



Memo

Date: September 30, 2017
To: State Coastal Conservancy Board
From: Sam Schuchat, Executive Officer
Mary Small, Deputy Executive Officer
CC: Oversight Members
RE: Coastal Conservancy Annual Financial Report

The state's fiscal year begins on July 1st and this is the annual financial report to the State Coastal Conservancy (Conservancy) to provide an overall picture of the agency's funding and a conceptual plan for funding over the next five years. This report has two sections: Support Funding and 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 provides an overview of funding for implementation of Conservancy projects and grants.

There are two key points in this year's report:

1. The Conservancy must obtain stable, non-bond funding for its operation. The Conservancy has diversified operating funds but it continues to need stable funding to pay for its general administration.
2. During the next five years, the Conservancy will appropriate all remaining bond funds and receive its final appropriation of the Habitat Conservation Fund. Absent new sources, Conservancy project funding will be dramatically reduced and special funds, such as the Violation Remediation Account, will be critical for future project implementation.

Support Funding

The Coastal Conservancy is the only state conservancy that does not receive significant baseline funding for its operation. In the early 2000s, the Conservancy received \$2.5 million annually from the General Fund for its support budget. Between 2001 and 2006, the voters passed four bonds that provided hundreds of millions of dollars to the Conservancy and the first three bonds (Prop 12, 40 and 50) did not have a specific limit on the amount of the bond that could be used

for program administration. At the same time, the state budget experienced severe shortfalls and the bond funds replaced the General Fund contribution to the Conservancy's operation.

The Conservancy recognizes that the bond funds are finite and should not pay for general administrative work. For the past five years, the Conservancy has sought stable, non-bond, baseline funding for its support budget. 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 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 Conservancy has made significant progress on the first two strategies and this fiscal year our budget includes \$300,000 from the Environmental License Plate Fund for general operation. We continue to seek additional non-bond, baseline support funding.

Operating Budget

Coastal Conservancy Operating Budget 2011–2017 (Dollars in 1,000s)

	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Actual	17/18 BUDGET
Staff							
Salaries	\$4,883	\$4,618	\$4,502	\$4,493	\$4,630	\$4,580	\$4,983
Benefits	\$2,446	\$2,008	\$1,859	\$2,143	\$2,242	\$2,258	\$2,511
<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>\$6,838</i>	<i>\$7,494</i>
Expenses							
Travel & Training	\$238	\$187	\$205	\$172	\$178	\$271	\$251
Facilities & Utilities	\$449	\$435	\$465	\$1,347	\$484	\$604	\$730
General Expense & Equipment	\$193	\$142	\$178	\$77	\$140	\$149	\$208
Printing, Communication & Mail	\$110	\$85	\$78	\$79	\$81	\$87	\$128
Consulting – interdep'l	\$274	\$687	\$116	\$67	\$186	\$186	\$175
Consulting - external	\$837	\$276	\$493	\$243	\$291	\$247	\$300
<i>Centralized Costs</i>							
Data Processing	\$152	\$97	\$164	\$100	\$87	\$93	\$73
Pro Rata	\$644	\$621	\$21	\$190	\$228	\$7**	\$131**
SWCAP	\$8	-	\$8	\$8	\$17	\$18	\$22
<i>subtotal OE&E</i>	<i>\$2,905</i>	<i>\$2,530</i>	<i>\$1,728</i>	<i>\$2,283</i>	<i>\$1,692</i>	<i>\$1,655</i>	<i>\$1,887</i>
Total Budget	\$10,234	\$9,156	\$8,089	\$8,919	\$8,564*	\$8,493	\$9,381

* The table does not include the \$1.1 million from the Coastal Resilience Account, budgeted as support dollars but spent to implement Climate Ready Projects.

** Pro Rata taken directly from the fund, off budget.

The table above shows the actual expenditures for the Conservancy’s operation for the last six fiscal years and the budget for the current fiscal year. Since FY 08/09, the Conservancy has reduced our annual operating budget by more than 25% from \$11,882,000 to \$8,493,000 last year. We eliminated sixteen authorized positions, including eight Ocean Protection Council positions that moved to the Natural Resources Agency and eight Conservancy positions that we voluntarily abolished. We have reduced travel, communications, and consulting expenses.

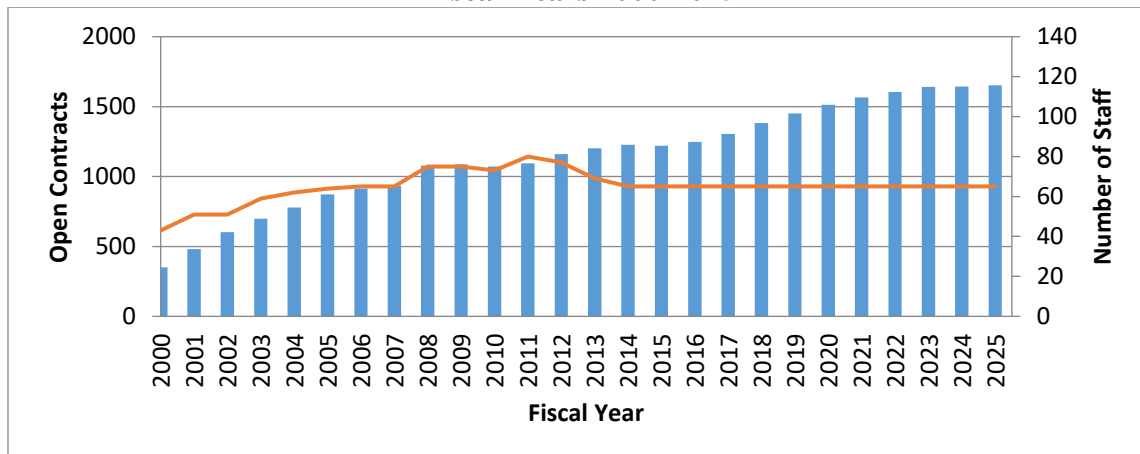
Facilities and utilities increased significantly when we moved to the state building last year, though it is an overall savings for the state budget because our rent is now paid to the state. Salaries and benefits have also increased, though we have not added new positions, reflecting the new union contracts and increases in the costs of benefits. However, every year there are costs that we cannot avoid and may not have planned; for example, this year the Conservancy will pay \$68,000 for a mandatory cyber security audit.

Workload

The reductions described above have increased the workload for Conservancy staff. The agency cannot take on any new programs with the current level of staffing. One measure of workload is the number of open agreements. The chart below shows the total number of open agreements and total number of staff from 2000 through 2016 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 Conservancy’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.

The Conservancy began using the Fi\$CAL system on July 1st and we are still assessing the workload implications of this new system. Conservancy staff time for reporting, training, 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 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.

**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	1,254	1,389

Funding For the Support Budget

The majority of the funding for the Conservancy's support budget continues to come from bond funds. However, the Conservancy received its first support appropriation of \$300,000 from the Environmental License Plate Fund (ELPF) this fiscal year, which covers 3% of its operating budget. Other state conservancies receive between 34% and 91% of their operation budget from ELPF. The Five Year Financial Plan seeks \$1.3 million in baseline funding next year; that funding request has not been approved.

The Conservancy has diversified funding for its operation over the past five years; the result is a complicated support budget with twelve funding sources. We take 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 \$435,000 in FY 17/18. In addition, the Conservancy will take a small percentage from trust funds provided to the Conservancy for specific projects. With the passage of Measure AA in June 2016, the Conservancy entered into a Joint Powers Agreement to provide staff support to the San Francisco Bay Restoration Authority. This agreement will provide about \$300,000 for Conservancy staff this year.

The Conservancy has 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. Last fiscal year we received \$917,000. One major increase is a grant from NOAA to fund our staff work under the Coastal Zone Management Program. That grant will provide \$314,000 for staff work in FY 17/18. As discussed in our draft Strategic Plan, future federal funding for Conservancy staff and its projects is less certain with the new administration.

