# Senate Budget and Fiscal Review

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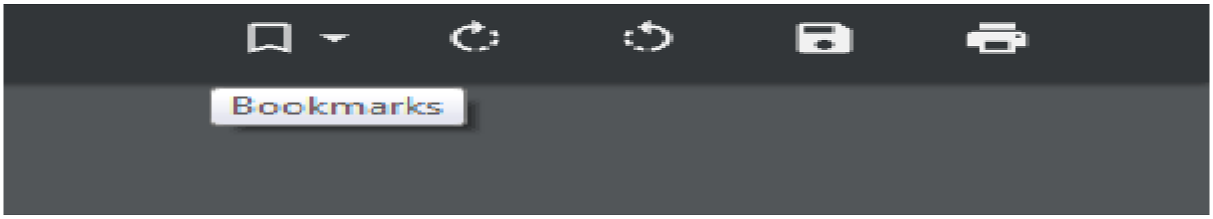


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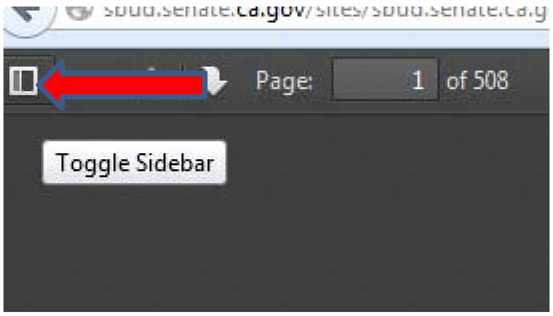


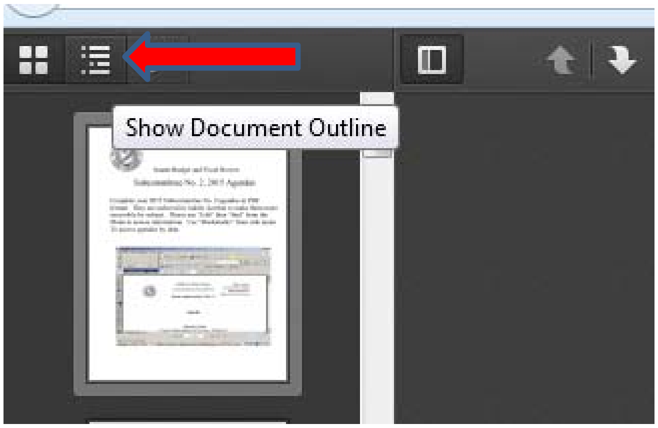

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, March 2, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultants: Eunice Roh and Joanne Roy

# AGENDA

## *Oversight: The Climate-Energy Packages of 2021 and 2022*

I. Overview of 2021 and 2022 Climate-Energy Packages

Rachel Ehlers, Deputy Legislative Analyst
Legislative Analyst's Office

II. Status of Implementation and Architecture for Moving Forward

Wade Crowfoot, Secretary
California Natural Resources Agency

Karen Ross, Secretary
California Department of Food and Agriculture

Yana Garcia, Secretary
California Environmental Protection Agency

III. Overview of January Budget General Fund Solutions

Sergio Aguilar, Assistant Program Budget Manager
Department of Finance

IV. Public Comment

Attachments:

A. *Crafting Climate, Resources, and Environmental Budget Solutions* (Legislative Analyst's Office, February 22, 2023)

B. Climate-Energy Packages spreadsheets (Source: Department of Finance)

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***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, March 9, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Joanne Roy

**Item** **Department** **Page**

## VOTE-ONLY

## DISCUSSION

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# VOTE-ONLY

## 0540 CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)

### Issue 1: Biodiversity and Conservation Priority Actions and Report (AB 2278)

**Governor's Proposal.** The Governor's budget requests $792,000 General Fund (GF) in 2023-24 and 2024-25 and $432,000 GF ongoing to implement the requirements of AB 2278 (Kalra), Chapter 349, Statutes of 2022. Of this amount, CNRA requests two permanent positions and $432,000 in 2023-2024 and ongoing, and the Ocean Protection Council (OPC) requests funding for two limited-term positions, totaling $360,000 of the request in 2023-24 and 2024-25. This funding request will support prioritization of certain 30x30 implementation actions as established by AB 2278 and annual reporting on the progress toward achieving the 30x30 goal.

AB 2278 establishes priorities for the implementation of the 30x30 conservation goal provided in Executive Order N-82-20 and requires an annual report to the Legislature on progress made toward achieving this goal.

**Staff Recommendation. Approve as budgeted.**

### Issue 2: California Climate Adaptation Strategy (AB 1384)

**Governor's Proposal.** The Governor's budget requests $500,000 GF in 2023-24 and ongoing to update the California Climate Adaptation Strategy as required by AB 1384 (Gabriel), Chapter 338, Statutes of 2022.

AB 1384 establishes the Resiliency Through Adaptation, Economic Vitality, and Equity Act of 2022, which updates requirements for the state's climate adaptation strategy, Safeguarding California Plan, to prioritize equity and vulnerable communities in the plan and include metrics to measure and evaluate the state's progress in implementing the plan.

**Staff Recommendation. Approve as budgeted.**

### Issue 3: Conversion of Long-Term Temporary Help Positions to Permanent

**Governor's Proposal.** The Governor's budget requests five permanent positions to be funded from savings within the baseline budget, various reimbursement agreements, and administrative allowances from recent investments that have significantly increased the size of the agency. These are positions are now needed on a permanent basis to meet the ongoing needs of the Agency. All costs are absorbable within CNRA's existing budget, and CNRA commits to periodically reviewing its position authority to align with future reductions, as needed.

**Staff Recommendation. Approve as budgeted.**

# 0540 CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)
# 3900 CALIFORNIA AIR RESOURCES BOARD (CARB)
# 8570 CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE (CDFA)

**Issue 4: Natural and Working Lands (AB 1757)**

**Governor's Proposal.** The Governor's budget requests the following:

CNRA: $3.16 million GF in 2023- 24, $510,000 GF in 2024-25 and ongoing, and two permanent positions in 2023-24 and ongoing to implement AB 1757 (C. Garcia and R. Rivas), Chapter 341, Statutes of 2022. Specific activities required by AB 1757 include those associated with developing targets, updating the Natural and Working Lands (NWLs) Climate Smart Strategy, and tracking greenhouse gas (GHG) emissions on natural and working lands across CNRA entities.

CARB: 12 positions and $4.1 million Cost of Implementation Account (COIA) in 2023-24 and ongoing, including $1.5 million in contract funds, to meet the requirements of AB 1757, which include setting carbon sequestration targets, establishing methods to track GHGs and carbon sequestration from NWLs over time, and integrating the targets into the AB 32 Scoping Plan.

CDFA: $363,000 GF and two positions in 2023-24 and ongoing to provide adequate staffing for activities such as updating the Natural and Working Lands Climate Smart Strategy (NWL CSS). Currently CDFA's Office of Environmental Farming and Innovation (OEFI) administers Climate Smart Agriculture incentive programs and provides scientific consultation to support interagency activities related to climate change and environmental impacts of agriculture. OEFI does not have sufficient resources to support the extensive inter-agency and inter-departmental coordination and information-sharing that are required by AB 1757.

**Staff Recommendation. Approve as budgeted.**

# 0540 CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)
# 3780 NATIVE AMERICAN HERITAGE COMMISSION (NAHC)

**Issue 5: Derogatory Geographic Names (AB 2022)**

**Governor's Proposal.** The Governor's budget requests $433,000 GF in 2023-24 and 2024-25, $183,000 GF in 2025-26 and ongoing, and one permanent position in, and the Native American Heritage Commission (NAHC) requests $75,000 GF in 2023-24 and 2024-25 to implement AB 2022 (Ramos and C.Garcia), Chapter 479, Statutes of 2022. AB 2022 includes significant scope changes for the existing California Advisory Committee on Geographic Names (CACGN) and requires the removal of derogatory names by public agencies. This request will fund staff, facilitation services for formal tribal consultation and public engagement, and direct expenditures to meet new tracking and reporting requirements.

**Staff Recommendation. Approve as budgeted.**

## 3100 CALIFORNIA AFRICAN AMERICAN MUSEUM (CAAM)

### Issue 6: Americans with Disabilities Act (ADA) Compliance

**Governor's Proposal.** The Governor's budget requests $50,000 Exposition Park Improvement Fund (EPIF) in 2023-24 and $25,000 EPIF ongoing for CAAM to support legal compliance with the ADA and ensure accessibility for all visitors. CAAM needs to ensure that all exhibition and educational content in the museum is ADA compliant and accessible, which includes but it is not limited to providing closed captions and audio description features for all media on view in the museum and providing a sign-language interpreter for public programs. The proposal provides for $25,000 in initial consultant fees in the first year as well as an additional $25,000 per year for service needs for ongoing compliance.

**Staff Recommendation. Approve as budgeted.**

## 3100 EXPOSITION PARK

### Issue 7: California Highway Patrol Contract Salary Increase

**Governor's Proposal.** The Governor's budget requests $208,000 GF ongoing to account for the cumulative 10 percent general salary increases from the current Bargaining Union 5 contract (2019 – 2023). Bringing the total appropriation from $2.075 million to $2.283 million for the inter-agency agreement with the California Highway Patrol to continue to provide personnel for public safety support to Exposition Park.

**Staff Recommendation. Approve as budgeted.**

### Issue 8: Electronic Payment Acceptance Fees Augmentation

**Governor's Proposal.** The Governor's budget requests an increase of $100,000 Exposition Park Improvement Fund (EPIF) ongoing for a total appropriation of $200,000 for fees associated with electronic payment acceptance. The original appropriation was established in the 2018 Budget Act. Since then, there has been a significant increase of debit/credit card transactions versus cash payments for parking fees. In addition, service fees for debit/credit card processing have also increased.

**Staff Recommendation. Approve as budgeted.**

**Issue 9: Park Wide Surveillance System**

**Governor's Proposal.** The Governor's budget requests $500,000 GF one-time for the working drawings phase of the project to implement a parkwide surveillance system that will allow Exposition Park's Department of Public Safety to patrol the grounds more efficiently, decrease liability to the state for loss of property or life, and allow for more proactive policing to protect the states assets and visitors of the Park.

**Staff Recommendation. Approve as budgeted.**

**Issue 10: Parking Services Management Augmentation**

**Governor's Proposal.** The Governor's budget requests an ongoing increase of $800,000 EPIF to support growing parking needs at Exposition Park and render the required parking services and revenue collection. The department currently has an appropriation of $1 million which is insufficient to cover the growing needs of the parking operations.

**Staff Recommendation. Approve as budgeted.**

## 3125 CALIFORNIA TAHOE CONSERVANCY

**Issue 11: Forest Management Workload Support**

**Governor's Proposal.** The Governor's budget requests two positions to implement projects funded by reimbursable grants and existing funding. The positions will increase the pace and scale of forest restoration work in the region to reduce risks associated with catastrophic wildfires, drought, and climate change. The positions are needed to carry out projects consistent with recently secured grant funding, as well as the wildfire and forest resilience funding recently appropriated to the Conservancy.

**Staff Recommendation. Approve as budgeted.**

## 3340 CALIFORNIA CONSERVATION CORPS

**Issue 12: Mission Critical Resources**

**Governor's Proposal.** The Governor's budget requests position authority only for one Office Technician, one Conservationist I, one Conservationist II, one Building Maintenance Worker, and one Information Technology Specialist II for FY 2023-24 and ongoing to address critical staffing needs and to provide sufficient resources to help carry out the department's mission. This proposal has a net zero fiscal impact.

**Staff Recommendation. Approve as budgeted.**

## 3480 DEPARTMENT OF CONSERVATION

**Issue 13: California Geologic Energy Management (CalGEM) Division: Environmental Review and California Environmental Quality Act (CEQA) Compliance**

**Governor's Proposal.** The Governor's budget requests thirteen permanent positions for CalGEM to comply with legislative mandates to evaluate, disclose consider and address surface and subsurface-related environmental impacts of oil, gas, and geothermal; to comply with legislative mandates to conduct an environmental review on proposed regulatory action; and to provide legal guidance on and defense of actions taken to carry out responsibilities under CEQA. In the past two years, the workload associated with carrying out these mandates has grown significantly for CalGEM as a result of 1) an increase in permit reviews; and 2) expanded practices as a result of court cases.

