



DEPARTMENT OF
FINANCE
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR
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March 17, 2010

Mr. Sam Schuchat
Executive Officer
State Coastal Conservancy
1330 Broadway, 13th Floor
Oakland, CA 94612

Dear Mr. Schuchat:

I am responding on behalf of Finance Director, Ana Matosantos.

We have received two letters from you, dated February 11, 2010 and February 16, 2010, respectively, inquiring if the exemption granted in September 2009 to the California Coastal Conservancy (Conservancy) from the Budget Letter 09-15 restrictions applies to (1) the proposed Franklin Canyon acquisition and (2) the Hamilton Wetland Restoration Project (Hamilton project).

The Budget Letter 09-15 exemption granted to the Conservancy was for the Jenner Headlands Acquisition Project, and also for high priority future projects that offer significant public benefits and provide an opportunity for third party matching funds. Based on our understanding of the general nature of the Franklin Canyon and the Hamilton Wetland Restoration projects, we agree that both projects meet the "high priority future project" condition of the exemption.

Franklin Canyon Project

According to your letter, the total cost of the proposed acquisition is \$2.6 million and will be funded by following sources:

- Conservancy (state bond funds)—\$1,000,000
- Natural Resources Agency (mitigation funds)—\$600,000
- Regional Water Quality Control Board (mitigation funds)—\$225,000
- Department of Fish and Game (mitigation funds)—\$54,418
- East Bay Regional Park District—\$500,000
- Private sources — \$230,000

It is our understanding that the Conservancy will provide the bond funds to Muir Heritage Land Trust (MHLT), a private not-for-profit organization, through a grant agreement, and the property will be acquired, owned, and managed by the MHLT.

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The September 2009 exemption does not guarantee that cash will be available from future bond proceeds for the Conservancy's projects. If the MHLT decides to seek private funding before the Conservancy's bond cash becomes available to acquire the property, we would note that the state does not have a legal obligation to provide bond proceeds to MHLT if the amount of future sales is not sufficient to meet all the state's obligations, yet not timely for the grantee.

Should the Conservancy enter into a grant agreement with MHLT, the agreement should include language to release the state from any liability to provide funding to the MHLT if the bond cash does not become available. Please provide a copy of the grant agreement to the Department of Finance for review and approval.

Hamilton Wetland Restoration Project

The Hamilton Project is a large project offering substantial public benefits, and we agree that it is both high priority and offers an opportunity for the Conservancy to obtain significant third party matching funds—in this case from the United States Army Corps of Engineers (USACE).

However, we note that we also received a copy of your February 22, 2010 letter to the USACE indicating that the Conservancy and the USACE will not be entering into an agreement to include the 1,600 acre Bel Marin Keys V project to the Hamilton project, as previously planned. We understand that the Conservancy is renegotiating with the USACE to amend the existing restoration agreement, and that the final terms of the revised agreement have not yet been determined.

Nevertheless, we expect that the Hamilton project will remain viable, and that ultimately a significant match will be provided by the USACE. Assuming this is correct, we believe the project would meet the second exemption criterion noted above. Please keep us advised should anything occur to alter this assumption.

If you have questions, please contact Matt Almy, Principal Program Budget Analyst, at (916) 324-0043.

Sincerely,



Fred Klass
Chief Operating Officer

cc: Pat Kemp, Assistant Secretary for Administration and Finance, Natural Resources Agency
Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency