue Generation Programs. Since the implementation of revenue generation programs, revenues have increased—estimated current-year park-generated revenues are about $10 million (11 percent) higher than they were in 2011-12. However, other factors besides revenue generation activities might have contributed to this growth, such as an improving economy and dry conditions in recent years (parks generally have more visitors when it is not raining). Moreover, while there are examples of particular projects that appear to have been successful, the department has not evaluated how well the programs are working at a statewide level. Consequently, it is difficult to determine how much revenue is attributable to new park initiatives. Determining statewide program effectiveness of revenue generation programs could help inform the Legislature about whether to continue the current incentive program and what potential improvements could be made.

Long-Term Solution Needed to Address SPRF Structural Shortfall. Without the proposed shift of fuel tax revenues, the SPRF would have a negative fund balance of $25 million in 2016-17, an amount which will continue to grow in out-years without action to address the structural deficit. Therefore, an ongoing solution to bring the fund into structural balance is needed. The department has indicated that it anticipates proposing an ongoing solution for the 2017-18 budget year.

LAO Recommendations

One-Time Augmentation Makes Sense but Requires Decision on Fund Source. We find that the one-time $17 million augmentation to SPRF makes sense, as the amount of the augmentation is consistent with the past two years and will allow DPR to maintain current service levels.

We have no specific recommendations with regard to the administration's proposed redirection of fuel tax revenue to SPRF to address the fund's structural shortfall in 2016-17. The transfer is legal and the fund that the revenue would otherwise go to—the OHV Trust Fund—can support it. However, we do note that it reduces funding available for OHV activities. The only alternative that we have identified is a transfer from the General Fund. We recommend the Legislature choose the funding source that aligns with its priorities regarding OHV-related activities and other competing General Fund priorities.

Information on Progress-to-Date Should Be Provided. While we understand that DPR is still in the process of developing and implementing changes to address its budgetary and programmatic challenges, it should be able to report on the status of its current efforts and how successful its changes have been thus far. Therefore, we recommend that the Legislature require the department to report at legislative budget hearings this spring on the following items:

- The implementation of the Parks Forward Commission recommendations and Transformation Team progress, including expected completion dates.
- The Revenue Generation program—including a description of the revenue-generating projects that have been completed or are currently underway, the amount of additional revenue these projects have generated, and where and how this revenue has been spent.
- The range of options the department is considering to achieve a long-term budget solution, including the role that the department anticipates revenue generation playing.

Community Liaison Pilot Project

LAO Bottom Line. We withhold recommendation on the administration's pilot project proposal to establish state park community liaisons and recommend that the Legislature direct the department to provide an evaluation plan for the pilot for consideration at budget hearings.

Background

As discussed above, the California State Parks Stewardship Act and AB 1478 led to the formation of the Parks Forward Commission. One of the Commission's recommendations was to expand park access for California's underserved communities and urban populations, as well as better engage California's younger generations. The Transformation Team—which is tasked with implementing the Commission's recommendations—formed a Relevancy Committee that focuses on enhancing and developing outreach services to underserved communities.

Governor's Proposal

Initiate Community Liaison Pilot Project. The Governor's budget proposes a total of $690,000 over two years from the State Parks Protection Fund and three positions for a pilot project to engage underserved and underrepresented communities. The pilot is a component of the Relevancy Committee's initiative "Engaging Underserved Populations with State Parks." Specifically, the project would establish state park community liaisons in the Bay Area and Angeles districts who will conduct outreach and engage local community members to create exhibits, tours, demonstrations, and other programs. The department states that the goal of the project is to identify best practices in outreach, engagement, cultural relevancy, and partnerships that can be scaled throughout the state parks system.

LAO Assessment

Unclear How Project Will Be Evaluated. While the department indicated several general goals for the pilot, it is unclear how the project would be evaluated and what specific metrics would be used to measure success at engaging the target communities before determining whether it should be scaled up to the entire statewide system. Potential evaluation criteria could include (1) increased total visitorship, (2) increased visitorship among certain demographics, (3) increased participation in particular programs, (4) increased revenue from park users, and (5) improved visitor or community satisfaction (for example, as measured through surveys). Determining objective outcomes prior to funding a pilot project can help ensure that the funding is spent on achieving a clear and defined goal. It also helps ensure that a meaningful outcome evaluation can be completed before program expansion.

We note that the department indicates that it plans to consult with an academic institution regarding the evaluation of the project. However, the Governor's proposal does not include funding for a consultant contract and, therefore, the department is likely to be the lead agency on evaluating the project. Thus, we find that department should be able to more clearly define its research approach even if it might refine this approach at a later date following informal consultation with an academic expert.

LAO Recommendation

Require Department to Develop Evaluation Criteria Prior to Taking Action. We recommend that the Legislature direct the department to provide an evaluation plan for the pilot for consideration at budget hearings. The evaluation plan should include specific outcome metrics and a proposed methodology for their measurement. The evaluation plan also should clearly reflect the department's goals for the pilot. Pending receipt and review of this information, we withhold recommendation of the proposed funding for the pilot project.

DEPARTMENT OF CONSERVATION

The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of (1) geology, seismology, and mineral resources; (2) oil, gas, and geothermal resources; and (3) agricultural and open-space land. The Governor's budget proposes $113 million for the DOC in 2016-17, an increase of $1 million (1 percent) above estimated expenditures in the current year.

Oil and Gas Training Program

LAO Bottom Line. We recommend approval of the administration's proposal to provide $1.3 million for the implementation of a training and certification program for Division of Oil, Gas, and Geothermal Resources (DOGGR) regulatory staff. However, we recommend making the proposed $1 million for purchasing training curriculum available annually for three years rather than on an ongoing basis as proposed by the Governor. We further recommend the department report at budget hearings on the feasibility of implementing the training program more quickly.

Background

DOGGR Regulates Oil Drilling. DOGGR regulates onshore and offshore oil, natural gas, and geothermal wells. The division is charged with ensuring the safe development of oil, natural gas, and geothermal resources in the state through sound engineering practices that protect the environment, prevent pollution, and ensure public safety. The division's regulatory responsibilities include: (1) well permitting and testing; (2) safety inspections; (3) oversight of oil, natural gas, and geothermal well drilling; (4) inspecting oilfield tanks, pipelines, and sumps; (5) oversight of well stimulation such as hydraulic fracturing and steam injection; and (6) oversight of plugging and abandonment of wells. The division has a total of 205 positions in 2015-16.