**Staff Recommendation. Approve as budgeted.**

## 3540 DEPARTMENT OF FORESTRY AND FIRE PREVENTION (CALFIRE)

**Issue 14: Aviation Program Contracts**

**Governor's Proposal.** The Governor's budget requests $5.16 million GF in 2024-25, and $5.32 million in 2025-26, to support two optional years of fixed-wing pilot and mechanics contracts, as well as $4.29 million GF in 2023-24, $4.50 million in 2024-25, $4.73 million in 2025-26, $4.96 million in 2026-27, and $5.21 million in 2027-28 to support three firm years and two optional years of the increased contractual costs of a follow-on aviation parts and logistics contract. The amounts requested for the aviation parts and logistics contract in this proposal are the best estimates at the time this proposal was prepared due to the timing differences between the procurement and budget processes, resulting in the Intent to Award scheduled to be issued in early 2023. It is anticipated that a spring request will be submitted to align this proposal with the final contract amounts from that Intent to Award.

**Staff Recommendation. Approve as budgeted.**

**Issue 15: Hayfork Fire Station: Relocate Facility**

**Governor's Proposal.** The Governor's budget requests $1.5 million GF for the acquisition phase of Hayfork Fire Station: Relocate Facility project. The project includes acquiring property, design, and construction of a new fire station in the vicinity of Hayfork valley. Total project costs are estimated at $15.93 million. The acquisition phase is estimated to begin in July 2023 and be completed June 2025.

Hayfork Fire Station (Hayfork FS) is a single-engine station within CalFire's Shasta-Trinity Unit providing initial ground base firefighting response to over 51,000 acres of State Responsibility Area (SRA) and 24- hours, 7-days per week emergency medical response to rural Trinity County.

**Staff Recommendation. Approve as budgeted.**

## Issue 16: Implementation of New Fire Fighter Personal Protective Equipment Regulations

**Governor's Proposal.** The Governor's budget requests $18.4 million GF and 12 positions starting in 2023-24, $18.74 million in 2024-25, $19.4 million in 2025-26, $17.08 million in 2026-27 and $13.3 million GF ongoing, to ensure compliance with revisions made to the California Code of Regulations, Title 8, Article 10.1 Safety Orders: Personal Protective Clothing and Equipment for Fire Fighters. More specifically:

- $4.2 million one-time for wildland firefighting protection ensemble, split between three years.
- $11.2 million one-time for PPE extractors and dryers, split between four years.
- $5.0 million ongoing for PPE retirement and replacement for both wildland and structural PPE ensembles.
- $8.4 million one-time for region PPE cache, split between three years, to supply additional PPE for each of the two CalFire Region PPE caches.
- $750,000 ongoing to implement and support a statewide PPE inventory tracking system.
- $3.2 million ongoing for the annual ISP inspections, repair, and deep cleaning.
- $1.8 million ongoing for support staff.

**Staff Recommendation. Approve as budgeted.**

## Issue 17: L.A. Moran Reforestation Center Improvements

**Governor's Proposal.** The Governor's budget requests $50,000 GF for the working drawings phase of the L.A. Moran Reforestation Center Improvements (LAMRC) project. The project includes the construction of an administration building, a maintenance shop, a styroblock washing station and storage building, a soil building, and a cold storage building. Additionally, the scope will include site work as needed, connecting the sewer main to the city, and providing appurtenances to support the reforestation center. Total project costs are estimated at $5.826 million.

LAMRC is a state facility located in Davis, California. The nursery operations ceased due to across-the-board budget cuts in 2003 until funding for the program was re-established in the 2017 Budget Act. Funding from the Timber Regulation and Forest Restoration Fund was provided to restore operations and contribute to the restoration and improved production of state and private forest lands. The 2017 Budget Act re-established reforestation nursery operations in a phased approach, prioritized the need for immediate growing operations, and balanced critical facility improvements. LAMRC is now a year-round facility that is in the process of reinstating nursery operations to its fullest potential and upgrading facilities that deteriorated over the years. The primary purpose of LAMRC is to provide high quality seed necessary to protect the genetic integrity and diversity of forest tree species (Public Resources Code section 4681 (PRC § 4681)) as well as provide seedlings in forested areas throughout the state impacted by tree mortality and wildfire.

**Staff Recommendation. Approve as budgeted.**

### Issue 18: Land Acquisition: Almaden Fire Station

**Governor's Proposal.** The Governor's budget requests $1.5 million GF for the acquisition phase of the Land Acquisition: Almaden Fire Station project, located in Santa Clara County. This is a new project, which will seek to acquire the land on which the fire station sits.

**Staff Recommendation. Approve as budgeted.**

### Issue 19: Mobile Equipment Reappropriation

**Governor's Proposal.** The Governor's budget requests budget bill language in 2023-24 to reappropriate $3.3 million ($1.8 million GF and $1.5 million Greenhouse Gas Reduction Fund (GGRF)) from the Budget Act of 2020 and $4.5 million ($2.9 million GF and $1.6 million GGRF) from the Budget Act of 2021, for an additional year, allowing time to encumber and expend due to manufacturer delays and supply chain issues as a result of the COVID-19 pandemic.

**Staff Recommendation. Approve as budgeted.**

### Issue 20: Rohnerville Air Attack Base (RAAB): Replace Fuel System

**Governor's Proposal.** The Governor's budget requests $60,000 GF for the preliminary plans phase and working drawings phase of the RAAB: Replace Fuel System project. Total project costs are estimated at $2 million.

Since RAAB is located adjacent to Humboldt Bay, the coastal environment, the salt air, and the severe weather has taken its toll on the Jet-A tank. The steel tank is exhibiting rust and corrosion on the surface and on all piping penetration. During RAAB's annual inspection in 2017, Beacom Construction inspected the Jet-A fuel tank and stated that failure of the tank annular space was "imminent, although a prediction of when is not possible to accurately state."

**Staff Recommendation. Approve as budgeted.**

### Issue 21: Self-Generating Power Projects in Tehama-Glenn and Fresno-Kings Units

**Governor's Proposal.** The Governor's budget requests $1 million GF for the working drawings phase of the Self-Generating Power Projects in Tehama-Glenn and Fresno-Kings Units project. This project includes the purchase and installation of renewable energy (e.g., solar array, wind power generation, and clean back-up power supplies with supporting infrastructure) for state-owned facilities within two administration units: Tehama-Glenn and Fresno-Kings. This is a continuing project. Total project costs are estimated at $30,100,000.

**Staff Recommendation. Approve as budgeted.**

**Issue 22: Workers' Compensation (AB 1751 and SB 1127)**

**Governor's Proposal.** The Governor's budget requests $1.5 million ($1.3 million GF, $62,000 Special Funds, and $211,000 Reimbursements) and six positions starting in 2023-24, and $964,000 ($719,000 GF, $36,000 Special Funds, and $209,000 Reimbursements) ongoing to address the statutory requirements set forth by AB 1751 (Daly), Chapter 758, Statutes of 2022, and SB 1127 (Atkin), Chapter 835, Statutes of 2022. The request includes $556,000 one-time in 2023-24 related to service fee increase from COVID-19 related workers' compensation (WC) claims (AB 1751). The remaining funding and positions are related to SB 1127 to manage WC cases where reductions are made to the existing 90-day liability determination period for specified first responders with specified ailments to 75 days and remove the statute of limitations and extend the length of aggregate disability payments for a single injury to specified first responders to no more than 240 weeks, and for benefits that are unreasonably delayed, provide for a penalty of five times the amount of the benefits, up to $50,000 per claim.

SB 1127 increases the maximum time specified firefighters can access wage replacement disability benefits for cancer work-related injuries from 104 weeks within five years to 240 weeks with no time limit. The bill also reduces the time period an employer has to deny liability for a workers' compensation claim from 90 to 75 days for a workers' compensation claim for specified presumptive injuries.

AB 1751 extends the sunset date of the workers' compensation COVID-19 presumptions, as specified, to January 1, 2024.

**Staff Recommendation. Approve as budgeted.**

## 3560 STATE LANDS COMMISSION

**Issue 23: South Ellwood Project — Platform Holly Caretaker Program**

**Governor's Proposal.** The Governor's budget requests $3.66 million one-time GF in 2023-24, with an extended encumbrance period through June 30, 2026, to retain the contractors necessary for the Commission to independently monitor, inspect, and timely respond to conditions on and around Platform Holly during the caretaker period following the final plug and abandonment of the platform's 30 wells in early 2023 and commencement of platform decommissioning by ExxonMobil, likely in 2026-2027. The interim "caretaker" period is expected to last up to 4 years.

Platform Holly's 30 oil wells are nearly plugged and abandoned; however, actual decommissioning and removal of the platform by ExxonMobil may take 3-4 more years, depending on the California Environmental Quality Act review, permitting, and availability of equipment and disposal space. In the interim, the Commission lacks funding to conduct routine inspections or maintain essential elements of the platform necessary to ensure that members of the public do not try to access the platform, creating health and safety concerns. Additionally, the Commission seeks funding to ensure that a response to unexpected emergencies during the caretaker period between the end of plugging and abandonment (P&A) and decommissioning can be adequately mounted by means of a qualified contractor along with existing staffing resources. A portion of these funds are also intended to cover internal staff resources needed for managing platform caretaker status that would be diverted from other work covered by reimbursable accounts (i.e., applicant funded projects).

**Staff Recommendation. Approve as budgeted.**

## 3600 CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE (CDFW)

**Issue 24: Continuation of the Cannabis Regulatory and Enforcement Program**

**Governor's Proposal.** The Governor's budget requests 49 permanent positions, $7.98 million ($4.21 million Fish and Game Preservation Fund – Lake and Streambed Dedicated Account (FGPF-LSA) and $3.77 million Cannabis Control Fund) in 2023-24, $7.98 million ($4.21 Fish and Game Preservation Fund – Lake and Streambed Dedicated Account (FGPF-LSA) and $3.77 million Cannabis Tax Fund) in 2024-25 and ongoing to permanently support the Department's Cannabis Regulatory and Enforcement Program (CREP), initially approved in the 2017 Budget Act. The Department has a unique and integrated role in the commercial cannabis cultivation licensing process that will be ongoing given the regulatory framework established to integrate Proposition 64 requirements.

**Staff Recommendation. Approve as budgeted.**

**Issue 25: Incidental Take Permit for Long-Term Operations of the State Water Project (SWP) in the Sacramento-San Joaquin Delta**

**Governor's Proposal.** The Governor's budget requests 16 permanent positions, $2.98 million reimbursement authority in 2023-24, and $2.79 million ongoing to complete the new workload associated with the SWP Incidental Take Permit (ITP). In 2019, DFW and the Department of Water Resources (DWR) were directed to develop a standalone ITP to regulate operations of the SWP independently of the federal Endangered Species Act. DFW and DWR are required to collaborate on implementation of all aspects of the ITP, which has created a significant new workload for permitting and monitoring.

**Staff Recommendation. Approve as budgeted.**

**Issue 26: Klamath Facilities Removal: Monitoring, Restoration, and Lands Management**

**Governor's Proposal.** The Governor's budget requests five permanent positions, $1.97 million GF in 2023-24, $1.38 million in 2024-25, and $1.35 million ongoing to establish two new programs: the Upper Klamath River Fisheries Monitoring Program (UKRP) and the management of Parcel B Lands. The establishment of these programs are necessary to support fish monitoring, restoration, and land management after removal of the Klamath Dams. The Klamath Hydroelectric Settlement Agreement (KHSA) commits to ensuring anadromous fish passage and recolonization following the removal of Copco 1 Dam, Copco 2 Dam, and Irongate Dam from the Oregon border downstream to Bogus Creek. The KHSA also provides ownership transfer of approximately 7,100 acres of land to DFW to manage.

**Staff Recommendation. Approve as budgeted.**

**Issue 27: Nutria Eradication Program**

**Governor's Proposal.** The Governor's budget requests $2.92 million GF in 2023-24, $2.82 million in 2024-25 and 2025-26 to continue its Nutria Eradication Program efforts. Due to exhausting grant funding, the NEP is facing a 60 percent budget deficit beginning in 2023-24 and needs funding to continue nutria eradication efforts.

**Staff Recommendation. Approve as budgeted.**

**Issue 28: Oil and Pollution Response Resources**

**Governor's Proposal.** The Governor's budget requests $1.25 million Oil Spill Prevention and Administration Fund in 2023-24, and $896,000 ongoing to perform operations related to oil spill response and support. As part of the follow up assessment to the Pipeline P00547 spill response, the Office of Spill Prevention and Response has identified an immediate need for additional resources to close operational gaps and improve response activities.

