



Memo

Date: October 1, 2015
To: State Coastal Conservancy Board
From: Sam Schuchat, Executive Officer
Mary Small, Deputy Executive Officer
CC: Oversight Members
RE: Coastal Conservancy Financial Report

The state's fiscal year began on July 1st. This is the annual financial report to the Coastal Conservancy that provides an overview of the past year's expenditures and an overall picture of the agency's funding. This report is divided into two sections: 1) Support Funding and 2) Project Funding. The support funding section describes the budget for the operation of the Conservancy (including salaries, benefits, rent, etc.) and an update on our Long Term Financial Plan. The project funding section describes funding for implementation of Conservancy projects and grants.

Support Funding – Updated Long Term Financial Plan

In 2013, at the direction of the legislature, the Conservancy developed a ten year funding plan for the operation of the agency assuming there were no new bond funds. In the fall of 2014, the voters approved Proposition 1, a water bond that provides \$100.5 million to the Conservancy for its projects. A maximum of 5% (\$5,025,000) can be used for administrative costs and 10% (\$10,050,000) for planning and monitoring. This update to the long term financial plan focuses on the next five fiscal years and reflects the Proposition 1 funds and updated support costs.

The five year financial plan for the Conservancy's support budget is a conceptual roadmap for funding operation based on a few key assumptions. First, the plan assumes that starting in FY 17/18 the Conservancy begins to receive \$2,000,000 per year (20%) in baseline funding from the General Fund or ELPF or another source. Second, it assumes that the support expenditures stay level and then increase modestly by \$100,000 per year. The plan assumes that by continuing to monitor spending total increases can be contained while maintaining current staffing.

Five Year Financial Plan 2016-2021
(\$ in thousands)

	FY15/16	FY16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
General Fund or ELPF	175	175	2,000	2,000	2,000	2,000
Coastal Resilience Acct	200	-	250	250	250	100
Proposition 12	750	500	750	750	-	-
Proposition 40	600	1000	1,000	500	500	-
Proposition 50	200	200	-	-	-	-
Proposition 84	4,200	2000	2,000	1,500	1,000	700
Proposition 1	0	3000	2,000	3,000	3,000	3,000
Habitat Conservation Fund	200	200	200	200	200	-
Special Accounts (Coastal Access, Beach, Sea Otter, Violation Remediation...)	180	100	250	100	250	400
Incoming Grants	700	800	850	900	900	1,000
Coastal Conservancy Fund	2,195	1425	100	300	1,500	2,500
	9,400	9,400	9,400	9,500	9,600	9,700

The Coastal Conservancy remains the only state conservancy that does not receive a baseline appropriation of non-bond funding for its operation. As a result, the majority of our support budget continues to come from bond funds. The reliance on bond funds creates challenges because many of the centralized costs (FISCAL and Pro Rata) cannot be paid with bond funds, so the Conservancy's few other sources bear the burden of these costs. The Conservancy has diversified our funding to include small percentages from several funds and incoming grants. The number of sources contributing to the Coastal Conservancy's support budget creates many complications within the state budgeting system.

Diversifying Support Funds

Last year the Conservancy began using a small percentage of various funds to its support costs, including 5% of the Habitat Conservation Fund and 10% of the Violations Remediation Account, Sea Otter Account and newly created Coastal Resilience Trust Fund. In the future the Conservancy will seek similar approval for other funds such as the Coastal Access Account and California Beach and Coastal Enhancement Account. The percentages are relatively small but together these funds provide about \$580,000 in FY 15/16. Using these funds for support also reduces the amount available for projects and programs, such as the Explore the Coast Grants.

Incoming Grants

The Conservancy continued to apply for and receive outside grants to support our work. We reorganized staff to improve our ability to apply for, receive and manage incoming grants. Our staff has been very successful in our grant applications. As shown in the table, we have increased the amount awarded from incoming grants to pay for staff and operating costs in recent years. During the last fiscal year there was a drop in billing staff time to incoming grants. However, we have already billed more than \$125,000 for support costs this fiscal year, so the number should be higher next year. In addition, the Conservancy has been awarded a \$300,000 grant from NOAA to fund our staff work under the Coastal Zone Management Program.