Regulatory Responsibilities Have Increased in Response to Industry Innovations. During the last 30 years, the oil and gas industry has developed new well stimulation technologies that it uses to recover oil and gas resources from old fields. These continuing developments in the oil and gas production area require regulators to stay abreast of new technologies in order to effectively carry out their permitting and field monitoring work.

Chapter 313 of 2013 (SB 4, Pavley) expanded DOGGR's responsibilities by requiring the division to adopt rules and regulations specific to well stimulation and authorizes the division to allow well stimulation treatments if specific conditions are met. Among other requirements, the bill requires the division to (1) post a permit to its website within five business days of issuing it and (2) perform random periodic spot check inspections during well stimulation treatments to confirm that the work was performed in conformance with the permit. The *2014-15 Budget Act* included funding and authority for 65 positions (43 regulatory positions) to implement SB 4.

DOGGR Does Not Have a Formal Training Program for Regulatory Staff. The division does not have a formal training program to train regulatory staff to carry out their responsibilities. (The division does provide the Occupational Safety and Health Administration's hazardous waste and emergency response standard training to regulatory staff who work in the field.) Instead of formal training, regulatory staff are relied upon to bring oil and gas production knowledge gained through education or work experience to the job—prior experience is heavily relied upon. The training that is provided to regulatory staff is mostly informal, with supervisors and lead staff mentoring less experienced staff. This method of training is not standardized and therefore staff development cannot be monitored based on a standard set of expectations. The department states that the lack of formal training makes it extremely challenging to establish accountability for errors in the field.

Governor's Proposal

Increase Staffing and Buy Curriculum to Implement New Training Program. The administration requests $1.3 million in ongoing funds from the Oil, Gas, and Geothermal Administrative Fund to develop, implement, and conduct a training program for DOGGR's regulatory staff. The funding would support the following:

- ***Two Permanent Positions ($331,000).*** The budget requests two permanent positions (and one position that would be redirected) with responsibilities to include (1) researching, writing, and delivering training courses; (2) working with universities and industry trade groups to research, develop, and deliver various training materials; and (3) tracking and adjusting training materials as regulations and industry practices change.

- ***Purchase Curriculum ($1 Million).*** The budget also includes $1 million to purchase curriculum for the training program. The division is seeking customized, California-specific training materials developed to industry-wide standards. The division is in the process of soliciting bids from private industry sources and universities that have experience developing training materials and delivering training courses used by major petroleum industry producers and regulators.

Training Program Would Consist of 10 to 12 Modules Over a Three-Year Period. The division envisions the training course will consist of 10 to 12 training modules and that each module will take from several days to two weeks for staff to complete. The contractor(s) will provide three to four of the training modules to DOGGR each year for the next three years. Staff will rotate through all of the training modules on a three-year basis with new staff having priority. If there is an urgent need for out-of-cycle training due to changes in technology or statutes, DOGGR's training staff will provide this training.

The division has 182 staff that require training. It plans to take 30 to 60 of these staff at a time out of the field to complete a training module. The department states it is not feasible to bring in more than 30 to 60 of its staff at a time for training because the division would not have sufficient personnel in the field to perform ongoing workload. Upon completion of the training modules, regulatory staff will receive a certification and begin to utilize the training in the field.

LAO Assessment

Proposal Does Not Adjust Curriculum to Account for Staff Experience Level. As currently envisioned, all 182 of the DOGGR regulatory staff would complete the training modules—three to four per year—over the next three years. This approach does not take into account the varying levels of work experience and technical knowledge already possessed by some DOGGR staff. Newer hires, with little industry or regulatory experience, would likely benefit the most from attending all of the full training modules, since they are most likely to have gaps in the knowledge they need to effectively regulate the industry. However, senior staff, who have several years or decades of experience, may already know the information being taught in certain modules. For senior staff, a brief review course of one or a few days, rather than one or two weeks, may be sufficient to bring them up to speed on the information being covered by certain modules. They could demonstrate their mastery of a module's curriculum by passing an exam. If they did not perform well on the exam, then they could be required to complete the whole training module. This would have the benefit of reducing the time they spend out of the field performing regulatory work.

First Cohort of Staff Will Not Complete Training for Two to Three Years. The first cohort of 182 DOGGR staff to begin the training will not complete it until two to three years from when the training program is implemented. This is of concern for two main reasons. First, the state will not begin to benefit from trained and certified DOGGR staff regulating oil, gas, and geothermal drilling operations for at least the next two to three years. Certified staff are likely to be more effective in enforcing state laws and regulations in the field, and thereby reduce the risk of errors, injuries, and safety violations. Second, the state will continue to have difficulty holding DOGGR staff accountable for errors in the field until it can demonstrate that regulatory staff are certified and have a comprehensive understanding of the laws and regulations they enforce.

LAO Recommendations

Recommend Approval of Administration's Proposal, but Make Curriculum Funding Limited Term. Overall, we find the Governor's proposal to implement a training program for DOGGR's regulatory staff has merit. With regard to the proposed funds for purchasing curriculum we recommend approval of $1 million a year for three years, instead of as ongoing funding as proposed by the administration. The training modules will be developed over three years and updated as needed thereafter. It is unclear why $1 million would be needed annually to update the curriculum as this should entail less work than its initial development. We recommend approval of the two permanent positions.

Recommend Department Report on Feasibility of Implementing Proposal More Quickly. In addition, we recommend the Legislature require the department to report at budget hearings on the feasibility of providing the training to all existing staff over a shorter time period than the three years envisioned in the proposal. Specifically, the department should address whether the curriculum could be developed in less than two years and whether training could be completed by all staff in less than two years. We acknowledge that if the curriculum were developed over a shorter period of time, then the department would likely need more than the $1 million being requested for 2016-17 to pay for it, and funding would have to be adjusted accordingly.

We also recommend the department report at budget hearings on the feasibility of providing training that takes into account the level of experience of the staff receiving the training. Specifically, could the department provide short review courses for experienced staff instead of having them complete one- or two-week-long training modules? This approach would facilitate the staff's completion of the training in a shorter timeframe.