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 18/19 the Conservancy receives an additional \$1,000,000 from ELPF and that the contribution of ELPF to our support budget increases in the future. As in past years, this plan does not reflect funding that has been approved by the administration; it is a strategic document to show the Conservancy's plan for stable funding.

In addition, the plan also assumes that the support expenditures do not increase and 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 Prop 12, Prop 40, Prop 50, Prop 84, and the Habitat Conservation Fund. This plan also spends a significant amount of the balance of Prop 1 and the SCC Fund.

Five Year Financial Plan 2017-2022
(\$ in thousands)

Fund	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Prop 12	\$750	\$750	\$750	\$750	\$ -	\$ -
ELPF	\$300	\$1,300	\$2,050	\$2,670	\$3,300	\$3,700
HCF	\$200	\$364	\$364	\$0	\$ -	\$ -
CA Beach Enhancement	\$35	\$35	\$35	\$35	\$35	\$35
SCC Fund	\$1,300	\$1,501	\$751	\$645	\$765	\$725
VRA	\$100	\$100	\$100	\$100	\$100	\$100
Coastal Access	\$100	\$150	\$150	\$150	\$150	\$150
Federal Funds	\$525	\$525	\$525	\$525	\$525	\$525
Incoming Grants	\$1,008	\$1,008	\$1,008	\$1,008	\$1,008	\$1,008
Prop 40	\$801	\$801	\$801	\$801	\$801	\$801
Prop 50	\$ -	\$750	\$750	\$600	\$600	\$600
Prop 84	\$1,515	\$750	\$750	\$750	\$750	\$390
Prop 1	\$2,900	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
Total	\$9,534	\$9,534	\$9,534	\$9,534	\$9,534	\$9,534

Project Funding

The Conservancy is a project implementation agency. Funding for projects are appropriated to the Conservancy as either local assistance or capital outlay and these funds are available for the purposes of making grants and entering into contracts. Projects funds are not used for our operating costs.

2016 Project Funding

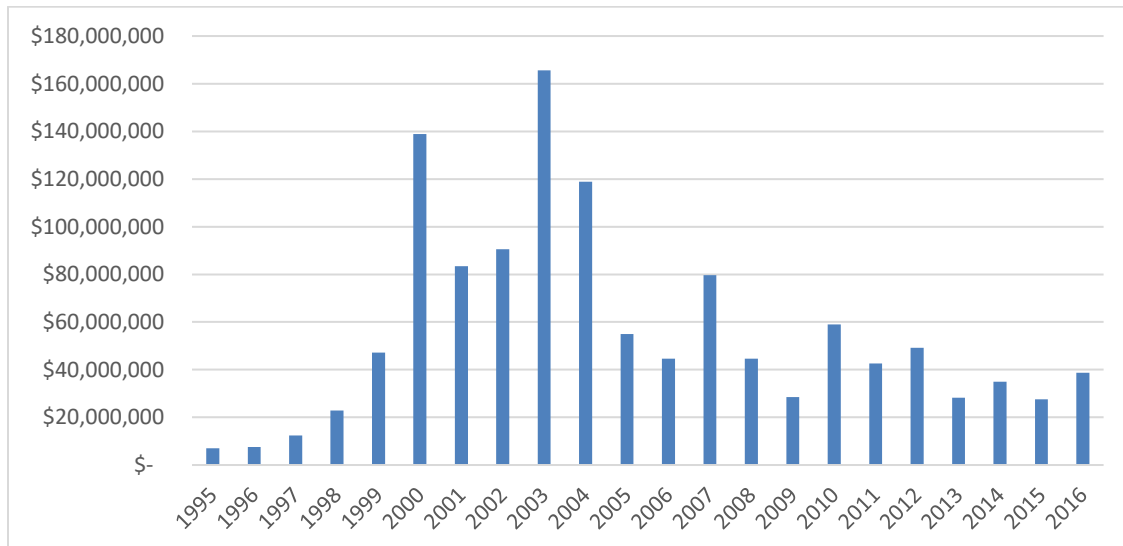
The Conservancy authorized \$38.7 million for projects last fiscal year, an increase from the \$27.6 million authorized the year before. More than half of the funding (\$21.9 million) was from Prop 1. The Conservancy also awarded grants from various other sources including Proposition 84, the Habitat Conservation Fund and the Coastal Trust Fund. The following table below shows approvals by funding source for the past three four years.

**Total Board Authorizations by Fund
Fiscal Years 2013 – 2016**

Fund	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Proposition 1	0	0	6,160,000	21,901,980
Proposition 12	2,500,000	3,377,500	0	151,188
Proposition 40	0	1,450,500	4,936,000	950,000
Proposition 50	0	5,961,024	330,000	175,000
Proposition 84	19,901,000	16,265,758	12,806,000	7,214,219
Habitat Conservation Fund	2,943,000	6,717,965	758,000	4,275,607
Violation Remediation Account	1,035,000	0	0	161,000
Coastal Access, Whale Tail and ELPF	1,325,000	1,397,190	2,153,000	1,131,479
California Sea Otter Fund	130,000	118,000	118,000	117,800
Climate Resilience Account	0	1,100,000	0	0
Coastal Trust Fund	618,000	842,000	303,000	1,600,000
TOTAL	28,443,000	36,231,000	27,564,000	38,678,273

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 a year in the decade between 1986 and 1996.

Total Board Authorizations 1995-2016



Future Project Funding

The Conservancy has about \$200 million remaining from all source of project funding. There is a total of about \$150 million for remaining from the Conservancy's previous bond allocations, primarily Proposition 84 and Proposition 1. More than half of the remaining Prop 84 funds are geographically focused. Funds in the Coastal Trust Fund and Violation Remediation Account may have very specific restrictions on spending. The table below shows these balances.

Total Available for Future Projects		
<i>Bond Funds</i>		
	Proposition 1	58,000,000
	Proposition 12	11,500,000
	Proposition 40	2,500,000
	Proposition 50	0
	Proposition 84	77,000,000
<i>Other Funds</i>		
	Habitat Conservation Fund (sunsets 2019)	29,000,000
	Violation Remediation Account	4,000,000
	Coastal Trust Fund	18,500,000
TOTAL		200,500,000

During the next five years, the Conservancy will appropriate all remaining bond funds and receive its final appropriation of the Habitat Conservation Fund. Absent new sources, Conservancy project funding will be dramatically reduced and special funds, such as the Violation Remediation Account and the Coastal Trust Fund, will be critical for future project implementation.

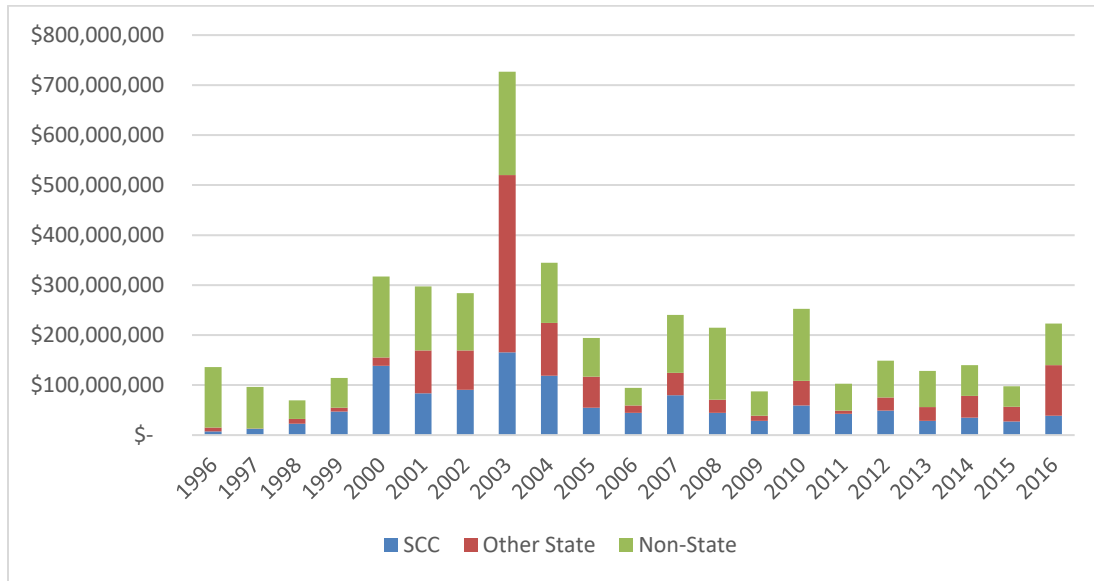
Several legislative proposals would affect the Conservancy's funding picture. At the time this memo was prepared, we do not know the final outcome of these legislative proposals. SB 5 would create the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018. This is a \$4 billion park bond; if enacted it would be placed on the ballot in 2018. If approved by the voters, the bond would provide \$226 million to the Coastal Conservancy. SB 714 would create the West Coyote Hills Conservancy Program within the Coastal Conservancy and the 2017 Budget Act appropriated \$15 million in General Fund to the Conservancy for the implementation of that program if it is created. Finally, there is a proposal in the legislature to appropriate \$4 million from the Greenhouse Gas Reduction Fund to the Conservancy for the Climate Ready Program.