Fiscal Year	Grants for Support
2009/10	\$57,500
2010/11	\$355,000
2011/12	\$834,000
2012/13	\$1,046,000
2013/14	\$538,000
2014/15	\$288,000

Operating Budget

Since FY 08/09, we have reduced our annual operating budget by 25% from \$11,882,000 to \$8,919,000 last year. We have eliminated sixteen authorized positions, including eight Ocean Protection Council positions moved to the Natural Resources Agency and eight Conservancy positions that were voluntarily abolished. We have also reduced travel, communications and consulting expenses. The following table shows the actual expenditures for the Conservancy's operation for the last six fiscal years and the budget for the current fiscal year.

Coastal Conservancy Operating Budget 2008–2015

(Dollars in 1,000s)

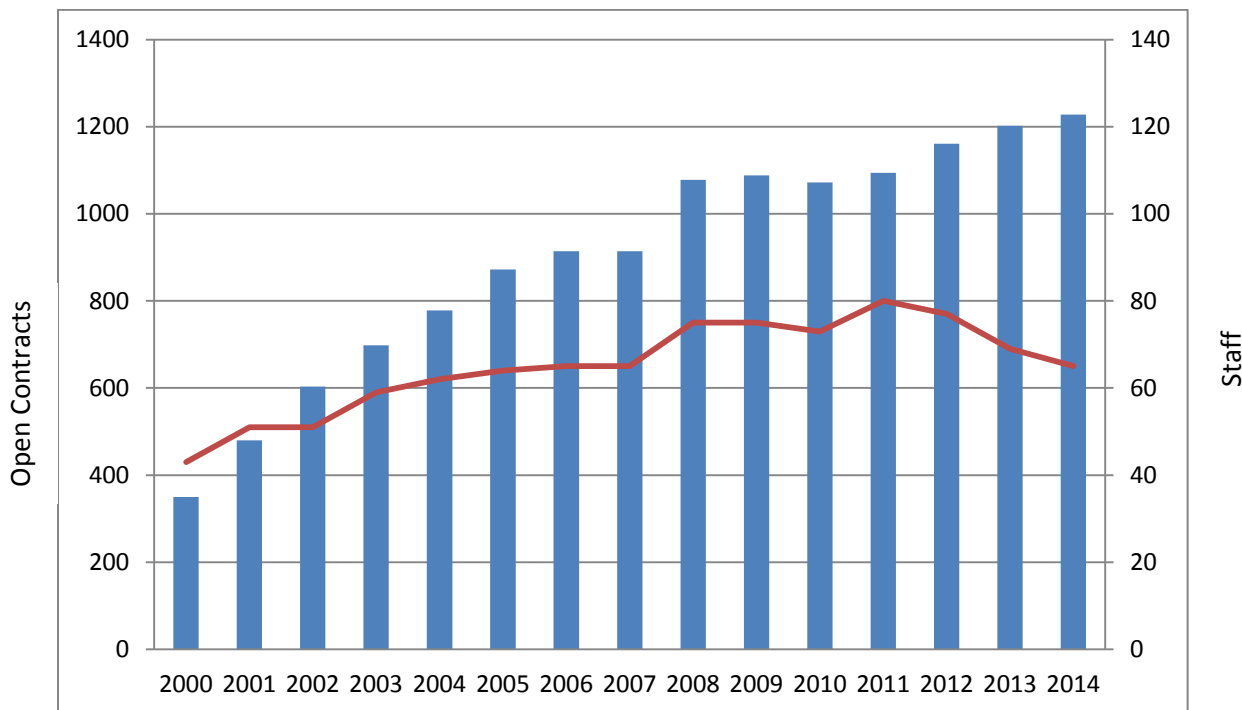
	10/11 Actual	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Budget ¹
Staff						
Salaries	4,674	4,883	4,618	4,502	4,493	4,960
Benefits	2,206	2,446	2,008	1,859	2,143	2,220
<i>subtotal - Staff</i>	<i>6,880</i>	<i>7,329</i>	<i>6,626</i>	<i>6,361</i>	<i>6,636</i>	<i>7,180</i>
Expenses						
Travel & Training	225	238	187	205	172	250
Facilities & Utilities	467	449	435	465	1,347	730
General Expense & Equipment	201	193	142	178	77	200
Printing, Communication & Mail	11	110	85	78	79	130
Consulting – interdepartmental	238	274	687	116	67	180
Consulting - external	715	837	276	493	243	350
<i>Centralized Costs</i>						
Data Processing	165	152	97	164	100	140
Pro Rata	706	644	621	21	190	220
SWCAP	12	8	-	8	8	20
<i>subtotal OE&E</i>	<i>2,740</i>	<i>2,905</i>	<i>2,530</i>	<i>1,728</i>	<i>2,283</i>	<i>2,220</i>
Total Budget	9,620	10,234	9,156	8,089	8,919	9,400