As noted above, the initial cohort of 182 regulatory staff would be certified over the next three years in order to maintain sufficient staff in the field while others receive training. Once this initial cohort has completed its training, then mainly new hires would be attending the 10 to 12 training modules. We recommend the department report at budget hearings on the feasibility of having new hires complete the training program and become certified in their first year with the department in the years after the initial 182 person cohort has completed the training.

CALIFORNIA CONSERVATION CORPS

The CCC provides young adults between the ages of 18 and 25 (and veterans to age 29) 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. Typical activities include academic and technical training as corpsmembers pursue educational and career development goals. After successfully completing a year, corpsmembers are eligible to receive a scholarship toward continuing education or training.

The Governor's 2016-17 budget proposes a total of $131 million for support of CCC. Almost half of these funds are from the General Fund with the remaining coming from a few special funds. The proposed amount reflects a net increase of $34 million, or 35 percent, compared to projected current-year expenditures. This change primarily reflects (1) a $20 million augmentation from the General Fund to renovate the kitchen, dormitory, and multipurpose room at the Auburn residential center; and (2) an increase of $15 million from the GGRF to operate a new Energy Corps Program that would focus on reducing GHG emissions for public buildings. In addition, Control Section 6.10 includes $700,000 from the General Fund for deferred maintenance at CCC facilities. (For more information on deferred maintenance, see our analysis earlier in this report.) As we discuss below, the administration is also proposing a plan to expand CCC residential centers over the next several years.

Expansion of Residential Facilities

LAO Bottom Line. The decision about whether to take the initial steps towards a major expansion of CCC residential centers (as proposed by the Governor) and move from a mainly satellite facility-based program to a mainly residential facility-based program is ultimately a policy decision for the Legislature. We recommend the Legislature (1) wait for more information before approving funding for the acquisition phase of new residential centers in Pomona and Napa, (2) require CCC to report on its progress towards developing a database to track corpsmember outcomes, and (3) approve the request for funding for the acquisition phase of a new residential center in Ukiah.

Background

The CCC operates 25 facilities in urban and rural areas statewide—7 residential centers and 18 nonresidential facilities known as satellite facilities. The typical residential center includes a dormitory, dining room and kitchen, administrative offices, recreational facilities, classroom space, and warehouse space. The residential centers normally house between 80 to 100 corpsmembers. The typical satellite facility includes classroom space and administrative offices. The satellite facilities normally serve between 30 to 60 corpsmembers.

Governor's Proposal

Five-Year Plan for Major Expansion of Residential Centers. The administration's recent *Five-Year Infrastructure Plan*—which proposes state spending on infrastructure projects in all areas of state government through 2020-21—includes a major expansion of the CCC residential center program. Specifically, the plan proposes a combined total of $171 million over the next five years from the General Fund and lease revenue bond funds to design and construct new CCC residential centers. There would be added costs to complete design and construction of two new residential centers that would still be in the preliminary plan phase in 2020-21. Figure 21 summarizes the five-year plan to (1) complete construction of six new residential centers by the end of 2020-21 and (2) begin the acquisition and preliminary planning phases for two additional residential centers that would begin construction after 2020-21. Some of the proposed centers would replace current satellite facilities, while others would add capacity in new locations.

Under the Governor's plan, the total number of corpsmembers would increase, and a greater share would reside in residential centers. By 2020-21, the number of residential corpsmembers would increase from 623 to 1,172 (88 percent), and the total number of corpsmembers would increase from 1,537 to 1,757 (14 percent). This would result in the share of corpsmembers in residential centers increasing from 41 percent to 67 percent.

Once a residential center is built, its annual average operating cost is $3.4 million. Roughly 50 percent of operating costs are paid for with General Fund, 45 percent are paid for with reimbursements from work projects, and the remaining 5 percent is from state special funds.

Expansion Designed to Achieve Multiple Goals. The administration believes that the proposed expansion will achieve multiple goals. First, residential centers allow access to the CCC program for young people from all parts of the state, not just those that live within commuting distance of a satellite facility. Corpsmembers must find affordable housing within commuting distance of the satellite facility. This can present a barrier in regions where the cost of living is relatively high (such as Napa). By removing the obstacle of finding affordable housing within commuting distance of a satellite facility, CCC believes it will have more participation in certain regions.

Second, the CCC states that residential centers offer a better option than some of its satellite locations by (1) providing a structured environment offering full immersion in work projects and educational programs, (2) offering stability and

Figure 21

California Conservation Corps Five-Year Expansion Plan

(In Thousands)

	2016-17	2017-18	2018-19	2019-20	2020-21	Total Project Cost
Napa—new residential center	$200 A	$1,000 P	$2,000 W	$24,800 C	—	$28,000
Pomona—new residential center	100 A	1,000 P	2,000 W	24,920 C	—	28,020
Ukiah—replace existing residential center	100 A	200 A	1,000 P	2,000 W	$24,720 C	28,020
San Diego—new residential center	—	280 A	1,000 P	2,000 W	24,720 C	28,000
Santa Clara—new residential center	—	280 A	1,000 P	2,000 W	24,720 C	28,000
Kern—new residential center	—	—	—	3,200 A,P,W	24,720 C	27,920
Del Norte—new residential center	—	—	—	280 A	1,000 P	1,280
Inyo/Mono—new residential center	—	—	—	280 A	1,000 P	1,280
Totals	**$400**	**$2,760**	**$7,000**	**$59,480**	**$100,880**	**$170,520[a]**

[a] Does not include costs for working drawings and construction of new residential centers at Del Norte and Inyo/Mono that will be incurred after 2020-21.

Phases: A = acquisition; P = preliminary plans; W = working drawings; and C = construction.

security, and (3) providing many opportunities for community engagement and personal development. According to CCC, residential facilities promote academic success because the residential setting provides more time for corpsmembers to dedicate to academics. They can attend class, participate in study groups, and participate onsite in academic projects. Data shows CCC corpsmembers in school at residential centers achieved greater gains in math and reading levels than their counterparts in satellite facilities. Furthermore, a higher percentage of corpsmembers from residential centers (27 percent) go on to post-corps education and training than satellite facilities (17 percent), as evidenced by the greater number of CCC graduates from residential centers who claim the scholarship earned by successfully completing a year of service. Residential center corpsmembers are also more likely to participate in community service projects than satellite facility corpsmembers.