**Staff Recommendation. Approve as budgeted.**

**Issue 29: Wildlife Connectivity on the State Highway System (AB 2344)**

**Governor's Proposal.** The Governor's budget requests eight permanent positions and $1.98 million GF in 2023-24 and ongoing to address the workload associated with the implementation of AB 2344 (Friedman), Chapter 964, Statutes of 2022. DFW will be required to consult with the Department of Transportation (Caltrans) to establish an inventory of wildlife connectivity needs and perform assessments to identify potential wildlife connectivity barriers on the state highway system.

AB 2344 requires Caltrans, in consultation with DFW, to develop and prioritize an inventory of projects to address wildlife connectivity needs, and establishes the Transportation Wildlife Connectivity Remediation Program to improve wildlife connectivity across transportation systems.

**Staff Recommendation. Approve as budgeted.**

**Issue 30: Creation of Information Security and Privacy Office**

**Governor's Proposal.** The Governor's budget requests two permanent positions, $596,000 Distributed Administration in 2023-24, and $579,000 ongoing to create an Information Security and Privacy Office. The information security and privacy practices within the Department are underdeveloped and unable to effectively provide security and privacy oversight for the Department and its subordinate organizations. Currently, there is not enough staff to meet the demands imposed by the Department's control agencies, the California Department of Technology, and CNRA, and the Department is unable to effectively be secured from external security threats or privacy implications. These positions would also be used to implement the Governor's Cal-Secure roadmap, specifically the technology cybersecurity defenses.

**Staff Recommendation. Approve as budgeted.**

## 3790 DEPARTMENT OF PARKS AND RECREATION (PARKS)

### Issue 31: American Disability Act (ADA) Tucker Consent Decree

**Governor's Proposal.** The Governor's budget requests $23.2 million GF one-time to complete additional ADA improvements under the Tucker Consent Decree.

A federal consent decree (Tucker Consent Decree) resulting from Tucker v. California Department of Parks and Recreation requires Parks to remove physical and programmatic barriers to provide equal access to people with disabilities in accordance with the ADA. Pursuant to the Tucker Consent Decree, Parks is obligated to fund, initiate and complete ADA barrier-removal projects and report work efforts semi-annually to the litigants. Parks is required to remove barriers to access and construct accessible trails in California state parks to provide equal access to people with disabilities in accordance with the ADA.

**Staff Recommendation. Approve as budgeted.**

### Issue 32: Humboldt Redwoods State Park (SP): Replace Founders Grove Restroom

**Governor's Proposal.** The Governor's budget requests requests $4.05 million from available Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Fund of 2006 (Proposition 84) and $1.86 million SP Contingent Funds for the construction phase of the Humboldt Redwoods SP Replace Founders Grove Restroom in Humboldt County. This project will demolish the existing restroom facility, which is currently out of service, as well as the parking lot at Founders Grove, and construct new restroom and parking facilities with the necessary infrastructure in an alternative location. The new site will also include a new water source and treatment system, and a new accessible trail connection to Founders Grove. To accommodate the increase in visitation over recent years and anticipated future years, the capacity of both the facilities and trail need to be scaled accordingly. The Department will seek donations to cover the increase in total project cost.

**Staff Recommendation. Approve as budgeted.**

**Issue 33: Kings Beach State Recreation Area (SRA): Recreational Pier Replacement and Support Buildings**

**Governor's Proposal.** The Governor's budget requests $1.046 million in reimbursement authority for the working drawings phase of the Kings Beach SRA: Recreational Pier Replacement and Support buildings project in Placer County. This project will relocate the existing pier, construct a new support building for park operations, and provide access and recreational improvements, consistent with the 2018 General Plan.

Design funds for this project will come from fully executed grant agreements between the Department and the California Tahoe Conservancy in the amount of $650,000 and the Department and the State of California, Wildlife Conservation Board in the amount of $700,000, for a total of $1.35. The Department will seek additional grant funds for the construction phase of this project.

**Staff Recommendation. Approve as budgeted.**

**Issue 34: Lake Perris SRA: Replace Lifeguard Headquarters**

**Governor's Proposal.** The Governor's budget requests $12.575 million from available California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018 (Proposition 68) bond funds for the working drawings phase of the Lake Perris SRA Replace Lifeguard Headquarters project in Riverside County. This project will result in demolition of the existing 45-year-old lifeguard headquarters and construct a new, multi-purpose lifeguard headquarters. The new building will be larger and provide functionalities not currently available in the existing structure such as separate male and female locker rooms for lifeguard staff, a storage room for the dive team, and medical equipment.

**Staff Recommendation. Approve as budgeted.**

**Issue 35: Local Assistance: Off-Highway Vehicle Trust Fund**

**Governor's Proposal.** The Governor's budget requests $30 million Off-Highway Vehicle Trust Fund (OHVTF) one-time for local assistance grants.

The OHV Recreation Act of 1988 provides for well-managed off-highway vehicle recreation in the State of California by providing financial assistance to cities, counties, districts, federal agencies, state agencies, educational institutions, federally recognized Native American Tribes, and nonprofit entities. The OHV local assistance program administered by the Off-Highway Motor Vehicle Recreation Division supports the planning, acquisition, development, maintenance, administration, operation, enforcement, restoration and conservation of trails, trailheads, areas, and other facilities associated with the use of off-highway motor vehicles and programs involving off- highway motor vehicle safety or education. The OHVTF provides state funds to local and state agencies and other organizations for grants that are generally for parks, recreation, and resources related projects.

**Staff Recommendation. Approve as budgeted.**

### Issue 36: Malibu Creek State Park (SP): New Stokes Creek Bridge

**Governor's Proposal.** The Governor's budget requests $7.296 million Proposition 68 bond funds for the construction phase of the continuing Malibu Creek SP: New Stokes Creek Bridge project in Los Angeles County. This project will replace an existing, undersized arch culvert with a bridge to restore a secondary escape route for park visitors in the event of fire or other emergencies, reduce deferred maintenance costs and disruption to campers, and restore the creek to its natural configuration.

**Staff Recommendation. Approve as budgeted.**

### Issue 37: Mount Diablo SP: Visitor Center

**Governor's Proposal.** The Governor's budget requests $2.612 million in reimbursement authority from the State Parks and Recreation Fund for the construction phase of the Mount Diablo SP: Visitor Center. This continuing project includes replacing a small existing visitor center trailer with a larger visitor center, remodeling the existing restroom and site to meet accessibility standards, and constructing an outdoor interpretive pavilion. The Mount Diablo Interpretive Association has agreed to donate the design drawings and specifications for this project, subject to state review and approvals, and will provide funding to the Department to pay all state costs for design review, project management and construction.

**Staff Recommendation. Approve as budgeted.**

### Issue 38: Office of Grants and Local Services Federal Grant Program Administrative Support

**Governor's Proposal.** The Governor's budget requests $904,000 Federal Trust Fund in 2023-24 and $859,000 ongoing for five additional positions to meet grant program delivery obligations for the Land and Water Conservation Fund program, Outdoor Recreation Legacy Partnership program, and the Statewide Comprehensive Outdoor Recreation Plan.

The Department's Office of Grants and Local Services will experience significant workload increases due to the President's 2023 federal budget which proposes $232 million for stateside local assistance. California's share of these funds will be approximately $20,000,000 annually based on the federal distribution formula. The federal indirect cost rate of 6.5 percent means that California would receive about $1.3 million annually to administer the program. The five additional positions will improve the Department's program delivery obligations and funding for the positions

**Staff Recommendation. Approve as budgeted.**

### Issue 39: Old Sacramento State Historic Park (SHP): Riverfront Improvements

**Governor's Proposal.** The Governor's budget requests $324,000 Proposition 68 bond funds one-time for the working drawings phase of the Old Sacramento SHP: Riverfront project in Sacramento County. This continuing project will create a space that complements the natural riverbank environment and forms a strong connection to Sacramento's Waterfront. The improvements will result in an inviting space for visitors that provides opportunities for special events, a four-season river viewing experience, and a complementary space to the Sacramento Waterfront. Provisional language is requested making these program funds available for encumbrance for two years, rather than one year, due to the fact that this project is located in a place of natural resource sensitivity. This results in longer than average time requirements for design, permitting, environmental compliance and construction.

**Staff Recommendation. Approve as budgeted.**

### Issue 40: Permitting Compliance and Habitat Management Plan for Restoration and Enhancement in Fort Ord Dunes State Park – Natural Resources Obligation

**Governor's Proposal.** The Governor's budget requests $4.694 million GF one-time, seven permanent positions, 12 vehicles, and $1.166 GF ongoing for Federal Endangered Species Act, Section 10 compliance as specified in the Habitat Conservation Plan and deed covenants that stipulate the Department's obligations for lands referred to as Ford Ord Dunes State Park

**Staff Recommendation. Approve as budgeted.**

### Issue 41: Picacho SRA: Park Power System Upgrade

**Governor's Proposal.** The Governor's budget requests $2.123 million Proposition 68 bond funds one-time for the construction phase of the Picacho SRA: Park Power System Upgrade project in Imperial County. This project will evaluate the park's current and future electrical power needs, including redundant backup, and determine sustainable options for providing reliable and cost-effective electrical power at this remote location. Options to be considered include, but are not limited to, photovoltaic (PV) panels on existing buildings and/or new shade structures, replacing existing diesel generators, or other mixes of conventional and renewable electrical sources.

**Staff Recommendation. Approve as budgeted.**

**Issue 42: Silver Strand State Beach (SB): Low-Cost Accommodations**

**Governor's Proposal.** The Governor's budget requests $500,000 Proposition 68 bond funds one-time for the working drawings phase of the Silver Strand SB: Low-Cost Accommodations project. This continuing project will allow for the planning and initial development of low-cost accommodations at Silver Strand SB. Provisional language is requested making these program funds available for encumbrance for two years, rather than one year, due to the fact that the project site is in a coastal area and possibly in an area of natural resources sensitivity. The planning and initial development process will require coordination between multiple agencies, resulting in longer than average time requirements for studies, design, permitting, and environmental compliance.

**Staff Recommendation. Approve as budgeted.**

**Issue 43: Sonoma Open Space Area Operations**

**Governor's Proposal.** The Governor's budget requests $3 million in reimbursement authority, four positions, and four vehicles in 2023-24, 2024-25 and 2025-26 from the State Parks and Recreation Fund to manage the open space park lands within the Sonoma Developmental Center (SDC). The requested funding will cover equipment and operations costs for the additional permanent and seasonal staff to address associated workload increases from the added acreage from SDC such as maintenance, installations, repairs, and vegetation management.

The Department acknowledges that the proposed funding level is well below the level needed to adequately manage this property in a sustainable manner over the long term, but also recognizes that the current fiscal situation requires a more balanced approach. Therefore, this limited initial funding will enable the Department to provide the most critical services as it also conducts a more detailed assessment of the operational needs of this property during the first two years of operation and will request additional funds, in the future, to adequately manage this property and provide long-term sustainability.

**Staff Recommendation. Approve as budgeted.**

**Issue 44: State Historic Rehabilitation Tax Credit Program**

**Governor's Proposal.** The Governor's budget requests $443,000 GF one-time and three permanent positions in 2023-24, and $416,000 ongoing to handle increased workload in the Office of Historic Preservation (OHP) from the implementation of the State Historic Rehabilitation Tax Credit (SHRTC) enacted by SB 451 (Atkins), Chapter 703, Statutes of 2019. The new state tax credit program was fully funded beginning January 2022, and the requested staff will work with the California Tax Credit Allocation Committee (CTCAC) to carry out program requirements as well as review and approve applications for the state tax credits.

SB 451 provides for a tax credit for projects that rehabilitate historic properties including both income-producing properties and qualified residences. The CTCAC and Franchise Tax Board are responsible for the allocation and taking of the tax credits after OHP approves the projects. OHP is also working with both agencies in the development of this program. The tax credits themselves were fully funded beginning January 2022. However, there was no additional funding for the staffing of the SHRTC program allocated in SB 451 or in subsequent legislation. The SHRTC program is currently being undertaken for rulemaking and is anticipated to begin accepting applications in fall 2022.

