



Memo

Date: August 20, 2020

To: State Coastal Conservancy Board

From: Sam Schuchat, Executive Officer
Mary Small, Deputy Executive Officer

CC: Oversight Members

RE: Coastal Conservancy Annual Financial Report

At the first State Coastal Conservancy (Conservancy) meeting of the state's fiscal year, staff provides the Conservancy with an annual financial report to provide an overall picture of the agency's funding.

Certainly, it is an unsettling time in California and the state budget will be significantly impacted next year. However, past work to diversify and stabilize the Conservancy's support budget leaves the Conservancy in a fair position to weather the COVID recession. At the start of the year, there was a great deal of discussion of a proposed new bond. While that has all been set aside given the needs of the moment, the Conservancy has appropriated most of the bond funds available to it. There is about \$58 million remaining to be appropriated from Prop 68 and about \$10 million from Prop 84.

This report is divided into two sections: Support Funding and Project Funding. The Project Funding section provides an overview of funding for the implementation of Conservancy projects and grants. The Support Funding section describes the funding for the operation of the Conservancy (including salaries, benefits, rent, etc.) and an update to the Conservancy's Five Year Financial Plan. The Five Year Financial Plan is a roadmap for how the agency plans to fund its operation for the next five years.

Support Funding

The Conservancy's support budget in FY 20/21 Governor's Budget is \$13.3 million. This is an increase of about \$800K from the FY 19/20 budget, due primarily to the two new staff positions

and adjustments to salaries and benefit. As shown below, about 80% of the support budget pays for salaries and benefits.

The table below shows the actual expenditures for the Conservancy’s operation for FY 15/16 through FY 17/18, estimated expenditure for FY 18/19, 19/20, and budgeted amounts for FY 20/21. For the past two years, we only have estimates because are still working on the year end financials. The Conservancy usually has savings in its support budget at the end of the year. The Conservancy’s budget has increased in recent years, primarily due to increases in salaries and benefits. The budget below does not reflect any of the impacts of the pandemic.

Support Budget Categories

**Coastal Conservancy Support Budget 2015–2020
(\$ in thousands)**

Budget Categories	15/16 Actual ¹	16/17 Actual	17/18 Actual	18/19 Est.	19/20 Est.	20/21 BUDGET
Staff						
Salaries	\$4,630	\$4,580	\$5,155	\$5,691	\$5,694	\$6,354
Benefits	\$2,242	\$2,258	\$2,206	\$2,531	\$3,977	\$4,435
Subtotal Staff	\$6,872	\$6,838	\$7,360	\$8,222	\$9,671	\$10,789
Travel & Training	\$178	\$271	\$228	\$206	\$149	\$149
Facilities & Utilities	\$484	\$604	\$664	\$719	\$905	\$905
General Expense & Equipment	\$140	\$149	\$285	\$260	\$635	\$707
Printing, Comm. & Mail	\$81	\$87	\$61	\$66	\$121	\$121
Consulting: interdepartmental	\$186	\$186	\$85	\$55	\$125	\$125
Consulting: external	\$291	\$247	\$394	\$594	\$318	\$318
Data Processing	\$87	\$93	\$72	\$102	\$105	\$105
Pro Rata	\$228	\$7	\$125	\$130	346	TDB
SWCAP	\$17	\$18	\$22	\$11	\$72	\$57
Subtotal Expenses	\$1,692	\$1,655	\$1,937	\$2,142	\$2,776	\$2,487
Total Budget	\$8,564	\$8,493	\$9,297	\$10,365	\$12,447	\$13,276

Impacts of COVID-19 Pandemic on Conservancy Budget

The Conservancy has been teleworking since March 2020, and we expect most of our staff to continue to telework for the foreseeable future. During that period, we have eliminated travel

¹ Note: FY 15/16 does not include the \$1.1 million from the Coastal Resilience Account, budgeted as support dollars but spent to implement Climate Ready Projects.

and do not expect to resume significant travel anytime soon. However, the savings from reduced travel have been offset by increased costs to support telework, including upgraded systems to support remote connectivity, new equipment, and new software, including DocuSign and Zoom. In the longer term, we expect additional cost savings from the transformation of our work processes, including reductions in printing, paper usage, and postage. We are also looking at opportunities to modify office services to better align with current and future work realities.

