



Memo

Date: September 29, 2016
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 (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 to the Conservancy's Five Year Financial Plan. The project funding section describes funding for implementation of Conservancy projects and grants.

Support Funding

Since 2012, the Conservancy has been working to develop and implement a sustainable funding strategy for agency operations recognizing that the bond funds that have supported operations for the past 15 years are running out. The passage of Proposition 1 provided an additional \$100.5 million in bond funds for the Conservancy which provides some relief but does not address the long term sustainability of the support budget. The Conservancy is pursuing three strategies to achieve sustainable funding for its operation: 1) reducing the support budget; 2) increasing incoming grants and diversifying funding and 3) obtaining non-bond, baseline support funding. The SCC has made significant progress on the first two strategies, we continue to work on obtaining non-bond, baseline support funding.

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
(\$ in thousands)

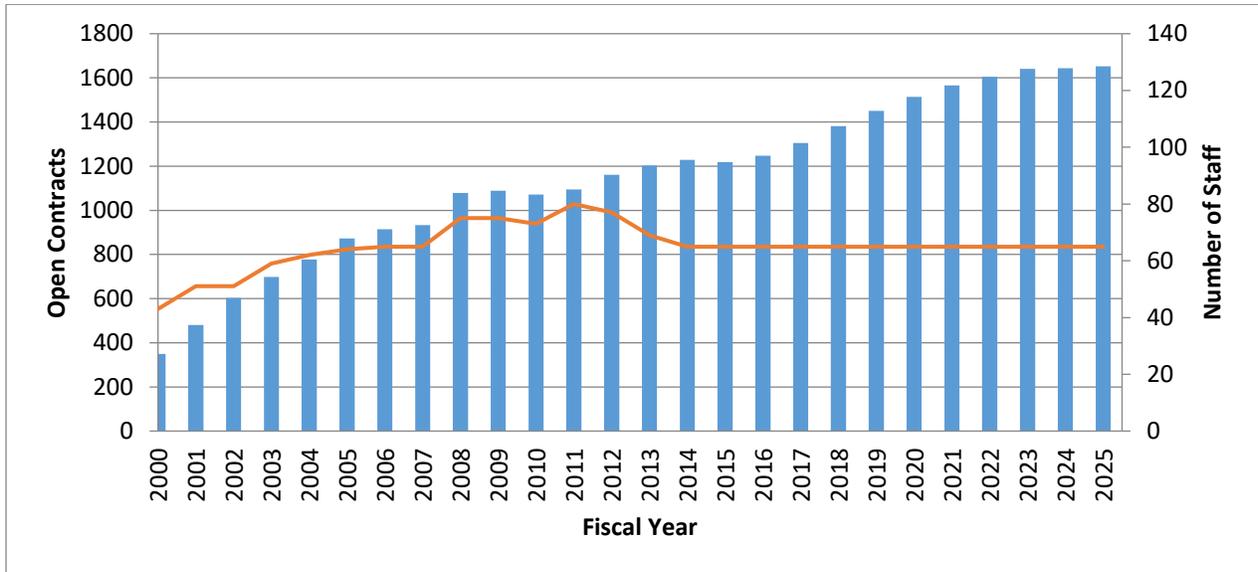
	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Budget ¹
Staff						
Salaries	4,883	4,618	4,502	4,493	4,630	4,840
Benefits	2,446	2,008	1,859	2,143	2,242	1,362
<i>subtotal - Staff</i>	<i>7,329</i>	<i>6,626</i>	<i>6,361</i>	<i>6,636</i>	<i>6,872</i>	<i>6,202</i>
Expenses						
Travel & Training	238	187	205	172	178	
Facilities & Utilities	449	435	465	1,347	484	
General Expense & Equipment	193	142	178	77	140	
Printing, Communication & Mail	110	85	78	79	81	
Consulting – interdepartmental	274	687	116	67	186	
Consulting - external	837	276	493	243	291	
<i>Centralized Costs</i>						
Data Processing	152	97	164	100	87	
Pro Rata	644	621	21	190	228	
SWCAP	8	-	8	8	17	
<i>subtotal OE&E</i>	<i>2,905</i>	<i>2,530</i>	<i>1,728</i>	<i>2,283</i>	<i>1,492</i>	<i>2,212</i>
TOTAL	10,234	9,156	8,089	8,919	8,564	9,014

Last year, the actual expenditure for support was \$8.6 million, slightly less than the year before. The table above does not include the \$1.1 million from the Coastal Resilience Account which was budgeted as support dollars but spent to implement Climate Ready Projects. The Conservancy achieved savings from the prior year in reduced facilities expenses, many of the costs of moving our office were paid in FY 14/15. However, there were increases in salaries and benefits, primarily due to vacation pay-outs for retiring staff. In addition, last year our Pro Rata assessment increased from \$190,000 to \$228,000. The budget for 16/17 is still being adjusted but it is expected to be slightly higher than 15/16 budget due to increased operating expenses.

The Conservancy has voluntarily given up eight positions and the long term financial plan does not call for further staff reductions. Workload remains very high; as shown in the chart below which shows the actual number of staff and open agreements from 2000 through 2014 and projected numbers through 2025 assuming no staff increases. Many SCC contracts are open for 20 years during which time there are project monitoring requirements. Given the SCC’s responsibility for administering Proposition 1 funds, we expect that the number of open contracts will continue to increase through 2022; absent new funding the open contracts could begin to decrease after that time.

¹ The FY 16/17 Budget is still being adjusted, these numbers are approximate and the OE&E breakdown is not available.

**Actual and Estimated Open Contracts Compared to Number of Staff
Fiscal Years 2000-2025**



Open Contracts

	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Number of Open Agreements	1,094	1,161	1,202	1,228	1,219	1,247

In addition to project work load, there have been significant workload increases related to Fi\$CAL implementation, budget preparation, interagency coordination and reporting. As one example, we have doubled the staff working on budget preparation to address Fi\$CAL data entry requirements. We are also increasing our accounting staff as they are preparing to start using Fi\$CAL on July 1, 2017. SCC staff time spent on reporting and interagency coordination has increased. Staff spend a significant amount of time coordinating with other agencies, tribes and stakeholders, participating in California Natural Resource Agency and Office of Planning and Research working groups, reviewing and providing input into state plans, such as Safeguarding California, and leading regional planning and coordination such as the Southern California Wetland Recovery Project and the Fish Passage Forum.

Diversifying Support Funds

The Conservancy now takes a small percentage of all of the funds it administers to help pay for 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, Coastal Access Account, and California Beach and Coastal Enhancement Account. The percentages are relatively small but together these funds provide about \$465,000 in FY 16/17.

The Conservancy continued to put significant effort into applying for outside grants to support our work. We have reorganized staff to improve our ability to apply for, receive and manage incoming grants. Although there is annual fluctuation, we have significantly increased the amount awarded from incoming grants to pay for support costs. In 2009, the Conservancy received \$57,000 for support costs from incoming grants, in 15/16 we received \$749,000. One major increase was a \$300,000 grant from NOAA to fund our staff work under the Coastal Zone Management Program. That grant was awarded again this year and will provide \$321,000 for staff work in FY 16/17.

Finally, with the passage of Measure AA in the nine-county San Francisco Bay Area in June 2016, the Conservancy will consider entering into a Joint Powers Agreement with the San Francisco Bay Restoration Authority, which could provide an additional \$400,000 annually for Conservancy staff to manage grants for restoration projects in San Francisco Bay.

Baseline Funding

The Coastal Conservancy remains the only state conservancy that does not receive a baseline appropriation of non-bond funding for its operation. Other state conservancies receive between 38% and 93% of their operation budget from either the General Fund or Environmental License Plate Fund (ELPF). Last year, both the Tahoe Conservancy and the Sierra Nevada Conservancy received more than \$3 million a year in ELPF for their baseline support budget. As in prior years, the Five Year Financial Plan seeks \$3 million per year of baseline funding. That funding request has not been approved.

The majority of the Coastal Conservancy support budget continues to come from bond funds. The Conservancy has some direct expenses that do not directly related to project implementation and would more appropriately be paid for with general administrative funds. Some of these are centralized costs, including: Pro Rata, SWCAP, data processing and centralized email. In FY 15/16 these centralized costs totaled \$332K and the SCC also paid \$145K for a consultant to help with the Fi\$CAL implementation. In addition, all Conservancy staff are required to do some general administrative activities, including: required state reporting and training; developing and reporting on our Strategic Plan and our annual financial report; interagency coordination including participating on the Coast and Ocean Climate Adaptation Team; regional planning and coordination initiatives like the Southern California Wetland Recovery Project; and maintaining the agency's website.