**Staff Recommendation. Approve as budgeted.**

## 3810 SANTA MONICA MOUNTAINS CONSERVANCY (SMMC)

**Issue 45: Conservancy Fund Authority Increase**

**Governor's Proposal.** The Governor's budget requests increased spending authority from $200,000 to $1.5 million to accommodate a grant from the Regional Forest and Fire Capacity Program (RFFCP). The Conservancy will need the ability to receive the block grant as well as award subgrants in accordance with the RFFCP guidelines. SMMC needs to receive and spend the funds through the existing Santa Mountains Conservancy Fund (Conservancy Fund program) to process funding to sub-grantees.

**Staff Recommendation. Approve as budgeted.**

# 3825 SAN GABRIEL AND LOWER LOS ANGELES RIVER AND MOUNTAINS CONSERVANCY (RMC)

**Issue 46: Establish Ongoing General Fund Reimbursement Authority for the Rio Honda Confluence and West Coyote Hills Projects. Establish Ongoing Environmental License Plate Fund (ELPF) Reimbursement Authority with the Joint Powers Authority**

**Governor's Proposal.** The Governor's budget requests to establish ongoing reimbursement authority of $30,000 for ELPF and $8 million GF in increased reimbursement authority through 2024-25 to accommodate grants from CNRA and the Wildlife Conservation Board for the Rio Hondo Confluence Signature Project and West Coyote Hills Phase II Acquisition Project, respectively. RMC will need the ability to receive the grant as well as award subgrants and contracts in accordance with the relevant program and guidelines.

**Staff Recommendation. Approve as budgeted.**

**Issue 47: Extend and Revise Position Authority to Support Lower Los Angeles/San Gabriel River Recreation and Park District as Authorized by SB 1374 and SB 268**

**Governor's Proposal.** The Governor's budget requests to extend and revise an authorized position to support the Lower San Gabriel River Recreation and Park District implementation efforts through 2025-26. The process for boundary changes and agency formation are extensive. The position is needed through 2025-26 in order to establish the Lower Los Angeles and San Gabriel Rivers Park Districts.

SB 1374 (Lara), Chapter 486, Statutes of 2016, authorized the formation of the Lower Los Angeles River Recreation and Park District.

SB 268 (Archuleta), Chapter 453, Statutes of 2018, made changes to the board of directors for the Lower Los Angeles River Recreation and Park District and the Lower San Gabriel River Recreation Park District, as well as made additional changes to district formation.

**Staff Recommendation. Approve as budgeted.**

## 3835 BALDWIN HILLS CONSERVANCY

### Issue 48: Watershed Resiliency – Ballona Creek and Upper Dominguez Channel (SB 1052)

**Governor's Proposal.** The Governor's budget requests one-time local assistance funding of $575,000 to study the potential environmental and recreational uses of the Baldwin Hills, southern Ballona Creek Watershed, and Upper Dominguez Channel area. The study is intended to inform site opportunities and constraints for a watershed and open space plan. Planned investments would help communities of color such as Inglewood, Athens, Westmont, Del Aire, Lennox, Hyde Park, and South Los Angeles improve neighborhood sustainability, build micro- ecosystems to improve habitat biodiversity, and create resiliency in areas where climate change is most impactful to public health and quality of life.

**Staff Recommendation. Approve as budgeted.**

## 3855 SIERRA NEVADA CONSERVANCY (SNC)

### Issue 49: Permanent Positions for Reimbursements and Human Resources

**Governor's Proposal.** The Governor's budget requests two permanent full-time positions to oversee multi-year agreements with the Department of Conservation and one permanent full-time position for the Human Resources unit. These positions will be funded with existing funding authority from the Environmental License Plate Fund and Sierra Nevada Conservancy Fund.

The SNC provides technical support and local assistance grants to partners throughout the Sierra Nevada region for work that supports the economic, environmental, and social well-being of the region.

**Staff Recommendation. Approve as budgeted.**

### Issue 50: Reappropriation of 2020-21 General Fund Local Assistance

**Governor's Proposal.** The Governor's budget requests reappropriation of $96,000 GF of 2020-21 appropriated for wildfire and forest resilience local assistance funding, to be available for encumbrance, expenditure, and liquidation until June 30, 2025. Reappropriation of this funding is intended to provide SNC appropriation resources to support administration and oversight of as well as provide technical assistance to critical forest health and wildfire resilience projects funded by the associated local assistance funding.

**Staff Recommendation. Approve as budgeted.**

## 3885 Delta Stewardship Council

### Issue 51: Delta Plan Implementation

**Governor's Proposal.** The Governor's budget requests $373,000 GF ongoing General Fund to fund two positions that provide technical support for mandated Delta Plan implementation efforts — to enhance statutorily-mandated "early consultation" efforts with other agencies, and the tracking and analysis of significant projects that impact the Delta and the State's coequal goals.

**Staff Recommendation. Approve as budgeted.**

# DISCUSSION

## 3600 CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE (CDFW)

### Department Overview

The mission of CDFW is to manage the state's diverse fish, wildlife, and plant resources, and the habitats upon which they depend, for their ecological values and for their use and enjoyment by the public. This includes habitat protection and maintenance in a sufficient amount and quality to protect the survival of species and natural communities. CDFW is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific, and educational uses. The department supports a wide network of natural and working lands — forests, wetlands, coasts, and deserts — providing environmental protections, and resource management. CDFW programs include:

- ***Biodiversity Conservation Program.*** This program includes the following activities: conservation, protection and management of fish, wildlife, native plants, and habitat to ensure maintenance of biologically sustainable populations of those species.

- ***Hunting, Fishing, and Public Use Program.*** This program facilitates diverse and sustainable hunting, fishing (recreational and commercial), trapping, and other public uses and associated economic benefits to the state by conserving and managing game species. Activities include collection and assessment of information on the distribution and abundance of game fish and wildlife to determine appropriate regulations (bag limits, gear restrictions, etc.) and to monitor the effects of those regulations.

- ***Management of Department Lands and Facilities Program.*** This program manages Department-owned or leased lands and facilities, including hatcheries, wildlife areas, ecological reserves, fish and wildlife laboratories, and public access areas, to contribute to the conservation, protection, and management of fish and wildlife.

- ***Enforcement.*** This program serves the public through law enforcement, public safety and hunter education. Law enforcement promotes compliance with laws and regulations protecting fish and wildlife resources; and investigates habitat destruction, pollution incidents and illegal commercialization of wildlife. Wardens also serve the public through general law enforcement, mutual aid, and homeland security.

- ***Spill Prevention and Response Program.*** This program minimizes damage and environmental impacts to, restores, and rehabilitates the state's fish and wildlife populations and their habitats from the harmful effects of oil and other deleterious material spills in marine waters and inland habitats.

- ***Fish and Game Commission.*** The California Fish and Game Commission ensures the long-term sustainability of state fish and wildlife resources by guiding the ongoing scientific evaluation and assessment of California's fish and wildlife resources; setting California's fish and wildlife resource management policies and ensure int these are implemented by CDFW; establishing appropriate fish and wildlife resource management rules and regulations; and building active fish and wildlife resource management partnerships with individual landowners, the public and interest groups, and federal, state and local resource management agencies.

The three-year expenditures and positions budget *(dollars in thousands)* is as follows:

| | | Positions | | | Expenditures | | |
|---|---|---|---|---|---|---|---|
| | | 2021-22 | 2022-23 | 2023-24 | 2021-22* | 2022-23* | 2023-24* |
| 2590 | Biodiversity Conservation Program | 1,063.2 | 1,109.7 | 1,230.7 | $448,460 | $771,946 | $426,192 |
| 2595 | Hunting, Fishing, and Public Use Program | 485.1 | 488.6 | 488.6 | 110,938 | 114,681 | 110,909 |
| 2600 | Management of Department Lands and Facilities | 429.7 | 445.7 | 445.7 | 145,532 | 160,997 | 90,529 |
| 2605 | Enforcement | 500.7 | 504.7 | 504.7 | 149,008 | 157,261 | 147,519 |
| 2610 | Communications, Education and Outreach | 20.9 | 22.9 | 22.9 | 4,414 | 5,162 | 5,146 |
| 2615 | Spill Prevention and Response | 170.0 | 170.0 | 170.0 | 48,274 | 50,334 | 51,133 |
| 2620 | Fish and Game Commission | 11.5 | 11.5 | 11.5 | 1,911 | 1,987 | 1,991 |
| 9900100 | Administration | 325.8 | 330.8 | 332.8 | 58,150 | 63,342 | 63,873 |
| 9900200 | Administration - Distributed | - | - | - | -58,150 | -63,342 | -63,873 |
| 9990 | Unscheduled Items of Appropriation | - | - | - | -1,773 | - | - |
| **TOTALS, POSITIONS AND EXPENDITURES (All Programs)** | | **3,006.9** | **3,083.9** | **3,206.9** | **$906,764** | **$1,262,368** | **$833,419** |

*Source: Department of Finance*

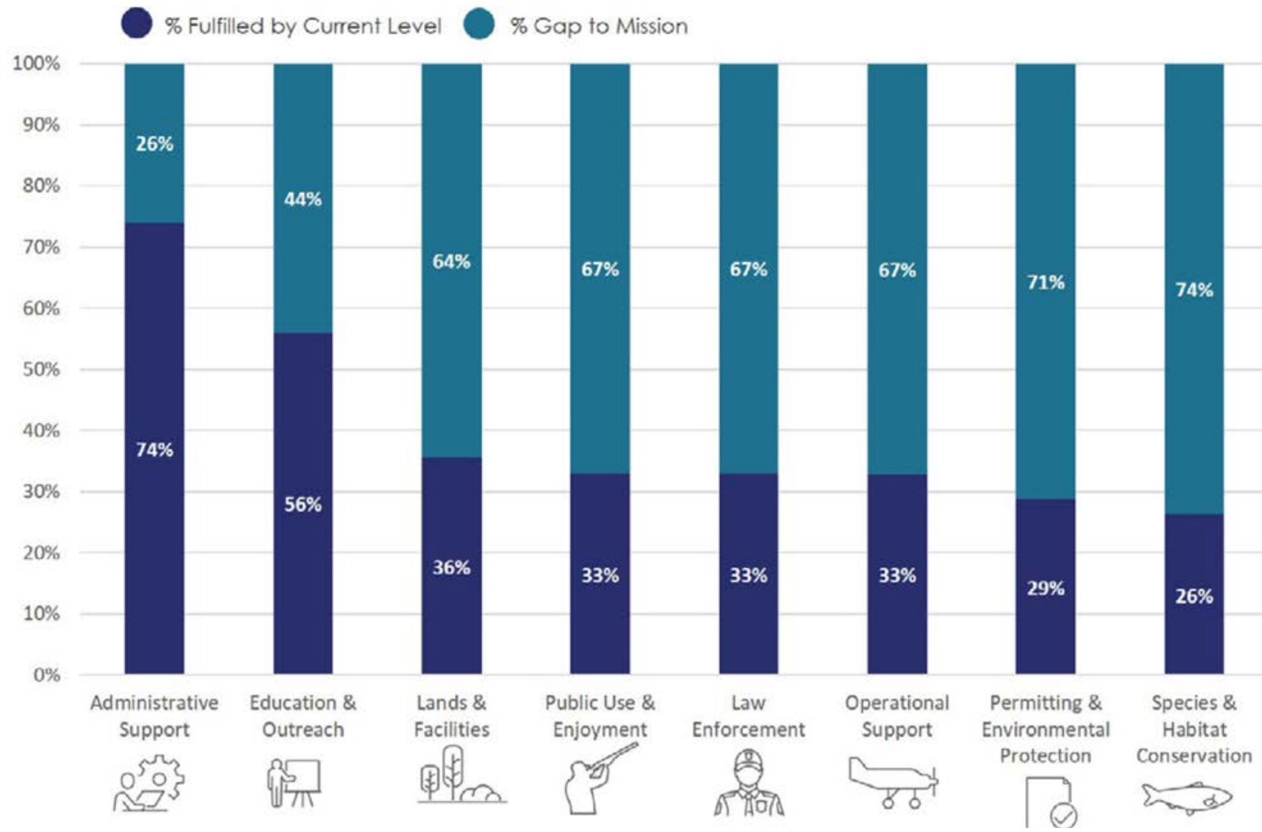
The department manages over 60 funds, each of which has its own guidelines for use. For example, the Federal Trust Fund has specific fund usage guidelines, but funds a diverse portfolio of activities. In contrast, the Fish and Game Preservation Fund-Lake and Streambed Alteration Dedicated Account is a fee-based fund that supports a relatively narrow range of tasks. In addition, the General Fund and the Fish and Game Preservation Fund (Non-dedicated) have relatively broad usage guidelines and support a wide variety of department activities.