Matching Funds

Last year, the Conservancy authorized \$38.7 million for projects, which leveraged \$101.3 million in other state funds and \$83 million in non-state funds. In total, the Conservancy's funding was matched almost 5:1 last year. Over the last 30 years, since 1985, the Conservancy has authorized \$1.35 billion for its projects. Those funds were matched by a total of \$3.318 billion. Matching funds came from other state sources (\$1.158 billion) as well as non-state

sources including local, federal and private partners (\$2.159 billion). The chart below displays matching funds each year for the last 20 years.

**Matching Funds For Conservancy Authorizations
Fiscal Years 1996 - 2016**



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 \$20 million for our projects and staff. These grants will be expended over multiple years.

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

	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Project	4,149	13,872	17,367	25,038	4,888	4,223	15,271	19,983
Support	57	355	834	1,046	538	671	749	917
TOTAL	4,206	14,227	18,201	26,084	5,426	4,894	16,020	20,900

As discussed in the draft Strategic Plan, the new federal administration may impact the Conservancy’s ability to obtain future federal funds for its projects. Funding for federal environmental and conservation programs is expected to be reduced, which will impact the

resources available for land management by federal agencies (such as National Parks, National Wildlife Refuges, National Forests, and Bureau of Land Management); for science by federal agencies such as USGS and NOAA; and for federal grant programs that benefit the Conservancy and its partners, such as EPA and NOAA.

Disadvantaged Communities

For the past several years, the Conservancy has analyzed the total number of projects and the amount of its funding that has been awarded to projects located near or within a Disadvantaged Community. 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 table below shows the percent of projects and percent of funding located near or within a Disadvantaged Community. The table includes a total of 1,708 Conservancy projects that used a variety of funding sources totaling more than a billion dollars in awards.

**All Mapped Coastal Conservancy Projects
Authorized July 1, 2000 – Sept 20, 2017**

	Amount of Funding	% of Funds	# Projects	% of Projects
Inside Disadvantaged Community (DAC)	\$323,107,498	29%	611	36%
Inside or within ¼ mile of DAC	\$460,950,229	41%	765	45%
Inside or within 1 mile of DAC	\$555,263,601	50%	980	57%
Outside 1 mile of DAC	\$567,133,248	50%	728	43%
TOTAL	\$1,122,396,849		1,708	

Proposition 1 funds are awarded through competitive grant rounds that give priority to projects located in Disadvantaged Communities. Based on review of the grant applications in the first seven grant rounds, the Conservancy has recommended funding \$48 million for 89 projects. Sixty-four percent (64%) of these projects are located in a Disadvantaged Community.