¹ The FY 15/16 Budget is still being adjusted, these numbers are approximate.

Last year's support expenditures were higher than the year before primarily because of the nearly \$1 million the Conservancy paid to Department of General Services for moving our office. The Conservancy received a one-time General Fund appropriation to cover these costs. In addition, our Pro Rata assessment increased from \$21,000 to \$190,000. The appropriation from the Coastal Resilience Account is being used for Climate Ready Grants, it is discussed in the project funding section even though the Governor's Budget shows it as a support appropriation.

The Conservancy has already voluntarily given up eight positions and the five year plan does not call for further staff reductions. Our work load remains very high and there are many demands on staff time to provide technical assistance, especially on projects related to preparing for climate change. The Conservancy is involved in a number of large scale restoration projects and regional initiatives (e.g. the South Bay Salt Ponds, the Santa Ana River Trail) that are also very staff time intensive. In addition, new programs, such as Prop 1, take a great deal of staff time to develop, implement and manage. Finally, efforts to improve communication about the Conservancy's work, such as social media, require additional staff time. The Conservancy management team will continue to evaluate opportunities to increase efficiency and reorganize while also planning for succession when key staff leave the agency.

As one measure of workload, the table below shows the Conservancy's staff level plotted against the number of open contracts.

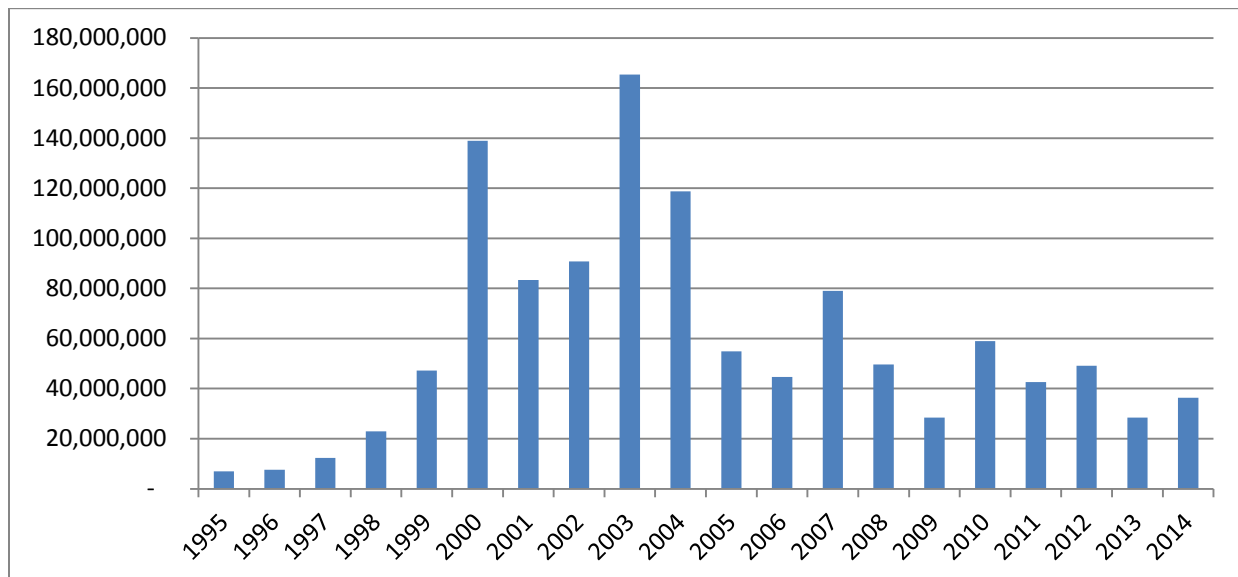


Project Funding

The Conservancy is a project implementation agency. Funding for projects are appropriated to the Conservancy for the purposes of making grants and entering into contracts; they are not used for our operating costs.

The Conservancy authorized \$36.2 million for projects last fiscal year. This is an increase from the \$28.4 million authorized the year before. The chart below shows the total amount that the Conservancy has authorized each fiscal year since 1992. Although not included in the chart, the Conservancy typically authorized less than \$20 million a year in the decade between 1986 and 1996.

Conservancy Authorizations 1995-2014



Almost half of the funding (\$16.3 million) authorized for projects last year came from Proposition 84. The Conservancy also awarded grants from various other sources including Proposition 12, Proposition 40, Proposition 50, the Habitat Conservation Fund, the Climate Resilience Account and Sea Otter Funds.

The table below shows approvals by funding source for the past three fiscal years.

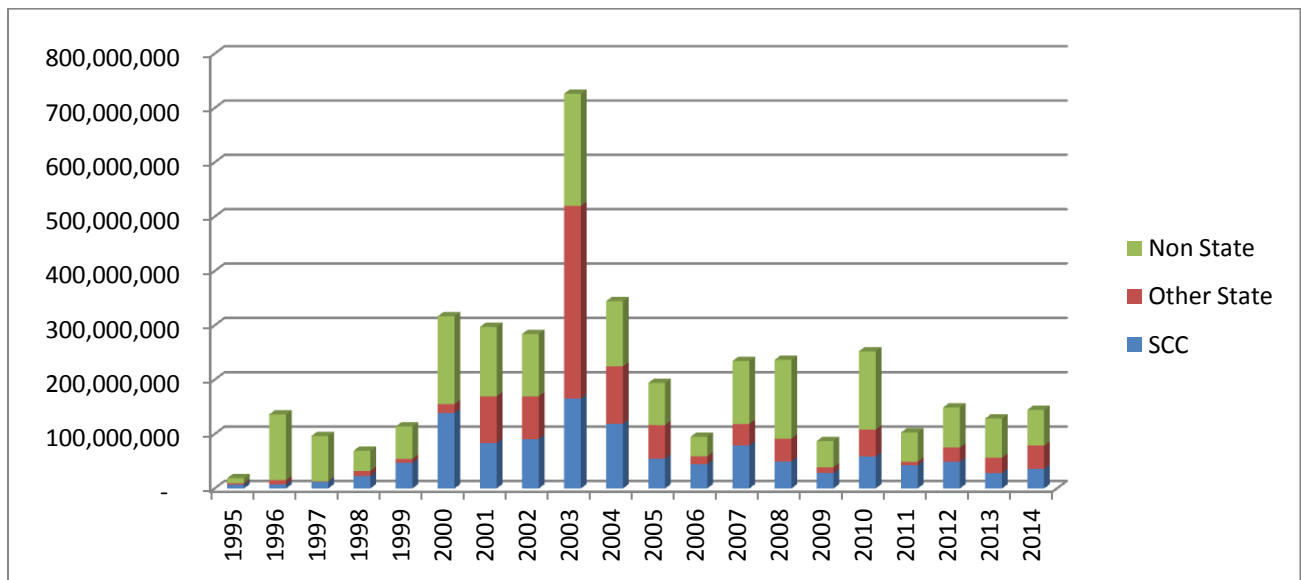
Bond Funds	FY 12/13	FY 13/14	FY 14/15
Proposition 12	2,000,000	2,500,000	3,378,000
Proposition 40	14,200,000	0	1,451,000
Proposition 50	1,200,000	0	5,961,000
Proposition 84	25,100,000	19,901,000	16,266,000