The state has negotiated two programs in response to the COVID-19 pandemic with the Unions and Associations for all state employees. The programs are Furlough 2020 and Personal Leave Program. The programs are in effect for the next two years, until June 30, 2022. Staff will have their pay reduced by two working days (approximately 9%) in exchange for two days of leave time. The impact to the employee pay is partially offset by changes in benefits. The impact to the support budget will be a reduction in salary expense and an increase in benefits, but probably a net reduction of about 6%. We expect that reduction will be about \$650K.

Looking ahead, the Governor has directed all state agencies to plan for a 5% reduction in their support budget next FY, beyond the savings from unpaid leave programs. We are waiting on additional clarification as to whether that reduction applies to all our funds. If it is a straight 5%, we would need to plan for an additional reduction of about \$663K.

Funding Sources in the Support Budget

The funding sources in the Conservancy’s support budget reflect a long-term effort to reduce dependence on bond funds, to diversify funding, and to collect outside funds to support our agency. The Conservancy has diversified the funding sources in its support budget over the past several years. The result is a complicated support budget with thirteen funding sources. The Conservancy does not receive any General Fund for its support budget. The table below shows the types of funding sources that make up the Conservancy’s support budget.

Funding Sources	Amount (in thousands)	Percent
Bond Funds (Props 1, 12, 40, 50, 68 and 84)	\$7,753	58%
Environmental License Plate Fund	\$2,582	19%
Reimbursements and Federal Funds	\$1,726	13%
Coastal Conservancy Fund	\$847	6%
Administrative portions of other funds (Sea Otter, General Fund, Coastal Access Fund and Habitat Conservation Fund)	\$368	3%
Total	\$13,276	

Bond funds make up 58% of the funding in the Conservancy’s support budget in FY 20/21. This includes the planning and monitoring and the administrative allocations in Propositions 1, 68 and 84. The bond funds are finite. The planning and monitoring funds need to be spent on

project related costs, so the Conservancy uses them to pay for staff working on project planning, project development, project management and monitoring. While the support budget remains very reliant on bonds, we have made a fair bit of progress since FY 16/17 when more than 70% of the Conservancy's support funding came from bonds.

This year, Conservancy received \$2.582 million from the Environmental License Plate Fund (ELPF) which will fund about 19% of the support budget. This appropriation is critical to provide unrestricted operating funds and has been gradually increased with support from the California Natural Resources Agency and Department of Finance. Every other state conservancy receives between 35% and 71% of their support funds from either ELPF or the General Fund.

Outside grants and reimbursements account for 13% of the support budget. Conservancy staff put significant effort into applying for outside grants to support our work. Although there is annual fluctuation, we have significantly increased the amount awarded from incoming grants to pay for support costs. In FY09/10 the Conservancy was awarded \$28K for support costs from all incoming grants. Last year, the Conservancy billed outside grants \$983K for its staff work.

The Conservancy has received a grant of \$367K to support staff work on coastal access projects. This grant is from the National Oceanic and Atmospheric Administration for California's Coastal Zone Management Program. The Conservancy receives the funds through an agreement with the Coastal Commission. The Conservancy also continues to staff the San Francisco Bay Restoration Authority (SFBRA). The SFBRA reimbursed the Conservancy \$372K for staff services in FY 19/20 from the Measure AA parcel tax revenues. Staffing the SFBRA significantly increased workload for our San Francisco Bay Program and we have had to adjust staff resources to meet these needs.

The remainder of the support funding comes from the Coastal Conservancy Fund and small administrative portions of many other funds including the Habitat Conservation Fund, the Coastal Access Fund, and the Sea Otter Fund. The Coastal Conservancy Fund used to be a major source of funding for the Conservancy, but it is diminishing every year. The Five Year Financial Plan anticipates using about \$4 million from the Coastal Conservancy Fund. Absent any new deposits, this would spend down the Conservancy Fund to a few million.

Five Year Financial Plan

Because the Conservancy does not have a stable source of operating funding, it has been our practice for the past 20+ years to prepare a conceptual Five Year Financial Plan. This plan does not reflect funding that has been approved by the administration; it is a strategic roadmap to show the Conservancy's plan for supporting its operation for the next five years. Actual funding always varies from the Five Year Financial Plan, but it is useful guide to track the resources available and identify potential challenges.

This year's plan is based on a few key assumptions. First, the plan assumes that support budget stays level. Given the state budget crisis and the impacts of the pandemic, the budget is likely to

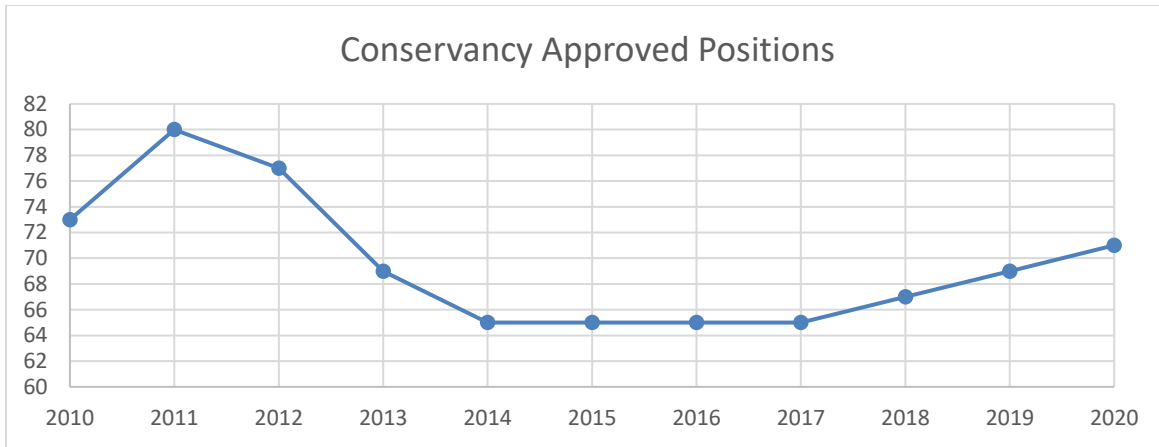
decrease. However, to be conservative in planning for the future we assume it stays the same. The plan for bond funds is based on the bond unit's affordability tables, the Conservancy's roll-out plans, and values entered in the state's Hyperion budget program. Older bonds will run out during the next five years and the plan relies more heavily on recent bonds, like Proposition 68 in the future. We also project needing additional support from Environmental License Plate Funds in FY 25/26 assuming no other new funds are available.

Five Year Financial Plan 2019-2024
(\$ in thousands)

Fund	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
General Fund	-	-	-	-	-	-
Prop 12	756	670	-	-	-	-
Prop 40	807	807	807	807	807	807
Prop 50	560	560	560	560	560	-
Prop 84	1,630	1,630	1,630	1,595	1,595	-
Prop 1	1,500	1,000	1,000	500	500	500
Prop 68	2,500	3,150	3,700	4,375	4,265	4,500
Environmental License Plate Fund	2,582	2,600	2,700	2,700	2,700	4,500
Coastal Conservancy Fund	847	788	808	668	778	898
Habitat Conservation Fund	200	200	200	200	200	200
Coastal Access Account	150	150	150	150	150	150
Sea Otter	18	20	20	20	20	20
Federal Funds	597	600	600	600	600	600
Reimbursements	1,129	1,100	1,100	1,100	1,100	1,100
Totals	13,276	13,275	13,275	13,275	13,275	13,275

Staffing and Workload

There are two new positions in the FY 20/21 budget. The Conservancy voluntarily reduced positions during the years between passage of Prop 84 and Prop 1. Recently we have added a few new positions, bringing us to a total of 71 positions. Per the discussion above, Conservancy management is careful not to request new positions unless we are certain we have the long-term funding to support those positions. While both new positions are critical functions, we are waiting to better understand the required reductions in next year's budget before we begin the process of filling them. The chart below shows the total number of Conservancy positions for the past decade.



Workload

While we have limited the number of new positions, the workload for our staff remains very high. As reported last year, the transition to the Fi\$CAL accounting system has increased the workload for procurement, contracts, and accounting staff. Our accounting and procurement staff have done an incredible job this year working through the backlog created by the transition, but we have relied on temporary help and overtime to meet required deadlines. These are not sustainable staffing strategies.

The Conservancy has developed Justice, Equity, Diversity, and Inclusion Guidelines. Staff from across the agency has put significant effort into examining both internal and external work of the Conservancy to implement changes that improve equity and inclusivity in all our work. This work will continue as we implement actions in support of those guidelines, which will add to overall workload.