**Service-Based Budget (SBB) Review.** ***SBB Review Determined Existing Service Levels Fell Short of Meeting Mission.*** The 2018-19 budget package included a requirement that CDFW conduct a SBB review by January 2021 and that the review include development of a new budget tracking system to inform ongoing and future fiscal decision-making processes. The SBB review was intended to provide more clarity regarding the following:

- The core activities that CDFW undertakes.
- The existing gap between the department's "mission" level of service (defined as the service standards and essential activities required for the department to meet its mission and statutory requirements) and its current service levels.
- Instances where CDFW may be conducting activities outside its mission and statutory requirements.
- Detailed estimates for the costs and staffing that would be necessary to meet mission service levels.
- An analysis of the department's existing revenue structure and the activities supported by those fund sources, including instances where different funding sources or revenue structures might be allowable or more appropriate.

The SBB approach was task-based, labor-focused, and organized by CDFW's services to the public. CDFW completed the review and issued the SBB Final Report in January, 2021. CDFW determined that the existing number of staff hours being spent fell far short of meeting its mission levels in most service areas.

The chart below compares the staffing levels in the department to meet its mission:




*Source: CDFW: Service-Based Budgeting Final Report (January 2021)*

As shown above, the most significant gap in meeting CDFW's mission, and arguably one of its most imperative, was in species and habitat conservation at 74 percent, fulfilling only 26 percent of its mission at 2021 levels.

## Issue 52: Climate Permitting Support

**Governor's Proposal.** The Governor's budget requests 40 permanent positions and $10.2 million in GF in 2023-24 and $9.6 million ongoing to expedite environmental review workload, including pre-consultation with project proponents, for priority energy and water infrastructure projects throughout the state. CDFW will allocate the positions and funding through two permitting project categories as follows:

1) 25 positions and $6.4 million for permitting energy projects.
2) 15 positions and $3.8 million for permitting water infrastructure projects.

In this proposal, CDFW would increase the staff capacity in all CDFW regional offices. These additional resources are intended to have the ability to work on priority energy and water infrastructure projects and augment existing staff to increase the number of permits issued each year for these two sectors.

This proposal is intended to provide the additional resources to increase the capacity of CDFW for pre-consultation, ongoing timely coordination with project proponents throughout the process, and development of mitigation options to ensure permits are issued timely on energy and water infrastructure projects throughout the State.

This request is intended to ensure that CDFW will have ongoing resources to help meet the requirements to protect California's endangered species and to help directly address much needed infrastructure improvements throughout the state. In addition, the proposal is intended to provide the Department with ongoing resources to help prevent the mission level gaps in the most under resourced service areas identified on the SBB Final Report from growing larger.

**Background.** CDFW has a significant role with environmental review and permitting for a variety of activities, including for energy and water infrastructure projects. CDFW evaluates projects to ensure they avoid, minimize, and mitigate impacts from associated project activities. CDFW may allow projects to take state-listed threatened, endangered or candidate species if certain conditions are met under California Endangered Species Act, such as through the issuance of incidental take permits, consistency determinations, or Safe Harbor Agreements to ensure regulatory compliance. The Department also issues Lake and Streambed Alteration (LSA) agreements for any activity that may substantially divert or obstruct natural flow of, or substantially change or use any material from the bed, channel, or bank of any river, stream, or lake. In addition, the project proponent must also complete any necessary steps under California Environmental Quality Act (CEQA) before the LSA agreement or incidental take permit can be issued. Most of the interaction with project proponents is initiated after submittal of an application or notification to the Department. By providing more pre-consultation, energy and water infrastructure project proponents will have more direct and early engagement with the Department throughout the process. Timely pre-consultation will help expedite issuance of any needed permit by addressing potential impacts through project design considerations and ensuring applications are complete before they are submitted by the project proponent to the Department.

**Staff Comments.** Increased staffing for this purpose is reasonable, especially considering on the SBB review, but a few questions arise regarding why this particular number of staff, what is the timing of hiring, and where are they most needed and which regional offices will they be placed.

**Staff Recommendation. Hold open.**

# 3540 DEPARTMENT OF FORESTRY AND FIRE PREVENTION (CALFIRE)

## Department Overview

***CalFire Has Responsibilities for Both Wildland Fire Response and Forest Management.*** CalFire has primary responsibility for wildland fire response in State Responsibility Areas, which are mostly privately owned wildlands that encompass about one-third of the acreage of the state. CalFire also has various responsibilities for the management and protection of the state's forests. These include overseeing enforcement of the state's forest practices regulations, providing grant funding for forest health and fire prevention projects, and regulating timber harvesting on private or state-owned forestland. CalFire provides all hazard — fire, medical, rescue, and disaster — emergency response to the public.

***Resource Management.*** CalFire's mission emphasizes the management and protection of the state's natural resources through an extensive resource management program. Program objectives are met by regulation of timber harvesting; coordination of climate and forest restoration related activities for the forest sector; technical assistance to non industrial landowners; operation of state demonstration forests; operation of forest nurseries and vegetation management projects; and administration of federal forestry assistance programs.

***Vegetation Management.*** In 2021, CalFire released the Wildfire and Forest Resilience Action Plan, designed to accelerate efforts to restore the health and resilience of state forests, improve fire safety, and sustain the economic vitality of rural forested areas. In the action plan, California has committed to treat 500,000 acres per year by 2025. CalFire specifically committed to treating up to 100,000 acres per year, with other state entities needing to treat 400,000 acres per year by 2025 for the state to meet this goal.

***Wildfire Response and Protection.*** CalFire's fire prevention program consists of multiple activities including wildland pre-fire engineering, vegetation management, fire planning, education, and law enforcement. Typical fire prevention projects include brush clearance, prescribed fire, defensible space inspections, emergency evacuation planning, fire prevention education, fire hazard severity mapping, and fire-related law enforcement activities. CalFire's fire control objective is to attack fires quickly and aggressively with the goal of containing 95 percent of all wildfires to 10 or fewer acres. This is achieved through detection, ground attack, air attack, and mutual aid using fire engines, fire crews, bulldozers, helicopters, and fixed-wing aircraft.

***CalFire Operates Numerous Facilities.*** CalFire operates more than 530 facilities statewide to support its mission. These facilities include 234 fire stations, 112 telecommunications facilities, 8 fire crew camps, 21 unit headquarters, 16 administrative headquarters, 13 air attack bases, and 10 helitack bases. As we discuss in more detail in this brief, these facilities also include 30 conservation camps and two main training centers.

CalFire is currently authorized to operate 39 conservation camps statewide that house more than 4,300 inmates and wards. The camps are operated in conjunction with the California Department of Corrections and Rehabilitation and the Division of Juvenile Justice. Through these cooperative efforts, CalFire is authorized to operated 196 fire crews year-round. These crews, also referred to as hand crews, are available to respond to all types of emergencies, including wildfires, floods, and search and rescue.

***Governor's Proposed Budget for 2023-24.*** The Governor's proposed budget for 2023-24 includes a total of $4 billion from various funds to support CalFire, including $2.9 billion from the General Fund. This represents an increase of about $150 million (roughly 4 percent) compared to the estimated expenditure level for 2022-23. The Governor's budget proposes to support 11,500 authorized positions at CalFire in 2023-24, which represents an increase of roughly three percent from the estimated number in 2022-23.

The three-year expenditures and positions budget *(dollars in thousands)* is as follows:

| | | Positions | | | Expenditures | | |
|---|---|---|---|---|---|---|---|
| | | **2021-22** | **2022-23** | **2023-24** | **2021-22*** | **2022-23*** | **2023-24*** |
| 2461 | Office of the State Fire Marshal | 199.6 | 217.6 | 217.6 | $52,222 | $63,465 | $64,163 |
| 2465 | Fire Protection | 8,200.4 | 9,470.9 | 9,783.6 | 2,976,475 | 3,408,368 | 3,491,364 |
| 2470 | Resource Management | 541.2 | 561.7 | 561.7 | 861,191 | 391,145 | 457,176 |
| 2475 | Board of Forestry and Fire Protection | 10.9 | 10.9 | 10.9 | 6,999 | 3,918 | 3,940 |
| 2480 | Department of Justice Legal Services | - | - | - | 6,828 | 6,828 | 6,828 |
| 9900100 | Administration | 744.7 | 909.7 | 915.7 | 148,922 | 190,620 | 191,308 |
| 9900200 | Administration - Distributed | - | - | - | -148,590 | -190,277 | -190,961 |
| **TOTALS, POSITIONS AND EXPENDITURES (All Programs)** | | **9,696.8** | **11,170.8** | **11,489.5** | **$3,904,047** | **$3,874,067** | **$4,023,818** |

*Source: Department of Finance*

***Emergency Fund (E-Fund).*** According to LAO, the budget for wildfire response has two components — the "base budget" and an amount budgeted for emergency fire suppression known as the E-Fund. CalFire's based budget pays for everyday firefighting operations of the department including salaries, facility maintenance, and other regularly scheduled costs. Included in the base budget are the costs associated with the "initial attack" on wildfire — that is, the firefighting operations generally undertaken in the first 24 hours of an incident. Once an incident has gone beyond the initial 24 hours and, therefore, will likely exceed the capability of containment by that CalFire unit, costs associated with firefighting are charged to the E-Fund. Such costs as equipment rental, unplanned overtime, inmate crews, and additional air support are charged to the E-Fund for large incidents. The structure of the E-Fund is particularly important in a wildfire-prone state like California. It sets aside funding to respond to wildfires that will inevitably occur and is flexible to account for the inherent unpredictability regarding the number, scale, and timing of those wildfires.

**Issue 53: Property Acquisitions: Camp Fox, Boys Ranch, and Sierra Elementary**

**Governor's Proposal.** The Governor's budget requests $4 million GF for the acquisition phase for property at three locations throughout the state: Camp Fox ($500,000) (located in San Diego County), Boys Ranch ($1 million) (located in Sacramento County), and Sierra Elementary ($2.5 million) (located in Fresno County). This project will seek to acquire sites across various counties to expand current CalFire infrastructure. These facilities will be used to provide housing and training grounds for CalFire crews.

**Background.** Over the last decade, the CalFire Conservation Camp program has experienced a decline of inmates, leaving the program unable to fully staff its inmate fire crews, resulting in the operation of fewer crews to support CalFire's fire protection operations, and complete hazardous fuel reduction projects. In recognition of this trend, the 2020 Budget Act reflected a consolidation of inmate fire camps and the vacating of eight camp facilities by CDCR. To meet the demand for non-inmate fire crews, CalFire needs to establish fire centers to meet the needs of 17 new fire crews (a total of 566 positions) that were established in the 2022 Budget Act.

**Staff Comment.** Currently, CalFire has identified those future costs associated with the cost of acquisition. However, a question arises as to what other costs that may be identified now, beyond acquisition the acquisition stage, for the future? For example, what facilities, and to what extent, would need to be rebuilt? What are the future costs for construction, maintenance and operations of these properties?

**Staff Recommendation. Hold open.**

**Issue 54: (a) CalFire Training Center Capacity, and (b) Additional CalFire Training Center: New Facility**

**Governor's Proposal.** ***(a) CalFire Training Center Capacity.*** The Governor's budget requests $12.9 million GF and 12 new positions beginning in 2023-24, $12 million annually through completion of a new training center facility (referenced below in (b)), and $3.4 million ongoing to address current issues of overcapacity at CalFire Training Centers (CFTC) by providing funding for two temporary training facilities. The Administration states that this request is critical to ensuring fire protection positions are filled and can pass probation by completing the required training offered at CFTC.