Third, the CCC states that the proposed expansion would allow it to better meet the needs of the communities by having more corpsmembers there and offer a residential center program in additional areas of the state. The number of corpsmembers at some of CCC's satellite operations match the needs of the communities they serve. In deciding which satellite facilities to convert to residential centers, the CCC reviewed several factors such as recruitment trends, demand for work, and existing field staffing. The CCC also considered its geographic reach and its ability to offer residential center programs throughout the state. For example, there is currently no residential center south of Camarillo.

Governor's Budget-Year Proposal. The Governor's budget for 2016-17, proposes $400,000 from the General Fund to begin implementation of the above expansion plan. This amount consists of funding for the acquisition phase of residential centers in Napa ($200,000), Pomona ($100,000), and Ukiah ($100,000). Acquisition phase costs can include an investigation of the condition of a property, surveys, title costs, appraisal fees, and staff time. For Napa and Pomona the administration plans to use lease revenue bonds (generally repaid from the General Fund) for construction, which increases the total costs of the project due to the interest paid on the bonds. Ukiah is proposed to be funded entirely from the General Fund. (The Governor's budget also proposes $2.7 million from the General Fund for one-time and ongoing operational costs of a new residential center in Butte County [Magalia].)

Expansion at Initial Three Sites Would Mostly Leverage Existing State Properties. The administration plans to build new residential centers on existing state property whenever possible. According to the administration, utilizing existing state property is preferred and expedites site selection and acquisition. For the Pomona residential center, the former Lanterman Developmental Center (now Cal Poly Pomona) is an option. For the Napa residential center, the Napa State Hospital and the Yountville Veterans Home are both options. In Ukiah, continuing in the current leased facility is no longer feasible. This is because the Department of General Services will not renew the lease as the buildings are in disrepair and do not meet today's building standards.

LAO Assessment

The decision about whether to take the initial steps towards a major expansion of CCC residential centers is ultimately a policy decision for the Legislature. In large part, this determination will be based on how the Legislature weighs the potential benefits of expanding the CCC residential program against other General Fund priorities. In this section we assess (1) the costs and potential benefits of the Governor's proposed expansion, and (2) the data available on corpsmembers outcomes.

Major Cost to Shift Towards Residential Center Model With Modest Increase in Corpsmembers. The Governor's 2016-17 budget proposes funding ($400,000 General Fund) for the acquisition phase of three residential centers that will cost a total of $84 million to complete. The Governor's 2016-17 proposal is just the first step in a plan to spend a combined total of $171 million over the next five years (with additional construction costs estimated at roughly $50 million in subsequent years) to design and construct new CCC residential centers. Over the same time period, the total number of corpsmembers would increase only modestly—by 220 corpsmembers. In our view, the Governor's proposal presents the Legislature with a policy decision about whether to spend a significant amount of General Fund over the next several years to shift the CCC program from a primarily satellite facility-based program to a primarily residential center-based program—with about two-thirds of corpsmembers living in residential centers in five years. By approving the Governor's 2016-17 proposal, the Legislature would be signaling its agreement with the Governor's long-term policy goal of shifting to greater use of residential centers.

Measureable Outcomes for Corpsmembers Currently Limited. The CCC states that it is beginning to implement a database to collect information on where corpsmembers go after they leave CCC in order to identify trends that could help them to manage the program more effectively. For example, CCC would like to have more information about the number of corpsmembers who leave CCC to begin jobs, attend college, or for other reasons. This information would help CCC administrators to more efficiently and effectively manage the program. However, CCC does not believe it will be able to identify meaningful trends in the data it is collecting for another two or three years.

Without robust data on outcomes after corpsmembers leave CCC, it is more difficult to assess whether a major expansion of residential centers is a wise investment. For example, data suggests that residential centers contribute to corpsmembers performing better than their satellite facility colleagues on some educational and community service measures. However, we do not know whether there are meaningful differences between residential center corpsmembers and their satellite facility colleagues after they leave CCC on such measurements as educational outcomes or employment status.

Ukiah Project Appears Warranted. The new Ukiah residential center will replace an existing leased residential center. The Department of General Services will not renew the lease on the existing facility due to the fire, life, safety, and building code compliance issues. We view this as a reasonable request that will allow for continued CCC services in a region where a residential center is already established.

LAO Recommendation

Defer Decision on Napa and Pomona Projects. We recommend the Legislature wait until there is more information on corpsmember outcomes before approving the acquisition phase for new residential centers in Napa and Pomona. We believe the proposal to construct new residential centers in Napa and Pomona is worth exploring. There may be benefits, in addition to the ones discussed earlier in this analysis, from shifting from a primarily satellite facility to a primarily residential-center model. However, we do not know for certain such a shift will better achieve program goals because there is limited data on how residential center corpsmember post-service outcomes compare to outcomes for their satellite facility colleagues. Furthermore, any such benefits would have to be weighed against the significant additional costs of providing corpsmember slots in a residential setting. Accordingly, we believe the Legislature should not signal its intent to go forward with new residential center construction in Napa and Pomona—at an estimated total cost of $28 million per new residential center—by funding the acquisition phase until more information is available regarding corpsmember outcomes.

Require CCC to Report on Outcomes to Inform Longer-Term Policy Choices. We believe the Legislature should take steps to ensure that it will have sufficient information in the future to make informed decisions about whether to go forward with the residential center expansion. We recommend the Legislature require the CCC to report at budget hearings on its progress towards developing a database to track corpsmember outcomes. This data should be complete enough to inform CCC management decisions about how to improve the efficiency and effectiveness of the CCC program. It should also be broad enough to inform legislative decisions about the benefits of expanding CCC. According to CCC, it will not be able to identify trends for another two or three years. We acknowledge that collecting this data may have a cost. We further recommend CCC report at budget hearings on whether it can develop a robust database within existing resources, or whether additional resources are necessary to create this database.

Approve Request for Ukiah Acquisition Phase. We recommend the Legislature approve the request for $100,000 General Fund to begin the acquisition phase of a project to replace the current residential center in Ukiah.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

CalRecycle regulates solid waste facilities (including landfills) and manages the recycling of various materials, such as beverage containers, electronic waste, tires, and used oil. The department also promotes waste diversion practices, such as source reduction, composting, and reuse.

