

EXECUTIVE OFFICER SUMMARY REPORT
July 9, 2004

ITEM: 8

SUBJECT: **SDRC BUDGET: EFFORTS TO REAPPROPRIATE FY 03/04 SUPPORT BUDGET, EXTEND DEADLINE TO ENCUMBER \$7.8 MILLION CAPITAL OUTLAY FUNDS, AND OTHER BUDGET ISSUES**

The Executive Officer will present an overview of the SDRC's current budget situation and ongoing efforts to (1) prevent the loss of its FY 03/04 Support Budget; (2) extend the deadline to encumber \$7.8 million in Capital Outlay funds; and (3) other budget issues. (*Deborah Jayne*)

PURPOSE: Information item. To inform the Governing Board about efforts to prevent the loss of the Conservancy's FY 03/04 Support Budget, extend the deadline to encumber/expend remaining \$7.8 million Capital Outlay funds, and related issues.

DISCUSSION: **Budget Overview**

The overall budget for a state-chartered Conservancy typically has two major components or "line-items": (1) Support Budget; and (2) Capital Outlay Budget. The Support Budget pays staff salaries, Board Member stipends, and all Conservancy operations (e.g., travel, equipment, supplies, lease, utilities, postage, consulting and professional services, etc). The Capital Outlay Budget is used to acquire or develop property.

The SDRC was appropriated a Support Budget of \$265,000 for FY 03/04. The SDRC was also appropriated a Support Budget of \$265,000 for FY 04/05. This amount is considered our "baseline" budget which we can be relatively assured of receiving each year. All of the funds in our Support Budget originate from the Environmental License Plate Fund (ELPF). The SDRC currently does not have a line-item for Capital Outlay. Recall that the remaining \$7.8 million in Capital Outlay funds earmarked for the San Diego River are line-items in the Resources Agency budget, not in the SDRC budget.

A Support Budget consists of three components: (1) Summary by Object 1 State Operations; (2) Salary and Wages Supplement; and (3) Operating Expenses and Equipment (OE&E). I have prepared a

proposed FY 04/05 Support Budget (with 3 components) for the San Diego River Conservancy. It is attached as the last three pages of Supporting Document 2 (see center column of OE&E Schedule for FY 04/05).

Senator Alpert / Request to Reappropriate FY 03/04 Support Budget

I recently became aware that the SDRC's FY 03/04 Support Budget was scheduled to revert to the Environmental License Plate Fund on June 30, 2004. Although I was told over the phone that nothing could be done, I made a two-day trip to Sacramento and met with numerous key people in an attempt to prevent the loss of our FY 3/04 Support Budget.

In short, I have been working with Senator Dede Alpert and Mr. Bob Franzoia, the Deputy Director of Senate Appropriations Committee, (which Senator Alpert chairs) to request the reappropriation of the SDRC's remaining FY 03/04 Support Budget for use in FY 04/05. My follow-up letter of request to Senator Alpert is attached as Supporting Document 1.

The FY 04/05 Budget Conference, consisting of Senate and Assembly members, met throughout June to resolve budget disputes between the two houses. Although extremely late in the budget process, the "NIC" (Not in Conference) List provides a mechanism for Budget Conferees to consider new last minute budget issues. Senator Alpert has agreed to add the SDRC's request to reappropriate its FY 03/04 Support Budget to the NIC List. If the Budget Conferees approve the request, it then goes to the floor of each house for a vote. If both houses approve the reappropriation request by a two-thirds vote, it goes to the Governor for signature or blue-line veto.

Request to Extend Deadline to Encumber \$7.8 million Capital Outlay

I have also requested the extension of the deadline to encumber the remaining \$7.8 million in Capital Outlay funds earmarked for the San Diego River. You will recall that these funds are line-item Proposition 13 and 40 appropriations in the Resources Agency budget¹. Because they were three-year appropriations in the Budget Act of FY 02/03, the funds must be encumbered no later than June 30, 2005 and fully expended no later than June 30, 2007. I have requested an extension of the deadline to encumber from June 2005 to June 2007 and an extension of the deadline to fully expend from June 2007 to June 2009. Although the Conservancy will not be precluded from acting at any time, the extension of the deadlines will provide

significantly greater flexibility and ensure the most wise and best expenditure of the funds.

Senator Alpert may add our deadline extension request to the NIC list as well, but has not made a firm commitment to do so at this point. Should she decide against it, or should the Budget Conferees disapprove it, I will prepare a Budget Change Proposal (BCP) requesting the extension. Although the deadline to submit BCPs is June 15, Don Wallace (introduced below) has agreed to let me submit ours late if needed.

The Resources Agency

While in Sacramento I met with (1) Ms. Karen Scarborough, Undersecretary of Resources and a member of the SDRC's Governing Board; (2) Mr. Don Wallace, Assistant Secretary of Administration and Finance for the Resources Agency; and (3) Ms. Elaine Berghausen, Deputy Assistant Secretary of Bonds and Grants for the Resources Agency. As the Undersecretary and a member of our Board, Karen Scarborough has been at the top of my "Key People to Meet" list since my first day on the job. Don Wallace is responsible for determining the budgets of all state-chartered Conservancies, and Elaine Berghausen manages the Proposition 13 and 40 River Parkway Funds. She will review our grant application requests for the remaining \$7.8 million earmarked for the San Diego River. Ms. Scarborough, Mr. Wallace, and Ms. Berghausen were all supportive of our two budget requests.