According to LAO, this proposal more specifically includes:

- ***New Positions for Capital Outlay Project Management and Maintenance ($3.9 Million in 2023-24, $3.4 Million Ongoing).*** This funding would support the hiring of 12 new positions, including surveyors, engineers, and a right-of-way agent. These positions are proposed to (1) coordinate and consult with the Department of General Services (DGS) as it manages the construction of the new training center facility; (2) support the development of future capital outlay projects that might result from the CFTC-Ione master plan; and (3) engage in maintenance activities at training centers, particularly after the new proposed training center facility is constructed.
- ***Temporary Leased Facilities, Equipment, and Shifting of Staff ($8.9 Million in 2023-24, $8.6 Million Through Construction).*** This funding would support various costs associated with leasing and operating two temporary facilities that would be used for conducting training until the proposed new center is completed (estimated to be 2030)—one at Shasta College in Redding and one at a University of Phoenix campus in Sacramento. Specifically, the proposal includes additional funding for (1) facility leasing, utilities, and housing ($3.7 million); (2) logistics and supplies ($1.6 million); (3) leasing of fire engines ($1.3 million); and (4) vehicles and fuel ($845,000). The proposal also includes roughly $1 million in new net costs to shift 12 existing CalFire staff positions from the California Correctional Center in Susanville—which is scheduled to be deactivated by June 30, 2023—to provide instruction and administrative support.
- ***Uses Some Existing Funding to Help Support Near-Term Training Costs.*** In addition to the new funding, CalFire also proposes to use a total of $5.8 million from 2022-23 funding augmentations to—on a one-time basis—support the full costs of similar temporary activities to those discussed above, such as equipment, leased vehicles, and other operational costs. This $5.8 million represents a portion of the $214 million ongoing General Fund originally provided for 17 new firefighter crews and for staffing to support CCC and California Military Department (CMD) crews.

***(b) Additional CalFire Training Center: New Facility.*** According to LAO, the Governor's budget includes $19.2 million GF for two capital outlay activities related to building a proposed new training facility: (1) $545,000 for a study that is anticipated to be completed in June 2024, which would identify potential parcels in the Sacramento area on which to construct the facility and develop a more refined cost estimate for the project, and (2) $18.7 million to acquire a property for the new center. The department anticipates needing a minimum of 50 acres for the facility.

Future planned project phases include the preparation of performance criteria and the construction of the new proposed training center using the design-build delivery method. The administration anticipates it would complete these phases using a combination of GF (which it would request in a future year) and lease revenue bonds (to be repaid from the General Fund). In total, the estimated cost of the project is $419 million and construction is anticipated to be completed in 2030.

**Background.** According to LAO:

***CalFire Operates Two Main Training Facilities.*** CalFire currently operates two main training centers for its staff. The first is CFTC-Ione, a state-owned facility in Amador County that historically has served as the primary training center for the department. The second is CFTC-South, which is a leased facility in Riverside County. In recent years, CFTC-South has become an important ongoing, year-round location for CalFire training. In addition to these facilities, CalFire also provides training at various other sites, such as Castle Training Center in Atwater. These centers offer a variety of types of training. For example, the CFTCs host the Firefighter Academy and the Company Officer Academy, which are training courses required for classifications of Firefighter II (permanent firefighters) and above. In total, CalFire's training programs train an average of 2,900 students per year.

***CalFire Staffing Has Increased Substantially in Recent Years, Necessitating More Training.*** In part due to the recent severe fire seasons and projections that these trends will continue, the state has significantly increased CalFire's staffing, including firefighters, in recent years. For example, the 2022-23 Budget Act added approximately 1,500 positions (representing a 15 percent increase compared to their previous staffing level), approximately 850 of which the department reports will require training prior to performing emergency response activities.

***CalFire Is Undertaking a Master Plan for CFTC-Ione Facility.*** The 2022-23 budget provided $150,000 GF for CalFire to conduct a master plan for the CFTC-Ione facility, which was built in 1967. This document—expected to be completed by May 2023—is intended to identify a specific plan for future capital outlay projects to expand and update the facility to meet CalFire's current operational requirements.

**LAO Comments.** ***Uncertainty About Future Training Needs Results in Unclear Need for New Facility.*** In LAO's view, CalFire has not adequately justified that its ongoing training needs are sufficient to justify the construction of the new proposed facility. Specifically, CalFire argues that the facility is needed because of recent increases in demand for training, driven in large part by the significant number of new authorized positions approved as part of the 2022-23 Budget Act. However, LAO expects that much of the corresponding increases in training needs will be short term in nature, associated with preparing personnel to fill the new authorized positions as they are onboarded. Once these new authorized positions have been filled, attrition will lead to some ongoing training needs, but those are likely to be much smaller than the current short-term demand. (CalFire currently assumes a 10 percent attrition rate annually.)

Moreover, the proposed new training facility is not projected to be completed until 2030, well after the recently authorized positions will be filled. Accordingly, the state's decision regarding whether to construct this facility should be based not on the *current* training needs—which may be temporarily high—but rather on a *long-term* assessment of training needs. Over the longer term, the growth rate for CalFire staffing is unknown and, therefore, so is whether future training needs will be consistently higher on an ongoing basis.

***Premature to Fund New Project When CFTC-Ione Master Plan Is Still in Progress***. Uncertain training needs is not the only reason LAO finds this project proposal to be premature. Even if CalFire were to provide well-substantiated projections of future training demand increases continuing beyond 2030, whether the proposed new training center would be the most cost-effective solution to address such needs is unclear. Specifically, the CFTC-Ione master plan that the Legislature funded in the 2022-23 Budget Act is intended to provide insights into the expansion capacity at that facility. As noted above, this assessment is still in progress. While it is anticipated to be completed this spring, it could be delayed and may not be available with sufficient time for careful legislative review before the adoption of the budget in June. Moving forward with approving a new training center before the Legislature has adequate time to incorporate the findings of this plan into its deliberations could result in a higher level of state spending than ultimately necessary.

***Premature to Fund Acquisition Phase Before Completing Study Phase.*** Even if the Legislature were to feel sufficiently confident that a new training facility is needed, providing funding for acquisition before the proposed study is complete still would be premature. The study is anticipated to provide information on available sites, as well as develop refined scope and cost estimates for the project. This would be important information for the Legislature to have before deciding whether it makes sense to move forward with the project, as well as to more accurately estimate how much funding is specifically needed for the site acquisition.

***Staffing Component Not Adequately Justified.*** As noted above, the Governor's request includes $3.9 million in 2023-24 (decreasing to $3.4 million annually beginning in 2024-25) for 12 facility staff to consult with DGS as it manages the training center project, as well as other potential capital outlay projects at CFTC-Ione that may be identified in the forthcoming master plan. For a department to request staffing—much less 12 positions—to coordinate with DGS on a capital outlay project is *highly* unusual. Rather, departments typically absorb this type of workload, which generally is modest. Additionally, since the CFTC-Ione master plan has not yet been completed and no corresponding specific projects have been proposed thus far, requesting staffing now to support unidentified projects is premature.

LAO notes that the department also plans to use these positions to perform some maintenance activities, particularly on an ongoing basis after the new proposed training center is completed. However, LAO finds this aspect of the proposal is also unjustified for two key reasons. First, different classifications, skills, and staffing levels likely would be needed to conduct maintenance activities as compared to the specific positions the Governor is proposing (such as land surveyors). Second, the facility is not anticipated to be completed until 2030. Accordingly, it would make sense for the department to request appropriate maintenance staff if and when the new proposed facility is completed rather than at the initiation of the study phase. For these reasons, LAO does not find a compelling need for the requested staff.

***Some Funding for Temporary Training Needs Warranted, but Specific Costs Not Yet Clear.*** CalFire also requests funding to support various costs associated with leasing and operating two temporary facilities until the new training center is constructed. As described above, some of the funding for these costs is requested as part of this proposal ($8.9 million in 2023-24 and $8.6 million until the new center is built). CalFire would also support some of these one-time costs using a portion ($5.8 million) of the funding already authorized in the 2022-23 budget package. Given its elevated near-term training needs—resulting from the significant recent increases in firefighter staffing—the department's intent to pursue temporary leases and to support other costs associated with operating temporary training facilities is justified. Moreover, using some of the funding appropriated in last year's budget to help offset these costs is reasonable, since those funds were provided to help support the staffing augmentations. However, at this time, the department has not adequately substantiated the need for the specific amount of new funding proposed. For example, CalFire proposes $1.3 million to lease fire engines for training purposes until the permanent engines funded in the 2022-23 Budget Act arrive in 2024 or 2025. Why these needs could not be met at a lower cost, such as by using older fire engines that the department would otherwise sell, is unclear. LAO believes the Legislature needs more information that explains and justifies the costs of operating the temporary training centers before taking action on the Governor's request.

***Commits the State to Significant—and Unknown—Amount of Out-Year Costs.*** Together, the Governor's training center proposals would commit the state to significant costs over the coming years, including about $400 million to construct the new proposed facility, as well as ongoing costs associated with its operations and maintenance. LAO notes that these ongoing costs may not be fully reflected in the proposals. Specifically, the only costs proposed to be funded on an ongoing basis are for the 12 facility-related staff mentioned above. Potential remaining costs—such as for utilities, vehicles, and costs associated with the shift of personnel from Susanville—are only proposed to be funded through the end of construction of the facility. LAO would expect that many of these types of activities would need to be funded even after the new facility is complete, however. Accordingly, the $3.4 million in ongoing funding requested as part of these proposals likely understates the full costs associated with operating the facility in the out-years.

***Higher Bar for Approving New Proposals Given General Fund Condition.*** These proposals would commit the state to significant discretionary General Fund expenditures in not only the budget year but also in the out-years. Importantly, the state currently is experiencing a budget problem, where revenues already are insufficient to fund existing commitments. In this context, every dollar of new spending in the budget year comes at the expense of a previously identified priority and requires finding a commensurate level of solution somewhere within the budget. The Governor "makes room" for this (and other) proposed new spending by making reductions to funds committed for other programs, including many in the climate and natural resources areas. Moreover, because these training center proposals also have significant out-year costs, they would contribute to projected future budget deficits and would require finding additional solutions in the coming years. LAO therefore thinks the Legislature likely will want to apply a higher bar to its review of new spending proposals such as these than it might in a year in which the General Fund had more capacity to support new commitments, as it will need to weigh the importance and value of the proposed new activities against the activities to which it has already committed. Essentially, it will want to consider whether it wants to make reductions—either those proposed by the Governor or equivalent alternatives—to free up resources for this project. In our view, this proposal does not meet that higher bar.

**LAO Recommendations.** ***Approve Proposed $545,000 for a Facility Study With Revised Scope to Be Completed After CFTC-Ione Master Plan.*** LAO recommend the Legislature approve the proposed funding to study options for a new training center. However, LAO recommends that the Legislature require that CalFire modify the scope of this study to include (1) estimates of *future* growth in CalFire staffing and associated training needs and (2) an evaluation of multiple potential alternatives for meeting those training needs (with constructing a new training center as one but not the only option considered). LAO recommends the Legislature require that CalFire incorporate the results of the master plan for CFTC-Ione—anticipated to be completed by May 2023—into this study to ensure the assessment is comprehensive.

***Reject Proposed $18.7 Million for Site Acquisition.*** LAO recommend the Legislature reject the $18.7 million proposed for site acquisition until after the completion of the CFTC-Ione master plan and the aforementioned facility study. The additional information from these reviews can help inform the Legislature's deliberations by providing clarity on the options available to meet CalFire's long-term training needs, as well as a more refined cost estimate for the potential construction of a new training center should it be determined to be necessary.

***Reject Proposed $3.9 Million in 2023-24 and $3.4 Million Ongoing for Facility Staffing.*** LAO recommends the Legislature reject the funding proposed for additional facility-related staffing. These positions are not needed to oversee the completion of the revised study, which is the only portion of the proposal that we recommend the Legislature approve at this time. However, even if the Legislature were to approve the Governor's proposed funding for both the study and acquisition, LAO still would recommend against authorizing these positions, as we find the department's justification for their need to be lacking.

***Approve Some Level of Funding to Meet Temporary Needs, but Seek Additional Information.*** LAO recommends the Legislature approve some level of funding to help meet the short-term training needs associated with CalFire's recent increase in authorized positions. Because the specific amount of funding needed is still unclear, we recommend the Legislature seek additional justification from CalFire in the coming months to help determine the appropriate level of resources to provide.

**Staff Recommendation. Hold open.**

## Issue 55: Growlersburg Conservation Camp (CC): Replace Facility

**Governor's Proposal.** The Governor's budget requests $4.5 million GF in 2023-24 to restart a previously paused project that would replace the existing facilities and infrastructure at the Growlersburg CC site in Georgetown (El Dorado County). The proposed funding would support the working drawings phase.