Five Year Financial Plan

Below is a conceptual five year financial plan for the Conservancy's support budget based on a few key assumptions. First, the plan assumes that starting in FY 17/18 the Conservancy begins to receive \$3,000,000 per year (33%) in baseline funding from the General Fund or another source. Second, it assumes that the support expenditures do not increase. The plan assumes that by continuing to monitor spending, total increases can be contained while maintaining current staffing. This table shows the proposed allocation of all remaining support funds from Props 12, 40, 50, 84 and the Habitat Conservation Fund. The SCC would still have some Prop 1 funds in FY 22/23 under this plan.

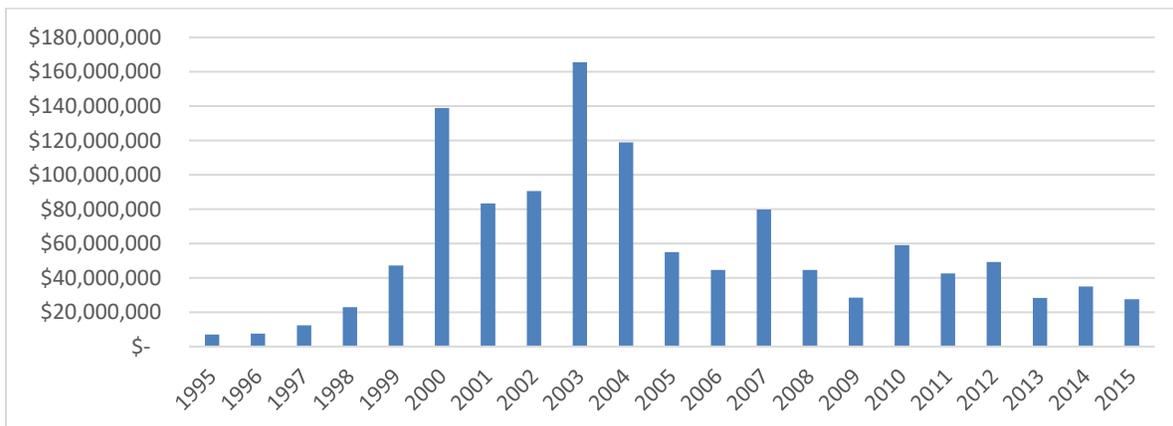
Five Year Financial Plan 2017-2021 (\$ in thousands)

FUND	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
General Fund	3,180	3,180	3,180	3,180	3,180
Prop 12	750	-	-	-	-
Habitat Conservation Fund	200	200	200	200	-
Whale Tale	9	-	-	-	-
Coastal Conservancy Fund	912	1,612	1,712	1,812	1,912
Violation Remediation Acct	100	-	100	-	100
Coastal Access Account	91	50	50	50	50
Federal Fund	500	500	500	500	500
Reimbursement Authority	1,000	1,000	1,000	1,000	1,000
Prop 40	500	500	500	500	500
Prop 50	-	200	-	-	-
Prop 84	1,000	1,000	1,000	1,000	1,000
Prop 1	1,500	1,500	1,500	1,500	1,500
TOTAL	9,742	9,742	9,742	9,742	9,742

Project Funding

The Conservancy is a project implementation agency. Funding for projects are appropriated to the Conservancy as either “local assistance” or “capital outlay”. These funds are available for the purposes of making grants and entering into contracts; they are not used for our operating costs. The Conservancy authorized \$27.6 million for projects last fiscal year. This is a decrease from the \$36.2 million authorized the year before. The Proposition 1 project selection is more time consuming than our other grant application processes and thirteen of the Proposition 1 projects (\$4.7 million) reviewed last fiscal year will be considered for funding at the September meeting, in FY 16/17. The chart below shows the total amount that the Conservancy has authorized each fiscal year since 1995. Although not included in the chart, the Conservancy typically authorized less than \$20 million per year in the decade between 1986 and 1996.