Department of Finance

I also met with Mr. Dave Harper, Deputy Director of the Department of Finance and a member of the SDRC's Governing Board. Obtaining the support of the Department of Finance is essential to the success of any budget request. The Department of Finance will advise the Governor to sign or veto our requests.

Mr. Harper was supportive of our requests (assuming the money had not already been committed elsewhere) and requested justification for the reappropriation. Although I was unable to meet in person, I have also contacted Mr. Fred Klass, Program Budget Manager, Department of Finance and Mr. John Lloyd, Assistant Program Budget Manager for Resources, both of whom will have direct responsibility for the SDRC's budget.

SDRC's Proposed Budgets for FY 03/04, FY 04/05, and FY 05/06

At the request of John Lloyd, Department of Finance and to support our budget requests, I prepared the following:

- (1) Proposed FY 04/05 Support Budget for San Diego River Conservancy
- (2) Proposed Expenditures for FY 03/04 Support Budget, if Reappropriated
- (3) Proposed "Baseline" Expenditures for FY 05/06
- (4) Request for Reappropriation of FY 03/04 Support Budget
- (5) Request for Extension of Deadline to Encumber Capital Outlay Funds
- (6) Detailed justification for Both Requests

This information is contained in Supporting Document 2 (requests and justification are contained in the cover letter to John Lloyd).

Assemblymember Kehoe / Request for Capital Outlay Item and Reimbursement Authority

I have met briefly with Assemblymember Kehoe and her Sacramento Chief of Staff, Michael Miiller. Both are very supportive of our two budget requests.

In fact, Assemblymember Kehoe's office has also submitted a third budget request on our behalf, namely to (a) establish a Capital Outlay Item in our budget (by creating a Capital Outlay item and moving \$1,000 into it from our Support Budget) and (b) establish "Reimbursement Authority" to allow the SDRC to receive non-state funds for Capital Outlay. Kehoe's office has requested that Senator Alpert add this third request to the NIC list as well.

Other Key Legislative Contacts

In addition to my face-to-face meetings in Sacramento, I have also contacted each of the Chief Consultants for the numerous applicable Appropriations, Budget and Fiscal Committees (for both houses and both parties), the Legislative Analyst's Office, and the Chiefs of Staff for key legislative Committee Members to keep them informed of our budget requests and ask for their support:

1. Miriam Ingenito, Consultant, Senate Appropriations Committee
2. Chris Shultz, Capitol Director for Senator Alpert
3. Steve Archibald, Chief Consultant, Assembly Appropriations Committee
4. Mary Shallenberger, Chief of Staff for Senator John Burton, Pres. pro Tempore
5. Carol Baker, Chief of Staff for Fabian Nunez, Speaker of the Assembly
6. Kasey Schimke, Chief Consultant, Assembly Democratic Fiscal Committee
7. Chris Holtz, Chief Consultant, Assembly Republican Fiscal Committee
8. Keely Bosler, Chief Consultant, Senate Democratic Fiscal Committee
9. Therese Tran, Chief Consultant, Senate Republican Fiscal Committee
10. Mark Newton, Director, Legislative Analyst's Office (Resources)
11. Michelle Baass, Consultant, Legislative Analyst's Office (Resources)
12. Deanna Spehn, Senior Consultant for Assemblymember Kehoe

These individuals will influence the Budget Conference and NIC List process/decisions.

Chances of Success

It is my understanding based on numerous conversations with numerous people, that our FY 03/04 Support Budget Reappropriation (NIC List) request is likely to be approved. The Extension of Deadline request is a possibility, and the Capital Outlay Item/Reimbursement Authority request looks unlikely at this time. Both of the latter two requests can be pursued through other mechanisms.

Although I am willing to return to Sacramento to defend our requests, I am told that I would not be allowed to comment at the Budget Conference. Our requests will be represented/defended primarily by the Department of Finance. The Legislative Analyst's Office, the Resources Agency, and Senator Alpert can also comment on our behalf.

I believe my trip to Sacramento was very productive and gave me the opportunity to make initial contact with a number of key individuals. These individuals will play a critical role in determining the fiscal future of the SDRC.

LEGAL CONCERNS: None.

FISCAL IMPACT: See Discussion above

**SUPPORTING
DOCUMENTS:**

1. Letter to Senator Alpert, June 27, 2004
2. Letter to John Lloyd, Dept of Finance, June 30, 2004 includes:
 - Proposed FY 04/05 Support Budget for San Diego River Conservancy
 - Proposed Expenditures for Reappropriated FY 03/04 Support Budget
 - Proposed "Baseline" Expenditures for FY 05/06

RECOMMENDATION: Discuss, receive and file

¹ See Staff Report entitled "\$12 Million Appropriation for the San Diego River", May 21, 2004 (Item 7 from May 21, 2004 SDRC Board Meeting).