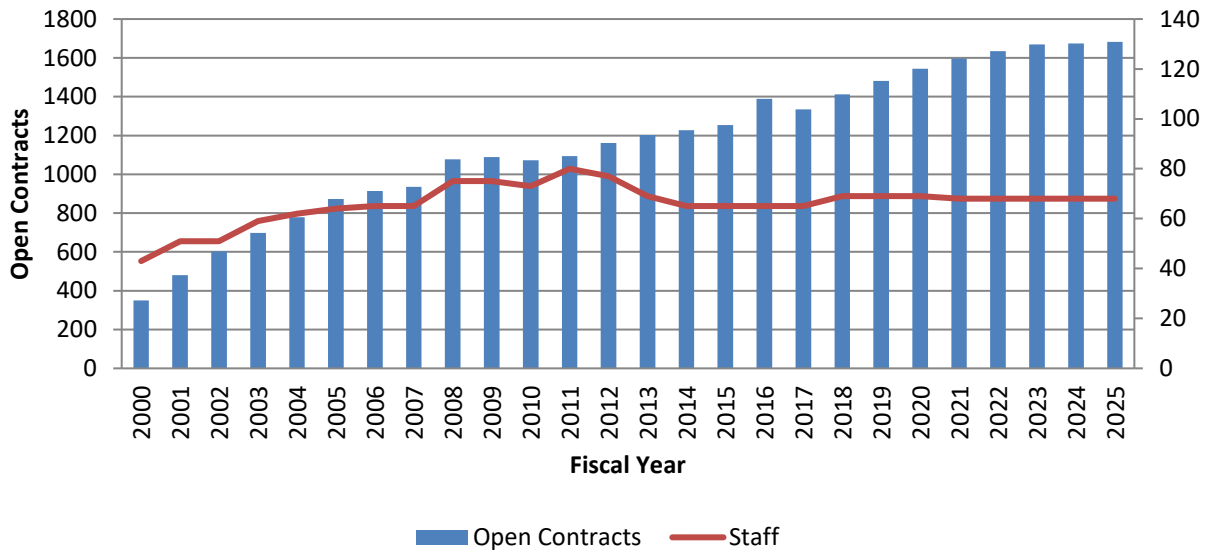
Staff spend a significant amount of time coordinating with other agencies, tribes, and stakeholders and participating in California Natural Resource Agency working groups such as the Sea Level Rise Leadership Committee and the Monitoring and Stewardship Unit. Our staff continues to lead the Southern California Wetland Recovery Project and support the San Francisco Bay Restoration Authority.

Our Prop 1, Climate Ready and Explore the Coast grant rounds typically receive far more proposals than we can fund. A great deal of staff time is involved in reading and reviewing these proposals. While critical to our financial strategy, applying for and managing incoming grants requires significant staff time, both project staff and administrative staff to support the grant billings.

One workload metric we use is the total number of open agreements and total number of staff. The chart below shows actual numbers from 2000 through 2019 and projected numbers through 2025 assuming no additional staff increases. Many Conservancy contracts are open for

20 years during which time there are project monitoring requirements. Given the Conservancy’s responsibility for administering Proposition 1 and Proposition 68 funds, we expect that the number of open contracts will continue to increase through 2023; absent new funding the open contracts might begin to decrease after that time.

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



Project Funding

The Conservancy is a project implementation agency. Funds 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 direct contracts. The FY 20/21 budget provides the Conservancy \$43.6 million for projects.

Coastal Conservancy Local Assistance or Capital Outlay Appropriations 2019-20 Budget Act (\$ in thousands)

