Coastal Conservancy

January 18, 2007

TO: Conservancy Members

FROM: Sam Schuchat, Executive Officer
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SUBJECT: Update on the Long-Term Financial Strategy

History

Since its inception in the late 1970s, the Coastal Conservancy's support budget costs (i.e. salaries, benefits, rent, supplies etc.) have generally been paid for with funds from sources other than the State General Fund. The main sources have been a series of bond acts the voters passed beginning in 1976, and the State Coastal Conservancy Fund of 1976. For the Conservancy, the bonds included both project development and related support dollars. The State Coastal Conservancy Fund of 1976 was formerly a bond fund and is now a non-governmental cost fund, meaning that the bond monies have been fully spent. Its current source of funding consists of land sale proceeds, repayments of grant funds, and other restricted and unrestricted revenues received by the Conservancy.

The amount of available bond funding and the staff's ability to dispose of surplus properties and obtain non General Fund dollars has been sufficient to maintain an appropriate baseline Conservancy support budget over a significant number of fiscal years. This was especially true during the 1980s and early 1990s when bond acts were passed every two to four years. This enabled the Conservancy to add new staff and keep up with increasing administrative demands. It began to break down in the mid 1990s during the middle of a twelve year period when there were no new bond acts.

The Conservancy's Long-Term Financial Strategy was first developed in 1995. It had become clear that with no new bond funds or supplements from the General Fund, a severe reduction in staffing would be inevitable in a few years. This would mean that many projects in the development stages would have to be shelved and experienced staff would have to be laid off. The strategy included projecting support costs for several years, and aggressively working to ensure that surplus assets were sold and that loans were repaid, and that federal and other grants that included staffing costs were sought.

Also, it meant vigorously developing projects as funding allowed while controlling costs, and keeping staffing levels as low as possible.

The Strategy has been successful over the years, there having been no staff reductions due to a funding shortage in the history of the Conservancy. Ultimately, when State revenues began to increase at the end of the 1990s, and before the passage of two major bonds in 2000, the Conservancy did receive significant infusions of General Fund dollars both for projects and support. That support ended after the 2001-2002 fiscal year, due in part to new strains on the General Fund, and the Conservancy's receipt of significant funding from both Propositions 12 and 13 and increases in the State Coastal Conservancy Fund due to asset sales. With the passage in 2002 of Propositions 40 and 50 and the recent passage of Proposition 84, all of which included support costs for the Conservancy as well as project funding, General Fund support has not been included in the Conservancy's annual budget.

Projected Budgets

The accompanying chart projects support budgets and available revenues through the fiscal year 2010-2011. These projections are based on a limit of five percent for support funding or "program delivery costs" taken from each of the Conservancy's allocations from Propositions 12, 40, 50, and 84. They also take into account current and projected balances in the State Coastal Conservancy Fund (this includes one projected sale of surplus property), and support from the Environmental License Plate Fund for Conservancy staff working on Ocean Protection Council projects. The projections also include minor amounts of federal funds and reimbursements to the support budget and yearly support reversions at the end of each fiscal year.

The chart shows very robust support budgets through fiscal year 2009-2010 with a significant drop off in fiscal year 2010-2011. Since many projects will just be coming on line by the fiscal year 2010-2011, especially those funded by Proposition 84, and many more will be in various stages of development, these projections are reason for concern. Even without any new project funding after Proposition 84, there will be a continuing workload for many more years. This will include developing new projects from Prop 84 through at least fiscal year 2010-2011 and managing projects and contracts from all bond and other project sources for several more years after that.

Potential Solutions

There are a number of ways to help to ensure full funding through fiscal year 2010-2011 and beyond. Staff will pursue all of the following:

Minimize staffing increases: Proposition 84 included $350 million to the Conservancy for the range of its programs, and an additional $90 million for the purposes of the Ocean Protection Council, that will be administered by the Conservancy. Notwithstanding this major increase in the Conservancy's project budget, and significant amounts of work remaining before earlier propositions are closed out, staff has requested

only five new staff positions to administer these funds. Two of these will be assigned to the Ocean Protection Council program, with the remainder supplementing current staffing for the Conservancy's main work. This is significantly fewer staff per bond dollar than has been requested in the past and we believe significantly fewer than requested by other departments. It is staff intent to begin work immediately on expending Proposition 84 dollars, but to measure this work over several years, accelerating it as earlier bond dollars become depleted. Over the next two years staff efforts and costs will be shifted to the newer funding.

Increase reversions: The budget projections contained in the attached chart are based on the current projections for yearly appropriations that include full funding to administer all existing bond programs. While these amounts may be appropriated each fiscal year, the number of established staff positions will be fewer than might be justified, leaving much of this funding in operations. A judicious approach to expending these funds can leave larger balances to revert at the end of each of several fiscal years, perhaps enough to fill the gap at least for fiscal year 2010-2011.

Seek additional funding sources: Although Proposition 84 and other major bonds were just passed in 2006, natural resources bond acts have historically been enacted every two to four years. Staff will seek inclusion of the Conservancy in any future measures. A measure enacted in 2010 could extend the Conservancy's programs for several more years. Additionally, staff will continue to seek support through federal and other grants. We will also seek General Fund support as the Coastal Conservancy Fund and bond funds available for this purpose are significantly reduced.

Dispose of surplus properties and seek loan repayments: At various times the Conservancy has been party to property acquisitions where a portion of the land has been held for eventual sale back to the private market. These sales have resulted in significant revenues to the Conservancy Fund. The Conservancy has also been involved in projects where a portion of its grant funds are repaid over time, also resulting in gains in the Conservancy fund. Staff expects that there will be additional projects of this type over the next several years (we expect repayments from several authorized grants in the short term, the proceeds of which may be appropriate for the Legislature to appropriate for the Conservancy's support). There may also be projects involving returns to the Conservancy from concession or other types of revenue. This could include in the next decade or so, proceeds of timber sales from properties that the Conservancy has helped to acquire as working forests that will be harvested in a sustainable manner.

Conclusion

Even with the passage of Proposition 84, and a number of other bonds this decade, it is prudent to maintain a long-term financial strategy that seeks to ensure support funding for the Conservancy. The purpose of this strategy is to ensure that the Conservancy can complete what it begins and can vigorously implement new programs and projects over time. The lessons of the 1990s, when bond funds could not be relied on, and the State was in severe recession making it difficult to obtain support from the General Fund, are still relevant. Thus, staff will continue to seek new funding sources, and a prudent reserve to weather financial storms, and will continue to foster a culture of self sufficiency.

CONSERVANCY SUPPORT FUND CONDITION AND SUPPORT BUDGET PROJECTIONS

September, 2005

($ in thousands)

CONSERVANCY FUND RESOURCES		FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY10/11
BEGINNING BALANCE: CONSERVANCY FUND	(0565)	16,845	14,369	11,332	8,043	6,743	2,143
REVENUES TO CONSERVANCY FUND (incl. reversions)		-	600	600	600	400	400
Land Sale Proceeds					2,000 a		
Grant Repayments and Miscellaneous Receipts		400	400	400	400	400	400
TOTAL CONSERVANCY FUND RESOURCES	(0565)	**17,245**	**15,369**	**12,332**	**11,043**	**7,543**	**2,943**
FUNDS USED FOR SUPPORT BUDGET	(Fund No.)						
Conservancy Fund of 1976	(0565)	**2,876** b	**4,037** b	**4,289** b	**4,300** b	**5,400** b	**2,943** b
Environmental License Plate Fund	(0140)	1,198 c	1,238 c	1,398 c	1400 c	1,400 c	1,400 c
2000 Park Bond (Prop.12) for Support	(0005)	1,411	1,467	1,473	400	-	-
2002 Park Bond (Prop.40) for Support	(6029)	1,365 d	1,959	1,968	2,000	1,000	-
2002 Water Bond (Prop.50) for Support	(6031)	1,625	696	699	1,400	1,400	-
2006 Water/Park Bond (Prop 84)for Support	(6051)	-	-	1,500 e	2,000	2,300	2,850
Federal Funds	(0890)	21	131	132	132	132	132
Reimbursements	(0995)	140	125	126	126	126	126
ESTIMATED TOTAL SUPPORT BUDGET		8,636	9,653 d	11,585	11,758	11,758	7,451
YEAR-END REMAINING CONSERVANCY FUND BALANCE (0565) (Total 0565 Resources less Expenditure from 0565		**14,369**	**11,332**	**8,043**	**6,743**	**2,143**	**-**

Notes:

a. Victorine Ranch anticipated to sell FY 08/09 for $2.0 mill.

b. FY 04/05 includes $1mill per Section 8 of Ch. 727 (2002, Pavley), transfer from Cap.Outlay; 06/07 begins Fd.0565 $1 mill greater to replace Pavley $

c. Ocean Protection Program (OPC). $ is for positions and related OPC programmatic expenditures.

d. Total Support for 06/07 does not include $8 mill. Gen Fd. For Oceans Program One Time Funding

e. Propsition 84 Support funding begins in FY 07/08 through FY 14/15

f.