CalFire estimates the total cost of the project—including $93 million for construction—to be $100 million, and that it would be completed in 2028. The Administration anticipates funding the construction phase of this project with lease revenue bonds, which ultimately would be repaid from the General Fund over about 25 years.

**Background.** The Growlersburg CC was built in 1967 and was designed as a three-crew camp. During the 1980s, an addition was made to the inmate dorm, bathroom, and showers, and the camp population count increased from 80 to 120 inmates. The inmate population is currently about 132, ten percent over designed population. The added population supports five fire crews. In high demand years, a sixth crew is assembled from in-camp workers.

Located on 80 acres of state-owned property, the Growlersburg CC is located near the city of Georgetown, 15 miles north of Placerville and 20 miles south of Auburn. Georgetown is on the edge of the El Dorado National Forest, which consists of 786,994 acres of heavy brush and mixed conifer forests and has a checkerboard ownership pattern intermixed with private parcels that are considered part of the State Responsibility Area lands.

***Conservation Camps Provide a Key Source of Hand Crews.*** Hand crews support fire response by constructing fire lines, assisting fire engine crews with the deployment of fire hoses over long distances, providing logistical operational support, and extinguishing hotspots to help contain fires. These crews also do fire mitigation work, such as hazardous fuels reduction and vegetation management projects. Historically, the majority of the hand crews utilized by CalFire have been operated through agreements with the California Department of Corrections and Rehabilitation (CDCR) for use of labor performed by people committed to state prison. These people are housed at conservation camps located in or near forests throughout the state. They generally qualify for voluntary placement in camps if CDCR has determined they (1) can be safely housed in a low-security environment, (2) can work outside a secure perimeter under relatively low supervision, and (3) are medically fit for conservation camp work. Conservation camp hand crews are compensated for their work.

***State Prison Population Has Decreased in Recent Years, Resulting in Declines at Conservation Camps.*** Over the past dozen years, the state has enacted various changes to sentencing laws that have significantly reduced the state prison population, particularly those individuals who can be housed in low-security environments. This, in turn, has reduced the population housed at conservation camps and available to serve on hand crews. Specifically, as of January 2023, 1,689 people were housed in conservation camps, compared to 3,980 people in January 2010.

***Population Declines Have Resulted in the Closure of Eight Conservation Camps.*** In response to the declines in the population at conservation camps, the state initiated the closure of eight camps in 2020-21, consolidating the remaining crews into the other 35 camps. The locations of these remaining camps, five of which are operated by Los Angeles (LA) County rather than CalFire, are shown in Figure 1. As highlighted, the Growlersburg facility is located in the northern part of the state in proximity to several other camps.

***Remaining Camps Operating Below Design Capacity.*** Even with the closure of eight conservation camps, the remaining sites continue to operate well below capacity. Specifically, as of January 2023, 1,689 people are housed at facilities that have a combined total capacity of 3,368. (Excluding the LA County-operated camps, 1,612 people are housed at CalFire-operated facilities that have a combined total capacity of 3,040—which represents an occupancy rate of just over 50 percent.)

***Prison Population Projected to Continue to Decline.*** The administration currently projects that the state's prison population will decline by roughly 7 percent between 2023-24 and 2025-26. These declines, should they materialize, likely would result in further reductions to the population housed at conservation camps. To address the existing and projected declines, CalFire has expanded its partnerships with other agencies, including CCC and CMD, to provide staff for hand crews. Additionally, the state has provided CalFire with funding to hire additional firefighters to help backfill for these losses.

**LAO Comments.** ***Population in Conservation Camps Has Changed Substantially, Raising Questions About Need for Remaining Camps.*** As described in the nearby box, the Legislature first approved this project 16 years ago, in 2007. Since that time, the population housed in conservation camps—and the associated need for facilities—has changed dramatically. Even within the two years since the Legislature last considered providing funding for this project in 2021, the prison population has declined faster than previously anticipated. Notably, the Growlersburg Conservation Camp has a capacity of 120 but currently houses 81 people, and several nearby camps also are currently operating below capacity. For example, the Washington Ridge Conservation Camp in Nevada City has capacity for 100 but currently houses only 52 people. The current overall 50 percent occupancy rate at CalFire-managed conservation camps together with projections for further declines in the state prison population call into question whether all of the remaining camps are needed or whether some additional closures may be appropriate in the coming years. As trends become clearer over the next few years, we expect the state will have a better picture about the ongoing need for these camps.

***State May Not Need Growlersburg Facility.*** Part of the administration's proposed justification for this project is Growlersburg's strategic location in the Sierra Nevada region and close proximity to sawmills. While this is true, the Sierra Nevada region is home to other conservation camps as well, such as Washington Ridge in Nevada City, that could provide similar situational benefits. Furthermore, to truly understand the need for this facility, the state needs to consider not only the location of other conservation camps, but also other similar resources, such as hand crews operated by CCC and CMD. For example, CCC is in the midst of replacing its Greenwood Center, which is less than three miles away from the Growlersburg Conservation Camp. The Greenwood Center focuses specifically on forest management and emergency response. That CCC has a facility within close proximity and is playing an increasingly important role in meeting the needs once filled by conservation camp crews makes the continued need for Growlersburg even less certain.

***Premature to Decide That Conservation Camp Is Best Long-Term Use of Growlersburg Site.*** We view the Governor's proposal to rebuild the Growlersburg site as a conservation camp to be premature, not only given the existing trends in prison populations and other nearby facilities but also because the state might identify potential other, more effective uses of the site. To the extent the state wants to retain a greater presence in this region than is provided by the CCC's Greenwood Center and other nearby conservation camps, it is not clear whether a conservation camp would be the most appropriate facility. Yet investing $100 million in replacing Growlersburg Conservation Camp facilities would make it impractical to then depopulate this site as part of a potential future plan to reduce the number of conservation camps. We think eliminating that option now is unwise, because the best future uses of the Growlersburg site still are unclear. For example, the site could be a reasonable candidate for permanent closure, or perhaps it could be repurposed for other non-inmate hand crews in the future. In the coming years, the state may decide that another type of crew—such as a CalFire firefighter hand crew—might be more appropriate for firefighting activities in this area (particularly given the trends in prison populations). If a different type of crew were to ultimately occupy the Growlersburg site, it would necessitate different facilities (for example, to provide more space and to accommodate those who identify as females). Accordingly, proceeding with a large replacement project such as the one proposed does not make sense until the optimum long-term use of the site is clearer.

***Project Costs Have Grown Dramatically.*** The estimated costs of the Growlersburg project have more than doubled since the Legislature first approved it in 2007—from $46 million to $100 million. Notably, most of the estimated increase in costs has occurred over just the past two years (from $59 million in 2021-22 to $100 million in 2023-24). According to the department, the cost increases have resulted from various factors, including supply chain delays and inflationary pressures (such as increases in lumber costs, transportation costs, and construction wages), and the update of several building code cycles. These higher costs further call into question whether the level of expenditure is warranted, particularly given uncertainty about the long-term need for this and other conservation camps.

***Project Not a Clear Immediate Priority, Particularly Given General Fund Condition.*** The existing Growlersburg Conservation Camp buildings were constructed in 1967 and thus are over 50 years old. However, overall, the facility is still serviceable and well-maintained, as discussed in a recent external review conducted by the El Dorado County Grand Jury. (Such reviews of prison facilities, including conservation camps, are required annually under state law.) Additionally, we note that CalFire continues to rely on even older facilities, many of which have significant infrastructure needs. For example, CalFire indicates that many of the state's conservation camps were built 70 to 80 years ago and are in dilapidated condition. Similarly, many other departments have facilities that were built 50 or more years ago and have significant deficiencies. Why the administration views the Growlersburg project as a higher priority for funding than potential alternative capital outlay projects that play a central role in providing state services—by CalFire or other departments—is unclear. Moreover, the administration itself has moved slowly on this project and the department has repeatedly questioned its priority and merit (as described in the box referenced earlier). As discussed above, given the state's budget problem, funding this proposal—like other new General Fund spending proposals—would come at the expense of previously identified priorities. Given these trade-offs, we do not find a compelling rationale for prioritizing this project at this time. The Legislature could revisit the need for this facility in a future year when the General Fund condition is more robust and the key questions we have raised about its merit have become clearer. For example, revisiting this project at a future date would provide more time for the Legislature to glean more certainty on the extent to which the conservation camp population continues to decline and additional camp closures are necessitated.

***Need for Growlersburg Project Has Been Questioned Since its Inception in 2007.*** CalFire's Growlersburg CC project has a long history of stops and starts, beginning roughly 16 years ago. Key steps of the project include:

- ***2007: Project Initiated.*** The 2007-08 Budget Act authorized $46 million for the completion of all the phases of the project, including preliminary plans, working drawings, and construction. Construction of the project was originally anticipated to be completed by 2013.
- ***2016: Funding Expired, Project Halted.*** CalFire allowed the expenditure authority for this project to expire in June 2016 due to funding and department workload constraints and differing priorities. At that time, only the preliminary plans phase had been completed.
- ***2021: Funding Provided for Working Drawings.*** The 2021-22 Budget Act included $3 million to complete working drawings for the project.
- ***2022: Funding Reverted, Project Halted.*** The Administration decided to halt the project after completion of the preliminary plans phase due to cost increases and uncertainty over whether

Growlersburg might be a good candidate for closure to help reduce the conservation camp program. Accordingly, the 2022-23 Budget Act reverted the 2021-22 Budget Act appropriation for working drawings.

- ***2023: Funding Proposed Again.*** The Administration proposes to restart the project in 2023-24.

**LAO Recommendation.** ***Reject Proposal.*** LAO recommends the Legislature reject the proposal to replace the Growlersburg Conservation Camp for several reasons:

First, the state may not have long-term needs for the facility given the current conservation camp population only fills about half of the existing capacity and that future declines in the inmate population are projected.

Second, other existing facilities housing various types of similar crews are located nearby.

Third, the state may identify other, more effective uses for the Growlersburg site in the coming years, so committing to rebuilding it as a conservation camp now is premature. Fourth, the costs of the project are higher than anticipated, raising additional questions about its benefit-to-cost justification.

Finally, given the state's budget problem, dedicating new General Fund to this project would come at the expense of previously identified priorities, and we do not find it sufficiently justified for prioritizing limited state resources.

LAO notes that the Legislature could always revisit the need for the project at some time in the future when the General Fund condition is more robust and the state has more clarity on its firefighting needs and plans in the region.

**Staff Recommendation. Hold open.**

# 0540 CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)
# 3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)
# 0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT: IBANK

## Issue 56: Governor's Proposed Budget Solutions: Wildfire Prevention and Resiliency

**Governor's Proposal.** According to LAO, the Governor proposes a few reductions in the area of wildfire resilience, which would have a net impact of providing $77 million less for five programs. The Governor proposes to reduce General Fund support for:

- Climate Catalyst Fund Program ($41 million)
- Stewardship of state-owned lands ($25 million)
- Workforce training grants ($15 million)
- Defensible space inspections ($5 million)
- Monitoring and research ($5 million)

Notably, the Governor proposes to replace $14 million of the General Fund for workforce training grants with Proposition 98 General Fund (for a net reduction of $1 million). As part of this fund shift, the Governor proposes to modify the eligibility for the program to limit it to community colleges, which are eligible to receive Proposition 98 funding.

**Governor's Proposed Wildfire and Forest Resilience Budget Solutions**

2020-21 Through 2023-24 (In Millions)

| Program | Department | Total Augmentations | General Fund Reductions | Backfill With Fund Shift | New Proposed Amounts |
|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | |
| Stewardship of state-owned land | Various | $305 | -$25 | — | $280 |
| Workforce training grants | CalFire | 54 | -15 | $14[a] | 53 |
| Climate Catalyst Fund Program | IBank | 49 | -41 | — | 8 |
| Monitoring and research | CalFire | 38 | -5 | — | 33 |
| Defensible space inspectors | CalFire | 25 | -5 | — | 20 |
| Subtotals | | ($471) | (-$91) | ($14) | ($394) |
| **All Other Wildfire and Forest Resilience Funding** | | $2,343 | — | — | $2,343 |
| **Totals** | | **$2,814** | **-$91** | **$14** | **$2,737** |

[a] Governor proposes to shift funding to Proposition 98.

CalFire = California Department of Forestry and Fire Protection and IBank = California Infrastructure and Economic Development Bank.