Conservancy Authorizations by Fiscal Year 1995-2015

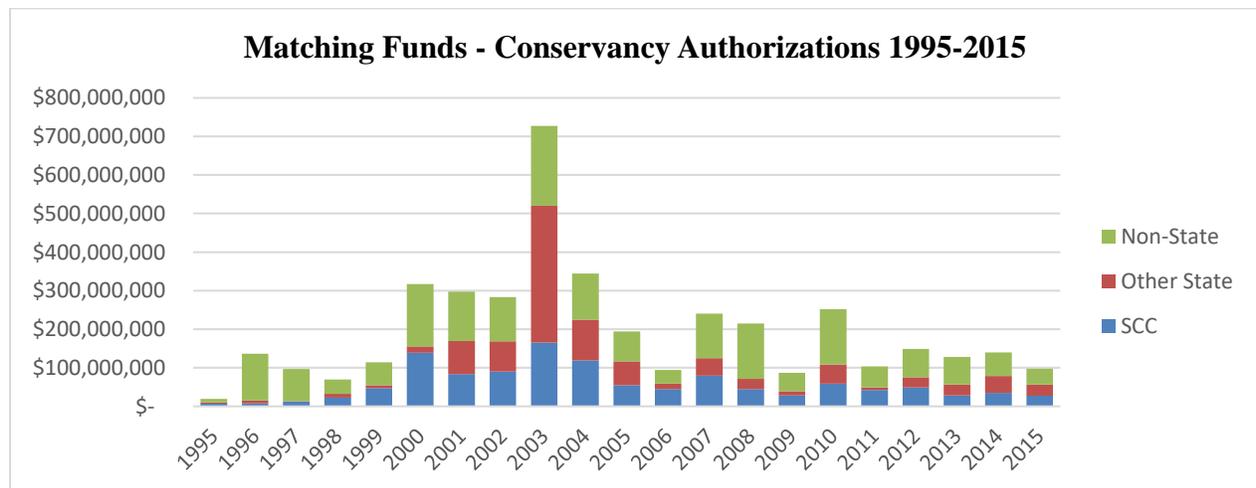


Almost half (46%) of the authorized funds last year were from Proposition 84. The Conservancy also awarded grants from various other sources including Proposition 1, Proposition 40, Proposition 50, the Habitat Conservation Fund and Sea Otter Funds. The table below shows approvals by funding source for the past three fiscal years.

FUND	FY 13/14	FY 14/15	FY 15/16
Proposition 1	-	-	6,160,000
Proposition 12	2,500,000	0	0
Proposition 40	0	0	4,936,000
Proposition 50	0	0	330,000
Proposition 84	19,901,000		12,806,000
Habitat Conservation Fund	2,943,000		758,000
Violation Remediation	1,035,000	0	0
Coastal Access Account	445,000		1,430,000
California Beach & Coastal Enhancement Account	880,000	0	723,000
California Sea Otter Fund	130,000		118,000
Climate Resilience Account	0	1,100,000	0
Coastal Trust Fund	618,000		303,000
TOTAL	28,443,000		27,564,000

Matching Funds

Last year the Conservancy authorized \$27.6 million for projects, which leveraged \$29.1 million in other state funds and \$41.1 million in non-state funds. In total, the Conservancy’s funding was matched 3.5:1 last year. Over the last 30 years, since 1985, the Conservancy has authorized \$1.307 billion for its projects. Those funds have been matched by a total of \$3.134 billion. Matching funds came from other state sources (\$1.057 billion) as well as non-state sources including local, federal and private partners (\$2.076 billion). The chart below displays matching funds each year for the last 20 years.



The 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 seven 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 \$16 million for our projects and staff. These grants are usually awarded for multi-year projects, so the actual amounts collected each year will depend on the pace of the project work.

**Grant Funds Awarded to the Coastal Conservancy
(\$ in thousands)**

	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16
Project Funds	4,149	13,872	17,367	25,038	4,888	6,678	15,271
Support	57	355	834	1,046	538	371	749
TOTAL	4,206	14,227	18,201	26,084	5,426	7,049	16,020

Disadvantaged Communities

For the past several years, the Conservancy has reported the amount of funding and the number of projects located in or adjacent to Disadvantaged Communities (DACs). This report uses the definition of Disadvantaged Community in Proposition 1, which 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. The table below shows the percent of projects and percent of funding awarded to projects located within or near Disadvantaged Communities. Because many Conservancy projects are regional and have broad environmental benefits, we separate projects located in DACs, within ¼ mile of a DAC and within 1 mile of a DAC. The table below includes a total of 1,654 Conservancy projects funded since July 1, 2000 from all fund sources.

**All Coastal Conservancy Projects
Authorized Since July 1, 2000**

	Amount of Funding	% of Funds	# Projects	% of Projects
Inside Disadvantaged Community (DAC)	\$290,484,942	29%	419	25%
Inside or within ¼ mile of DAC	\$388,953,913	39%	520	31%
Inside or within 1 mile of DAC	\$453,118,212	45%	671	41%
Outside 1 mile of DAC	\$548,900,824	55%	983	59%
TOTAL	\$1,002,019,036		1,654	