Annual Appropriations	FY 12/13	FY 13/14	FY 14/15
Habitat Conservation Fund	630,000	2,943,000	6,718,000
Violation Remediation	0	1,035,000	0
Coastal Access Account	2,200,000	445,000	397,000
California Beach & Coastal Enhancement Account	140,000	880,000	0
California Sea Otter Fund	120,000	130,000	118,000
Climate Resilience Account			1,100,000
Coastal Trust Funds			
Coastal Trust Fund	4,890,000	618,000	842,000
TOTAL	50,480,000	28,443,000	36,231,000

Matching Funds

Last year, the Conservancy authorized \$36.2 million for projects, which leveraged \$42.6 million in other state funds and \$65.5 million in non-state funds. In total, the Conservancy's funding was matched 3:1 last year. Since 1987, the Conservancy has authorized \$1.117 billion for its projects. Those funds have been matched by a total of \$2.897 billion. Matching funds came from other state sources (\$1 billion) as well as non-state sources including local, federal and private partners (\$1.897 billion). The chart below displays matching funds each year for the last 20 years.

Matching Funds - Conservancy Projects 1995-2014



Outside Grants

Conservancy staff continues to actively pursue outside grants to fund our projects and our staff working on those projects. The table below summarizes the grants awarded during the last six fiscal years. Between FY 10/11 and FY 12/13 we received more than \$18 million in grants for the San Clemente Dam project and more than \$10 million in Federal Recovery Act funds. Last year, staff obtained grants of more than \$7 million for our projects and staff. These grants will be expended over multiple years.

	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
Project	4,149,468	13,872,419	17,367,461	25,038,054	4,887,742	6,678,163
Support	57,477	355,081	833,846	1,045,899	538,148	671,347
TOTAL	4,206,945	14,227,500	18,201,307	26,083,954	5,425,890	7,049,510

Disadvantaged Communities

The definition of Disadvantaged Community in the Water Bond, Proposition 1, is a community with an annual median household income that is less than 80 percent of the statewide annual median household income (Water Code § 79702(j)). Using this definition and the most recent census data, the Conservancy has analyzed the location of its projects.

Bond Funded Projects

The table below shows the percent of projects and percent of funding awarded to projects located near or within a Disadvantaged Community. The table includes a total of 1,643 Conservancy projects funded with Propositions 12, 40, 50 and 84.

	Percent of Projects	Percent of Funds
Within a 1/4 mile of a Disadvantaged Community	40%	40%
Within 1 mile of a Disadvantaged Community	54%	48%

Climate Ready

The Conservancy has held three separate Climate Ready Grant rounds and awarded a total of \$9.7 million to 42 projects. The table below shows the percent of projects and funding awarded in or near Disadvantaged Communities for the entire program.

	Percent of Projects	Percent of Funds
Within a 1/4 mile of a Disadvantaged Community	36%	41%
Within 1 mile of a Disadvantaged Community	60%	64%

Remaining Project Funds

Last November, voters approved Proposition 1, a water bond which provided \$100.5 million to the Conservancy. The Conservancy received its first appropriation of \$15 million of Proposition

1 funds in FY 15/16 and has released its first call for project proposals. The Conservancy also has remaining funds from bond measures approved over the past decade. The remaining balances are based on an estimate of the balance in the bond rather than current appropriations; as in past reports we have included anticipated future appropriations of bond funds in these totals. These totals do not include pending reimbursements.