The Governor's budget proposes $1.5 billion from various funds for support of CalRecycle in 2016-17. This is a reduction of $272 million, or 15 percent, from current-year estimated expenditures. This is primarily due to significant one-time expenditures—$243 million—in the current year for fire debris removal and cleanup in areas affected by the Valley and Butte fires. The budget assumes that the department will receive federal reimbursement for most of these costs in the budget year. The budget also proposes an increase of $100 million from the GGRF for waste diversion activities that reduce GHGs. (This proposal is discussed in our analysis of the Governor's cap-and-trade expenditure plan earlier in this report.)

Beverage Container City/County Payment Program

LAO Bottom Line. We recommend that the Legislature eliminate the Beverage Container City/County Payment Program (CCPP) due to concerns with its structure and the lack of information on its effectiveness. Eliminating the program would also reduce the Beverage Container Recycling Program's (BCRP's) structural deficit by 14 percent.

Background

Overview of BCRP. The Division of Recycling within CalRecycle administers the BCRP, which is commonly referred to as the "bottle bill." The purpose of the BCRP is to be a self-funded program that encourages consumers to recycle beverage containers. The program accomplishes this goal by first requiring consumers to pay a deposit for each eligible container purchased. The department estimates that about $1.3 billion in deposits will be paid in 2015-16 and deposited into the Beverage Container Recycling Fund (BCRF). Then the program guarantees consumers repayment of that deposit—the California Redemption Value, or "CRV"—for each eligible container returned to a certified recycler. Currently, the redemption rate is about 84 percent, resulting in $1.1 billion in estimated current-year expenditures for CRV payments. When a container is not redeemed, the CRV deposit paid on it is retained by the state. The department estimates there will be $207 million in unclaimed CRV in 2015-16. State law specifies how the unclaimed CRV money is spent, including specified allocations for several supplemental recycling-related programs (such as subsidizing glass and plastic recycling and encouraging supermarket recycling collection sites).

BCRF Structural Deficit. Over time, beverage container recycling rates have increased, which in turn has increased the program's expenditures for redemption payments. This has left less money available for the supplemental programs. As a result of the combination of a higher redemption rate and the continued cost of these supplemental programs, the BCRF has been operating with an annual structural deficit that has been covered by a substantial fund balance. The department's January 2016 quarterly report projects that annual structural deficits will average about $75 million from 2015-16 to 2017-18 and that the fund balance will be depleted sometime after 2017-18. (For more information on the BCRP, please see our April 2015 report *An Analysis of the Beverage Container Recycling Program*.)

Beverage Container CCPP. One of the supplemental programs required in statute is the CCPP, which provides $10.5 million annually to cities and counties. Allowable uses of these funds as defined in statute are broad, and local governments can spend them on any activity or program that is related to beverage container recycling or litter abatement. Payments are distributed to virtually all cities and counties proportionally based on each jurisdiction's population, with payments averaging $20,000 per jurisdiction in 2013-14.

In 2010, the California State Auditor (CSA) conducted an audit of the BCRP supplemental programs, including the CCPP. The CSA found that the department did not require any supporting documentation from cities and counties and concluded that there was minimal assurance that the grant funds were spent only for recycling and litter cleanup activities as required by statute. The auditor recommended that the department implement policies to ensure that cities and counties spend grant funds for recycling purposes by requiring periodic reporting of expenses. In response, CalRecycle conducted a random sampling of 60 program participants and required them to submit an expenditure report for 2010-11 payments. The department's review of the reports revealed several problems, including misreported expenditures, expenditures that did not match the original funding requests, ineligible expenditures, and incorrect reporting.

Governor's Proposal

The Governor's budget proposes $110,000 from the BCRF and one position to provide programmatic and fiduciary oversight of CCPP expenditures by recipient agencies. Proposed activities include conducting outreach, providing training and technical assistance to participants, and reviewing participant reports.

LAO Assessment

While the administration's proposal is a reasonable way to address the financial oversight issues identified by CSA, we have more fundamental concerns regarding the effectiveness of the program that the proposal does not address. We note that the administration raised similar concerns when it proposed eliminating the program as part of the 2014-15 budget.

Program Structure Is Problematic. The structure of the CCPP is unlikely to result in the most cost-effective recycling or litter reduction activities. There is no relationship between the allocation of program funds and the expected outcomes of a recipient's activities. This is because CCPP payments are calculated based on a jurisdiction's population rather than performance criteria that indicate its potential success at implementing recycling programs. Unlike other fund allocation methods, such as competitive grants, ineffective programs are just as likely to be funded under the CCPP as effective ones. Therefore, the mix of activities supported by CCPP payments is unlikely to be the most cost-effective one. We note that another supplemental program provides competitive grants to local governments for recycling or litter abatement.

Program Effectiveness Unclear. Despite the problematic structure of the program, there are no efforts currently in place to determine if the program is effective at meeting BCRP goals. The CCPP lacks any outcome metrics that could indicate the success of the program, which compounds the program's structural problems. While we acknowledge that the department is seeking resources to improve program oversight and accountability, the additional activities proposed in the budget will not measure program effectiveness.

LAO Recommendation

Eliminate the CCPP. We recommend that the Legislature eliminate the CCPP given the concerns with the structure of its funding allocation and the lack of information on its effectiveness. Eliminating the program would also provide $10.5 million in savings to the BCRF, which would reduce the structural deficit by 14 percent based on the department's most recent quarterly report.

AIR RESOURCES BOARD

In California, air quality regulation is divided between the ARB and 35 local air quality management districts. The local air districts manage the regulation of stationary sources of pollution (such as industrial facilities) and prepare local implementation plans to achieve compliance with the federal Clean Air Act. The ARB is responsible primarily for the regulation of mobile sources of pollution (such as automobiles) and for the review of local district programs and plans. Historically, the ARB's regulations focused on emissions that affect air quality, such as particulate matter and ozone-forming emissions. More recently, the ARB also began overseeing the state's efforts to reduce GHG emissions.

The Governor's budget proposes $945 million for ARB in 2016-17, a net increase of $391 million (71 percent) compared to estimated expenditures in the current year. This year-over-year increase is largely the result of additional cap-and-trade expenditures for low carbon transportation programs to reduce GHGs. (We discuss our analysis of the Governor's cap-and-trade expenditure plan earlier in this report.)