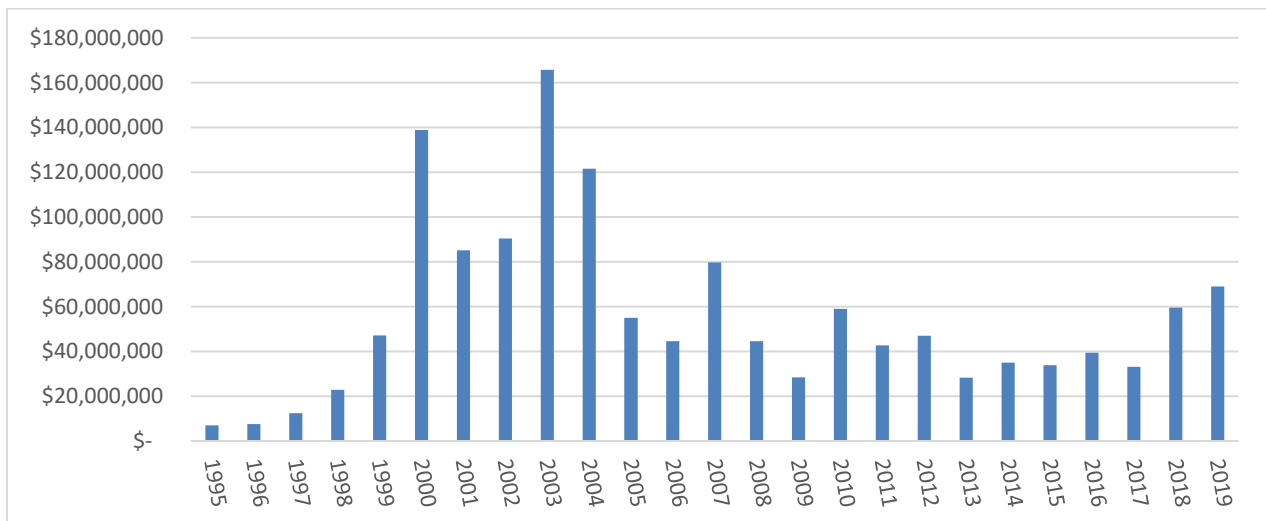
Fund	Amount	Purposes
ELPF and Coastal Access Account	\$825	Explore the Coast grants
Proposition 84	\$17,087	various Prop 84 allocations
Proposition 68	\$21,723	various Prop 68 programs
Sea Otter Fund	\$165	Sea Otter grants
Habitat Conservation Fund	\$3,800	Habitat projects
Total	\$43,600	

The budget also included several re-appropriations to assist with projects delayed by COVID-19 restrictions. The impact of the pandemic on our projects continues to evolve. The most heavily impacted grants were the Explore the Coast grants which typically fund programs that bring groups of people on excursions to the coast. Many of those programs were postponed and we have been working with grantees to extend grants and provide flexibility. Several major acquisitions have closed in the past few months and most planning work has continued. Many restoration projects are continuing work, including the construction of the levee at the Conservancy’s Bel Marin Keys property. We will continue to work with grantees and project partners to advance projects where possible and to provide flexibilities as we are able.

2019-20 Project Funding

The Conservancy authorized \$68 million for projects last fiscal year, an increase from the nearly \$60 million authorized the year before. The chart below shows the total amount that the Conservancy has authorized each fiscal year for the past twenty-five years.

Total Board Authorizations 1995-2019



Last year, there were a few significant authorizations, including \$17 million from the Habitat Conservation Fund to construct the levee at the Conservancy’s Bel Marin Keys property. The Conservancy also approved several projects using General Fund, from appropriations for specific projects. The table below shows authorizations by fund source for the past five years.

**Coastal Conservancy Board Authorizations by Fund
Fiscal Years 2015 – 2019 (\$ in thousands)**

Fund	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
General Fund	-	-	-	19,810	5,924
Proposition 1	6,160	21,902	19,828	4,605	12,863
Proposition 12	-	151	359	6,970	1,149
Proposition 19	-	-	889	-	-
Proposition 40	4,936	950	756	-	-
Proposition 50	330	175	-	-	-
Proposition 68	-	-	-	12,650	14,655
Proposition 84	12,806	7,214	7,664	3,725	8,610
Habitat Conservation Fund	758	4,276	2,157	2,573	19,205
Violation Remediation Acct	-	161	123	-	95
Access, Whale Tail & ELPF	2,153	1,131	648	825	1,137
California Sea Otter Fund	118	118	90	118	165
Climate Resilience Acct & GGRF	-	-	-	3,800	2,850
Coastal Trust Fund	303	1,600	2,960	4,462	1,336
TOTAL	27,564	37,678	35,474	59,539	67,989

Future Project Funding

The Conservancy has about \$143 million in unappropriated funds from all sources of project funding. This includes all future appropriations expected from the Habitat Conservation Fund over the next nine years. The only unappropriated bond funds are from Prop 84 and Prop 68. Much of those remaining funds are geographically focused. Similarly, the funds in the Coastal Trust Fund and Violation Remediation Account have very specific restrictions on spending.