The Conservancy has about \$220 million remaining in bond funds. Prop 12 and Prop 84 included language restricting funds to specific geographic areas or projects. Much of the remaining funds from those bonds are subject to these restrictions.

Bond	Total Available to Conservancy	Estimated Balance July 1, 2015
Proposition 1	\$100,500,000	100,500,000
Proposition 12	\$250,400,000	16,000,000
Proposition 40	\$240,000,000	14,500,000
Proposition 50	\$140,000,000	3,000,000
Proposition 84	\$360,000,000	86,000,000
<i>TOTAL</i>	<i>\$1,090,900,000</i>	<i>220,000,000</i>

In addition to the bond funds, the Conservancy receives annual appropriations from other funds for its projects. These sources include the Habitat Conservation Fund, the Coastal Access Account, the California Beach and Coastal Enhancement Account and the Sea Otter Funds. The Conservancy receives occasional appropriations from the Violation Remediation Account which comes from fines levied by the Coastal Commission against violators of the Coastal Act. The totals below reflect the amounts currently appropriated to the Conservancy.

	Balance July 1, 2015
Habitat Conservation Fund	19,657,000
Coastal Access Account	1,467,000
California Beach & Coastal Enhancement Account	1,170,000
Violation Remediation Account	1,500,000
Sea Otter Fund	118,000
<i>TOTAL</i>	<i>23,912,000</i>

Coastal Trust Fund

California Public Resources Code Section 31012 established the Coastal Trust Fund in the State Treasury, to receive and disburse funds paid to the Conservancy in trust. The funds within the Coastal Trust Fund include gifts, mitigation funds, in-lieu fees and other funds which have been given to the Conservancy in trust for specific purpose. Because of the inherent restrictions on these funds, these funds are not subject to appropriation by the legislature as part of the annual budget process. The Conservancy has about 50 subaccounts with a total of about \$16.5

million deposited in the Coastal Trust Fund. The Conservancy is required to obtain approval from the Department of Finance to create a new account within the Coastal Trust Fund. These funds can only be used for specific types of projects, and the majority of the funds are set aside to satisfy mitigation or permit conditions. Below is a list of the accounts and subaccounts and their current balance.

Name	Balance
Resource Enhancement Special Projects	7,387,000
Bay Conservation and Development Commission Permits	3,610,000
Coastal Commission In-Lieu Fees	2,994,000
Carlsbad Agricultural Improvement Fees	747,000
Malibu Access Fund	686,000
El Nido Restoration Project Account	291,000
San Francisco Bay Conservancy Account	155,000
Los Penasquitos Lagoon Enhancement Fund	316,000
San Joaquin Gnatcatcher Habitat	154,000
Malibu Beach Access Account	122,000
Coastal Resource Development Fund	78,000
Tijuana River	3,000
<i>TOTAL</i>	<i>16,543,000</i>

Some of the funds are quite recent, such as the account from Bay Conservation and Development Commission permits. However, some of these funds, such as the Malibu Access accounts, have been held in trust by the Conservancy for decades because we have been unable to implement a project that is consistent with the conditions on the money.

Reporting and Reconciling Trust Funds

When contributions to the Coastal Trust Fund are received by the Conservancy, we deposit them in the bank which transmits them to the state treasury. The Conservancy remits the funds to the State Controller's Office, specifying the Coastal Trust Fund subaccount to receive the deposit. The State Controller sends a journal entry to the Conservancy confirming the deposit and the Conservancy posts this information onto Department of Finance's CALSTARS database. At the end of every month, our accounting office reconciles the balances in the Coastal Trust Fund between the State Controller's Office and CALSTARS and our internal record, the Fund Balance Summary. This reconciliation checks our records of deposits, interest and expenditures against the State Controller's Office and the Department of Finance's. At the end of each fiscal year, the Conservancy verifies the balances with the State Controller's Office and CALSTARS to generate a year-end report which is submitted to the State Controller.