Various Proposals to Achieve Governor's Post-2020 GHG Goals

LAO Bottom Line. We recommend that the Legislature reject ARB's requests for resources to develop and implement regulations to achieve the Governor's 2030 and 2050 GHG goals and short-lived climate pollutant (SLCP) strategy. These activities do not appear to be consistent with current statutory direction to ARB regarding state GHG emission targets. Furthermore, even if the Legislature provides additional statutory direction regarding more stringent post-2020 GHG goals, the requests are premature because the administration has not provided a comprehensive strategy for achieving such goals in a cost-effective manner.

Background

The ARB administers a wide variety of regulations intended to reduce GHG emissions and/or improve air quality. Some of these regulations include the Advanced Clean Cars program, Clean Truck and Bus standards, the refrigerant management program, and the landfill methane capture regulation. The ARB's regulatory activities are driven by federal law, state law, executive orders, and various agency planning efforts. Some of the key drivers are:

- ***AB 32 GHG Emissions Limit.*** As discussed earlier in this report, AB 32 established the goal of limiting GHG emissions to 1990 levels by 2020 and directed ARB to develop regulations to achieve this goal. It directed ARB to develop a Scoping Plan to identify the regulations and programs needed to achieve the emission targets cost-effectively and update the plan periodically.

- ***Federal Air Quality Standards.*** The federal Environmental Protection Agency sets air quality standards for specified "criteria" pollutants—such as ozone—pursuant to the federal Clean Air Act. Certain areas of the state do not meet the current federal standards. In addition, federal standards become increasingly stringent in 2023 and 2031.

- ***Governor's 2030 and 2050 GHG Goals.*** Two different executive orders establish the goals of reducing statewide emissions to 40 percent below 1990 levels by 2030 and 80 percent below 1990 levels by 2050. In addition, one of the executive orders directs ARB to update its Scoping Plan and implement measures, pursuant to statutory authority, to achieve the 2030 goal. A draft of ARB's Scoping Plan is expected to be released this spring and the plan is expected to be finalized this fall.

- ***SLCP Strategy.*** Chapter 523 of 2014 (SB 605, Lara) requires ARB to develop a strategy to reduce SLCPs—such as methane and fluorinated gases—by January 1, 2016. The ARB is expected to finalize the SLCP strategy in the spring of 2016.

A variety of fund sources are used for these regulatory activities and planning efforts, including the AB 32 Cost of Implementation Account (COIA), the Motor Vehicle Account, the Vehicle Inspection and Repair Fund, and the Air Pollution Control Fund.

Governor's Proposals

The Governor's budget includes a total of $3.2 million and 13 permanent positions to implement three proposals related to the Clean Truck and Bus standards, the Advanced Clean Cars program, and the SLCP strategy. Figure 22 provides a summary of the three requests, including the funding and positions requested and ARB's primary justification for the requests based on their budget proposals and our conversations with board staff. The additional resources would be used for the following activities:

- ***Clean Truck and Bus Standards.*** Develop more stringent GHG and criteria pollutant standards for trucks and buses, as well as improve compliance monitoring for existing standards. For example, of the resources requested, two positions and $490,000 are requested to develop more stringent GHG standards to achieve the Governor's long-term GHG goals.

- ***Advanced Clean Cars Program.*** Develop regulations to increase the number of zero-emission vehicles and reduce criteria pollutants and GHGs from light duty vehicles.

- ***SLCP Strategy.*** Develop and implement policies to reduce methane and fluorinated gases, improve monitoring of fluorinated gases, and improve enforcement of existing and near-term SLCP strategies.

All of these activities would be funded from the COIA, which is supported by a regulatory fee paid by certain GHG emitters. The account generally supports administrative activities performed by state agencies related to GHG emission reductions. The board might have to increase the fee to pay for the additional costs associated with these proposals. (The fee is currently set at about 15 cents per metric ton of carbon dioxide equivalent.)

LAO Assessment

Certain Activities Do Not Appear Consistent With Current Statutory Direction. Assembly Bill 32 states that the 2020 GHG limit shall remain in effect unless otherwise amended or repealed. However, as shown in Figure 22, the Governor's more stringent 2030 and 2050 GHG targets are identified as a justification for parts of each request. Although the Legislature has adopted major policies intended to achieve substantial GHG reductions beyond 2020—such as establishing a 50 percent renewable portfolio standard and doubling energy efficiency savings in electricity and natural gas by 2030—we are not aware of any statutory direction for ARB to develop regulations to achieve more stringent post-2020 GHG targets.

Furthermore, the ARB indicates that resources are needed to develop new SLCP regulations identified in the SLCP strategy to achieve the intent of the legislation. Although SB 605 directs the administration to develop a strategy to reduce SLCPs, it does not direct the administration to implement the measures contained in the strategy (such as by developing regulations). Therefore, it is unclear whether the proposed activities to develop new regulations are consistent with statutory direction.

Resources to Develop Certain New Regulations Are Premature. Even if the Legislature determines that it would like to adopt the more stringent post-2020 GHG targets, the

Figure 22

Summary of Governor's Proposals to Develop Regulations for Post-2020 GHG Goals

Proposal	Funding and Positions Requested	Primary Justification
Clean Bus and Truck Standards	$1.2 million and four positions	Governor's GHG goals, AB 32, and federal air standards
Advanced Clean Cars Program	$580,000 and four positions	Governor's GHG goals and federal air standards
SLCP (SB 605)	$1.4 million and five positions	SLCP strategy, AB 32, and Governor's GHG goals

GHG = greenhouse gas and SLCP = short-lived climate pollutant.

budget requests to develop specific regulations to achieve such targets are premature until more analysis has been done. As discussed above, the administration is developing a Scoping Plan to identify a cost-effective mix of policies that could be used to achieve the 2030 GHG target. However, a draft Scoping Plan has not been released. It is unclear whether the specific regulations identified in these proposals will be part of the final Scoping Plan. Thus, we find that it is premature to provide resources to develop these specific regulations.

Unclear Whether COIA Is an Appropriate Fund Source for Non-GHG Activities. All activities in these requests are funded from the COIA. However, it is unclear whether using the funds to support regulatory activities specifically intended to achieve federal air quality standards, but not GHG reductions, is an appropriate use of the funds.

LAO Recommendations

We recommend modifying the Governor's proposal in two ways: (1) rejecting requests related to the administration's long-term GHG goals and implementing the SLCP strategy and (2) identifying alternative funding sources for air quality activities.