**Unappropriated Project Funds
(\$ in thousands)**

Bond Funds

Proposition 1	\$0
Proposition 68	\$58,300
Proposition 84	\$10,000

Other Funds

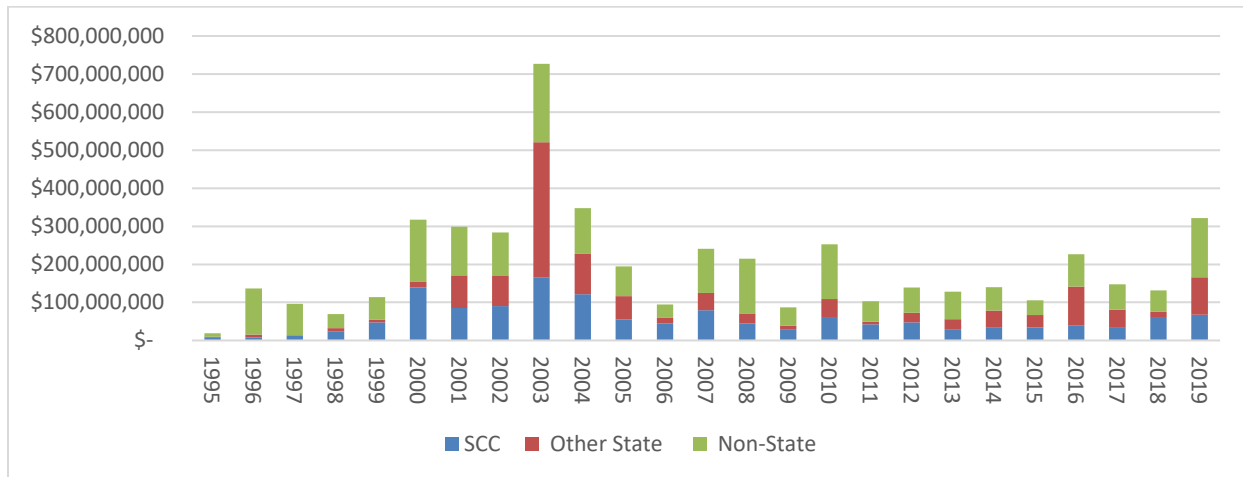
Habitat Conservation Fund (9 more years)	\$34,200
Violation Remediation Account	\$17,000
Coastal Trust Fund	<u>\$23,200</u>
TOTAL	\$142,700

Because of our success obtaining outside funds, the Conservancy has used bond funds to front reimbursements. When the grants are repaid, we repay the bond. If those repayments come in after an appropriation expires, it becomes available for future appropriation. Actual future appropriations may be higher due to these reimbursements. The numbers above do not include the annual approximately \$1 million appropriations for the Explore the Coast program and the Sea Otter grants. Both of those programs are funded with special funds.

Matching Funds

Last year, the Conservancy authorized \$68 million for projects, which leveraged \$97.8 million in other state funds and \$155.4 million in non-state funds. In aggregate, Conservancy funding was matched almost 4:1 last year. Since 1985, the Conservancy has authorized \$1.5 billion for its projects. Those funds were matched by a total of \$3.8 billion. Matching funds came from other state sources (\$1.3 billion) and non-state sources including local, federal, and private partners (\$2.4 billion). The chart below displays matching funds each year for the last 25 years.

**Matching Funds – Coastal Conservancy Authorizations
Fiscal Years 1995 – 2019**



Some projects have no match while other projects are highly leveraged. This can depend on the resources of the community, the grantee, and the availability of funding for that project. For example, last year the match was significantly bolstered by one project that had \$50 million in matching federal highway funds. The Conservancy seeks to leverage our funds, while providing flexibility to disadvantaged communities and accommodating project needs.

Finally, as discussed throughout, Conservancy staff continue to secure outside funding for our projects and staff working on those projects. The table below summarizes the grants awarded during the last ten fiscal years. Last year, staff obtained grants of \$9.1 million for our projects and staff. This includes a grant of \$2.1 million to support the Invasive Spartina Project and two

grants from the US Fish and Wildlife Service’s National Coastal Wetland Conservation program. Grants are typically expended over multiple years.

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

FY	Project	Support	Total
FY 09/10	\$2,375	\$28	\$2,403
FY 10/11	\$13,616	\$334	\$13,950
FY 11/12	\$11,853	\$400	\$12,253
FY 12/13	\$17,387	\$381	\$17,768
FY 13/14	\$7,642	\$856	\$8,498
FY 14/15	\$6,684	\$386	\$7,070
FY 15/16	\$8,485	\$664	\$9,149
FY 16/17	\$21,868	\$1,415	\$23,283
FY 17/18	\$3,038	\$1,059	\$4,097
FY 18/19	\$6,317	\$1,179	\$7,496
FY 19/20	\$8,520	\$594	\$9,114