Reject Requests Related to Long-Term GHG Goals and Implementing SLPC Strategy. We recommend rejecting the proposed positions and funding intended to develop regulations to achieve the Governor's long-term GHG goals and implement the SLCP strategy. These activities appear to be inconsistent with current statutory direction and are premature. Specifically, we recommend reducing the Clean Bus and Truck proposal by the two positions and $490,000 identified by the administration as being related to long-term GHG goals. With respect to the Advanced Clean Cars request and the SB 605 request, the administration did not provide a breakdown of the positions and funding related primarily to the Governor's post-2020 GHG targets and implementing the SLCP strategy. Therefore, we recommend the Legislature direct the administration to provide this information at budget hearings so that similar adjustments can be made.

Identify Alternative Funding Sources for Air Quality Activities. We further recommend that the Legislature direct the administration to identify an alternate fund source for activities specifically related to achieving federal air quality standards.

Low Carbon Transportation Fuels (AB 692)

LAO Bottom Line. We recommend that the Legislature reject ARB's request for one position and funding to assist state agencies implement a legislative requirement to procure a specified amount of fuel from very low carbon sources. The additional workload for ARB does not justify an additional position.

Background. Chapter 588 of 2015 (AB 692, Quirk) requires, beginning January 1, 2017, that at least 3 percent of the transportation fuel purchased by the state be procured from very low carbon transportation fuel sources. This percentage increases by 1 percentage point each year thereafter until 2024. Very low carbon transportation fuel has no more than 40 percent of the carbon intensity of the closest comparable petroleum fuel for that year, as measured by the methodology for the low carbon fuel standard (LCFS). (The LCFS is a regulatory program administered by ARB.) The legislation requires the Department of General Services (DGS) to coordinate with state agencies that are buyers of transportation fuel and submit an annual progress report to the Legislature.

Governor's Proposal. The ARB requests one permanent position and $145,000 annually to support additional workload related to AB 692. The ARB indicates that the additional position would assist with the following tasks:

- Develop and maintain knowledge on market dynamics affecting the availability and price of very low carbon fuels and provide consultation to DGS.
- Support DGS and other state agencies in identifying sources of very low carbon transportation fuels.
- Provide analytical support to evaluate the carbon intensity of new very low carbon fuels expected to enter the market as a result of AB 692.

The Governor's budget does not propose any resources for DGS to implement AB 692.

Insufficient Workload Justification at This Time. In the short run, the additional workload for ARB to implement AB 692 appears minor and absorbable. The board has been implementing the LCFS for several years and approves dozens of carbon intensity pathways for low carbon fuels in the state each year. Based on our conversations with DGS, it has already identified a likely supplier for the fuel needed to meet the 2017 purchasing requirement. Therefore, it is unclear why there would be significant additional workload for ARB. In the long run, there could be additional workload associated with identifying additional fuel sources or approving additional fuel pathways. However, the additional workload is uncertain at this time and, therefore, the request for additional resources is premature.

Recommend Rejecting Proposal. We recommend that the Legislature reject the proposed position and $145,000 to implement AB 692 because there is insufficient workload justification at this time.

SB 350 Implementation

LAO Bottom Line. We recommend modifying the administration's request for funding related to the implementation of SB 350 by approving $162,000 of the request on a one-year, limited-term basis rather than ongoing. This portion of the request is for a position to complete a study of barriers for low-income customers to access zero-emission transportation options by January 1, 2017. We have no concerns with the remainder of the administration's proposal.

Background. Chapter 547 of 2015 (SB 350, de León) expands the existing renewable portfolio standard (RPS) to 50 percent by 2030 and establishes a state goal of doubling the amount of energy efficiency savings by 2030. In addition, the bill directs the California Energy Commission (CEC), the California Public Utilities Commission (CPUC), and ARB to undertake various activities related to resource planning and transportation electrification. Specifically, the legislation requires:

- CPUC and CEC to adopt processes for investor-owned utilities (IOUs) and publicly owned utilities to file integrated resource plans to ensure utilities are meeting RPS requirements, helping the state meet its GHG targets, minimizing costs for ratepayers, and ensuring system reliability.
- CPUC, in consultation with ARB and CEC, to direct IOUs to propose multiyear programs and investments to accelerate widespread transportation electrification, such as funding electric vehicle charging infrastructure.
- ARB and CPUC to identify strategies to promote transportation electrification.
- ARB to develop and publish a study on barriers for low-income customers to zero-emission and near-zero-emission transportation options.

Governor's Proposal. The Governor's budget for 2016-17 includes three permanent positions and $485,000 (divided equally between the three positions) from the COIA for ARB to implement SB 350. These positions are:

- One position to develop and conduct a study on barriers for low-income customers to access zero-emission and near-zero-emission transportation options by January 1, 2017.
- One position to help analyze electric vehicle charging infrastructure needs to support the CPUC approval of IOU programs and investments.
- One position to consult with CPUC and CEC on setting GHG targets for utilities as part of the integrated resource planning process and monitor potential effects on the cap-and-trade market.

The Governor's budget also includes resources for CEC and CPUC to implement various provisions of SB 350.

Ongoing Resources Not Justified. The workload associated with conducting a study on barriers for low-income customers to zero-emission transportation options is one time and does not justify ongoing resources. State law requires ARB to complete this study by January 1, 2017. The ARB indicates that there is ongoing workload because this study will be the first step in developing a guidance document and lead to future research in this area. However, SB 350 does not direct the ARB to conduct these ongoing activities.

Recommendation. We recommend the Legislature convert $162,000 in funding related to studying barriers for low-income customers to access zero-emission transportation options from ongoing to one year. We have no concerns with the other requests for positions and funding that are part of this proposal.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded from (1) fees paid by persons who generate, transport, store, treat, or dispose of hazardous wastes; (2) environmental fees levied on most corporations; (3) the General Fund; and (4) federal funds. The Governor's budget requests $204 million from various funds for support of DTSC in 2016-17. This is a decrease of $12.5 million or 5.7 percent from the current-year level.

Proposal to Enhance and Streamline Permitting

The Governor proposes an increase of $1.2 million from the Hazardous Waste Control Account to make permanent eight limited-term positions that are set to expire at the end of the current year. These positions were previously provided to address a hazardous waste permit renewal backlog, as well as to update cost estimates associated with closing hazardous waste facilities. At the time this analysis was prepared, the administration had not provided any information to support this proposal—such as, a workload analysis justifying the continued need for the positions or information on the outcomes associated with the Legislature having provided these resources since 2014-15. According to the administration, it intends to provide this information soon. We withhold recommendation until such information is provided by the administration.

SUMMARY OF RECOMMENDATIONS

Issue	Governor's Proposal	LAO Recommendation
Crosscutting Issues		
Cap-and-trade expenditures	$3.1 billion for greenhouse gas (GHG) emission reduction programs related to transportation, carbon sequestration, energy efficiency and renewable energy, short-lived climate pollutants, local climate projects, and water efficiency.	Direct the administration to provide more robust estimates of benefits, allocate funds based on policy priorities and level of confidence in outcomes, and establish an expert advisory committee to help target future spending.
State's drought response	$233 million from General Fund and special funds for emergency drought response, environmental protection, and conservation activities, and $90 million from cap-and-trade funds for four water and energy efficiency programs.	Approve $233 million for continued drought response and request additional information in order to better assess merits of cap-and-trade funded programs. Identify and implement activities and policy changes that will prepare the state for future droughts. Require administration to report on outcomes and lessons learned from response to current drought.
Proposition 1—2014 water bond	$465 million to partially fund four statewide commitments and $11 million to Santa Monica Mountains Conservancy for Los Angeles River restoration.	Develop approach for funding statewide commitments and multiyear funding plan for Los Angeles River based on legislative priorities. Require administration to submit annual summary report on Proposition 1 implementation.
Environmental License Plate Fund (ELPF)	Several changes to address the ELPF structural deficit, including shifting certain costs to other state funds, increasing the personalized plate fee by about 5 percent, and introducing a new fee for environmental permits. Projected to provide benefits to the fund of $12 million ongoing.	The Governor's budget provides one reasonable package of options to address the structural deficit, but the Legislature also should consider other available options and approve a funding package based on its priorities for where spending reductions or fee increases should be borne.
Deferred maintenance	$187 million one time from General Fund to address deferred maintenance within seven resources departments.	Request additional information before approving Governor's funding proposals and require that specific projects be listed in supplemental budget report.
Department of Forestry and Fire Protection (CalFire)		
Professional standards program	$4.4 million ($3.7 million ongoing) primarily from the General Fund and 14 permanent positions to establish a professional standards program, which would include a unit to oversee internal investigations and adverse actions.	Approve the proposed funding for a new professional standards program on a three-year limited-term basis—rather than on an ongoing basis as proposed—in order to allow the department to evaluate the program's ongoing workload and effectiveness after it has been in place for a period of time.
Department of Parks and Recreation		
Motor Vehicle Fuel Account transfer	$17 million one-time augmentation to the State Parks and Recreation Fund (SPRF) to maintain operations at current-year levels, and a one-time $31 million transfer of fuel tax revenues to cover the costs of this augmentation, as well as to address the SPRF structural shortfall.	Another one-time budget augmentation to maintain current operations level makes sense, but the Legislature will need to make a policy decision regarding whether to fund such an augmentation from a special fund benefiting off-highway vehicle recreational users or the General Fund. Require department to report on the status of various budgetary and programmatic reforms at budget hearings this spring.
Community liaison pilot project	$690,000 over two years from SPRF and three positions for a pilot project to engage underserved and underrepresented communities.	Withhold recommendation and recommend that the Legislature direct the department to provide an evaluation plan for the pilot for consideration at budget hearings.

(Continued)

Issue	Governor's Proposal	LAO Recommendation
Department of Conservation		
Oil and gas training program	$1.3 million in ongoing funds from the Oil, Gas, and Geothermal Administrative Fund to purchase training curriculum and fund training-related positions.	Approve $1 million of the administration's proposal to purchase curriculum for three years rather than on an ongoing basis. Require the department to report at budget hearings on the feasibility of implementing the training program more quickly.
California Conservation Corps		
Expansion of residential facilities	$400,000 General Fund for the acquisition phase for three new residential centers. (Infrastructure Plan identifies total of $171 million from General Fund and lease revenue bonds over five years to fund the planning and construction of several new residential centers.)	Weigh major expansion proposed against other General Fund priorities. Defer approval of funding for the acquisition phase of two residential centers in Pomona and Napa. Approve funding for the acquisition phase of residential center in Ukiah. Require report on progress towards developing a database to track corpsmember outcomes.
Department of Resources Recycling and Recovery (CalRecycle)		
Beverage Container City/County Payment Program (CCPP)	$110,000 from the Beverage Container Recycling Fund (BCRF) and one position to provide programmatic and fiduciary oversight of CCPP expenditures by recipient agencies.	Eliminate the CCPP due to concerns with its structure and the lack of information on its effectiveness. Eliminating the program will also reduce the BCRF's structural deficit.
Air Resources Board		
Various proposals to achieve Governor's post-2020 GHG goals	$3.2 million from the AB 32 Cost of Implementation Account and 13 positions to implement three proposals related to the Clean Truck and Bus standards, the Advanced Clean Cars program, and the Short-Lived Climate Pollutants (SLCP) strategy. The funding would be used for activities related to achieving AB 32 GHG goals, federal air quality standards, and the Governor's post-2020 GHG goals.	Modify the Governor's proposal in two ways: (1) reject requests related to administration's post-2020 GHG goals and implementing the SLCP strategy and (2) direct administration to identify alternative funding sources for activities related to achieving federal air quality standards.
Low carbon transportation fuels (AB 692)	$145,000 and one permanent position to support additional workload related to a statutory requirement that a minimum percentage of transportation fuel purchased by the state be from very low carbon sources.	Reject proposal because there is insufficient workload justification.
SB 350 implementation	$485,000 and three permanent positions for various activities related to implementing SB 350, including one permanent position to develop and conduct a study on barriers for low-income customers to access zero-emission transportation options by January 1, 2017.	Convert $162,000 in funding related to studying barriers for low-income customers to access zero emissions transportation options from ongoing to one year.
Department of Toxic Substances Control		
Proposal to enhance and streamline permitting	$1.2 million from the Hazardous Waste Control Account to convert eight limited-term positions to permanent.	Withhold recommendation until more information is provided by the administration. At the time this analysis was prepared, the administration had not provided any information to support this proposal.

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