*Source: LAO, "Crafting Climate, Resources, and Environmental Budget Solutions"*

***Proposes to Retain Vast Majority of the Funding From Recent Packages.*** Despite the reductions discussed above, the Governor's budget proposes to maintain almost all—roughly 97 percent—of the funding that has been committed in recent wildfire and forest resilience packages. The Administration indicates that it is prioritizing retaining funding for wildfire and forest resilience in recognition of the urgency of reducing the risk of catastrophic wildfires. (Separately from these packages, the Governor's budget also proposes funding for some new discretionary wildfire-related proposals, including for the construction of a new CalFire training center and the replacement of a conservation camp.)

**LAO Comments.** ***Wildfire Resilience Continues to Represent an Urgent and Critical Issue.*** LAO finds that prioritizing maintaining support for programs aimed at improving the state's resilience to wildfires has merit. California has experienced a pattern of increasingly severe wildfires in recent decades, driven by climate change and poor forest management. These wildfires have had major consequences for local communities and the broader state, including loss of life, property, and habitats. Furthermore, the scale of the effort that will be required to make the state resilient to wildfires is so large—involving treating millions of acres and protecting millions of homes in high fire-risk areas over the coming years—that it will take significant, sustained funding to accomplish. Accordingly, LAO thinks it makes sense to be selective about reductions to wildfire and forest resilience funding to continue the state's efforts in this area.

***Most Proposed Solutions Appear Reasonable.*** While all of the Governor's proposed wildfire and forest resilience-related solutions come with trade-offs, on balance, LAO finds most to be reasonable in light of the state's anticipated budget challenges.

- ***Climate Catalyst Program Is New and Untested.*** The intent of the new Climate Catalyst Fund Program is to provide low-interest rate loans to private-sector projects—such as building materials manufacturing and energy generation—that use materials remaining from fuel reduction projects, with the ultimate goal of creating a sustainable wood products market. While funding was initially allocated in 2020-21, the program has taken time to launch and no awards have been made thus far. Given this, reducing funding for this program likely would be less disruptive than for some other programs that already are well underway. Additionally, as this is a new activity, the program's effectiveness in achieving its stated goals is unclear. Reducing the funding for this program should still allow it to support one or two pilot projects. The Legislature could consider adding funding in a future year if evidence suggests the program is successful at achieving its goals.
- ***Reducing Funding for Stewardship of State Land Justifiable Given Delays in Relevant Regulations.*** LAO also finds justification for the Governor's proposal to partially reduce funding for stewardship of state-owned land. CNRA departments—such as Parks, CDFW, and CalFire—had planned to use the $25 million in funding now proposed for reduction to help bring their buildings in high fire-risk zones into compliance with new defensible space regulations required by AB 3074 (Friedman), Chapter 259, Statutes of 2020. However, the relevant regulations have not yet been promulgated, so CNRA indicates the funding is not yet necessary. Additionally, Parks and CDFW have received other allocations of funding for stewardship of state-owned land that the Governor is not proposing to reduce, which they could use to support these compliance efforts. LAO notes, however, that maintaining required defensible space around state facilities is a core state responsibility and has important safety implications. Accordingly, should the Legislature adopt this proposed reduction, it may want to consider providing funding in a future year should departments determine it is needed to ensure safety and compliance.
- ***Shift of Workforce Training to Proposition 98 Worth Considering Given General Fund Condition.*** On balance, LAO also finds that shifting funds for workforce training to Proposition 98 merits consideration as a budget solution. Community colleges have received a portion of the past grant funding from this CalFire program ($2.3 million of $18 million appropriated in 2021-22 from the General Fund outside of Proposition 98). Additionally, community colleges already play an important role in helping develop the forestry workforce. Currently, eight community colleges offer two-year degree and/or certificate programs in forestry, and 55 colleges offer them in fire technology or wildland fire technology. Together, these colleges have granted about 100 forestry associate degrees and certificates, as well as about 2,500 fire and wildland fire technology associate degrees and certificates annually in recent years.

Given the existing role community colleges play in this area and their past history of receiving grant funds under this program, providing them with workforce training grant funds would take advantage of their expertise and experience. LAO notes that despite this, limiting grants to community colleges could exclude some potentially worthwhile recipients from the program. Also, shifting these costs to Proposition 98 would mean fewer resources available for other eligible activities using that fund source. However, LAO thinks these trade-offs are reasonable given available Proposition 98 resources, workforce development goals, and the General Fund (non-Proposition 98) condition.

***Proposed Reduction to Defensible Space Inspector Funding Raises Potential Concerns.*** While most of the Governor's proposed solutions appear reasonable, LAO has identified one that raises some potential concerns. Specifically, the Governor proposes to reduce funding for CalFire defensible space inspectors by $5 million. These inspectors are tasked with assessing homeowner compliance with the state's defensible space requirements in certain areas of the state. As we noted in our September 2021 report, *Reducing the Destructiveness of Wildfires: Promoting Defensible Space in California*, CalFire has consistently failed to meet its goal of conducting defensible space inspections on each eligible parcel at least once every three years. Inspections play a valuable foundational role in the state's defensible space program and can help the state track and evaluate its efforts to promote compliance with these safety requirements. Additionally, inspectors can help to educate homeowners about activities they can conduct to make their homes safer from wildfires. Accordingly, LAO has recommended increased ongoing resources for CalFire defensible inspections. The Governor's proposed reduction runs counter to this recommendation, and LAO is concerned it could impede the effectiveness of the state's efforts to encourage properties to maintain defensible space.

***Legislature Could Consider Making Reductions to Some Other Programs.*** The Legislature could consider making some other targeted reductions, in place of or alongside those proposed by the Governor. Two programs LAO thinks could be potential candidates for reduction include:

- ***Transportation of Woody Biomass.*** The budget provided $5 million in 2022-23 and committed $5 million more for 2023-24 to develop a new program aimed at reducing the costs of transporting woody biomass, with the goal of reducing combustible material left in the state's forests. LAO thinks it is worthwhile to consider making reductions to this program for a few reasons. First, it is new and thus how effective it will be at improving the state's resilience to wildfires is uncertain. Second, some of the state's existing programs already support the transportation of woody biomass. For example, CalFire's Wildfire Prevention grant program has provided about $70 million annually over the past two grant cycles in part for this same activity. The extent to which this new program is needed is therefore not clear. LAO thinks retaining the $5 million appropriated in 2022-23 for this program would be reasonable, since CalFire has already released the grant solicitation. However, the Legislature could eliminate the $5 million commitment for 2023-24. In so doing, the Legislature could treat the initial $5 million as a pilot and then decide whether to expand the program at a later date based on whether it is able to demonstrate cost-effectiveness at improving wildfire resilience.
- ***Home Hardening.*** The Legislature could also consider reducing a new pilot program to provide financial assistance to homeowners in a few communities to conduct home hardening activities. The Legislature initiated this pilot program through the passage of AB 38 (Wood), Chapter 391, Statutes of 2019. This legislation also required a report to be completed by 2024 assessing the cost-effectiveness of defensible space and home hardening compared to other activities to help facilitate the Legislature's evaluation of the effectiveness of the pilot. The initial $25 million for this program was provided in 2020-21. However, the process of developing the program has been lengthy and no awards have been made to date. Currently, the Administration indicates that it

anticipates providing funding for the first round of pilot communities this spring. The Legislature could consider decreasing the funding for this program—such as by reducing or eliminating the combined $25 million in 2022-23 and 2023-24 for a future round of pilot communities—given that it is in the early stages of implementation and no outcome data is yet available. It could then decide whether to expand it based on whether the program is able to demonstrate cost-effectiveness at improving wildfire resilience.

***Potential for Some Federal Funds to Support Wildfire Resilience, but Details Lacking.*** The Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act included substantial funding to support forestry and wildfire resilience. The details of much of this funding, including how much California will receive, still are emerging. However, in some cases, it appears the legislation supports activities similar to those the state committed to funding. For example, the Inflation Reduction Act includes a total of over $3 billion for several programs aimed at conserving private forestlands and managing vegetation on federal, state, and private lands, among other activities. Additionally, IIJA provides the U.S. Forest Service with close to $3 billion to support various activities that reduce the risk of wildland fire and restore ecosystems on federal forestlands, as well as an additional $1 billion for a new competitive grant program to assist at-risk communities in planning for and mitigating wildfire risk. It will be important for the Legislature to understand more about how these federal programs align with state investments, which may become clearer by the spring. To the extent federal funding mirrors the same types of activities, it could help to partially mitigate state reductions.

***Recent Budgets Committed $2.8 Billion for Wildfire and Forest Resilience Packages.*** The state has made significant commitments in recent years to support wildfire resilience. Most of this funding has been allocated as part of three budget packages: (1) an early action package adopted in April 2021 that amended the *2020-21 Budget Act*, (2) a *2021-22 Budget Act* package, and (3) a *2022-23 Budget Act* package. Together, these augmentations total $2.8 billion over four years—$526 million in 2020-21, $968 million in 2021-22, $630 million in 2022-23, and $690 million planned for 2023-24. Of the $2.8 billion total, $2 billion is from the General Fund and the remaining $755 million is from GGRF.

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**Recent and Planned Wildfire and Forest Resilience Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2020-21 | 2021-22 | 2022-23 | 2023-24 | Totals |
|---|---|---|---|---|---|---|
| **Resilient Forests and Landscapes** | | **$204** | **$383** | **$272** | **$280** | **$1,139** |
| Forest Health Program[a] | CalFire | $155 | $160 | $120 | $120 | $555 |
| Stewardship of state-owned land | Various | 30 | 145 | 65 | 65 | 305 |
| Post-fire reforestation | CalFire | — | — | 50 | 50 | 100 |
| Forest Improvement Program[a] | CalFire | 10 | 40 | 11 | 14 | 75 |
| Forest Legacy Program[a] | CalFire | 6 | 10 | 14 | 19 | 49 |
| Tribal engagement | CalFire | 1 | 19 | 10 | 10 | 40 |
| Reforestation nursery | CalFire | 2 | 9 | 2 | 2 | 15 |
| **Wildfire Fuel Breaks** | | **$148** | **$236** | **$190** | **$192** | **$766** |
| Fire prevention grants[a] | CalFire | $123 | $120 | $115 | $117 | $475 |
| Prescribed fire and hand crews[a] | CalFire | 15 | 49 | 35 | 35 | 134 |
| CalFire unit fire prevention projects | CalFire | 10 | 40 | 20 | 20 | 90 |
| Forestry Corps and residential centers[a] | CCC | — | 27 | 20 | 20 | 67 |
| **Regional Capacity** | | **$119** | **$199** | **$55** | **$155** | **$528** |
| Conservancy projects | Various Conservancies | $69 | $139 | $35 | $135 | $378 |
| Regional Forest Capacity Program | DOC | 50 | 60 | 20 | 20 | 150 |
| **Forest Sector Economic Stimulus** | | **$25** | **$51** | **$72** | **$22** | **$170** |
| Workforce training grants | CalFire | $6 | $18 | $15 | $15 | $54 |
| Biomass to hydrogen/biofuels pilot | DOC | — | — | 50 | — | 50 |
| Climate Catalyst Fund Program | IBank | 16 | 33 | — | — | 49 |
| Transportation grants for woody material | CalFire | — | — | 5 | 5 | 10 |
| Market development | OPR | 3 | — | 2 | 2 | 7 |
| **Science-Based Management and Other** | | **$3** | **$79** | **$19** | **$19** | **$120** |
| Monitoring and research | CalFire | $3 | $20 | $7 | $8 | $38 |
| Remote sensing | CNRA | — | 25 | 3 | 2 | 30 |
| Prescribed fire liability pilot | CalFire | — | 20 | — | — | 20 |
| Permit efficiencies | CARB, SWRCB | — | 4 | 4 | 4 | 12 |
| State demonstration forests | CalFire | — | — | 5 | 5 | 10 |
| Interagency Forest Data Hub | CalFire | — | 10 | — | — | 10 |
| **Community Hardening** | | **$27** | **$20** | **$22** | **$22** | **$91** |
| Home hardening | OES, CalFire | $25 | — | $13 | $12 | $50 |
| Defensible space inspectors | CalFire | 2 | $13 | 5 | 5 | 25 |
| Land use planning and public education | CalFire, UC ANR | — | 7 | 4 | 5 | 16 |
| **Totals** | | **$526** | **$968** | **$630** | **$690** | **$2,814** |

[a] Includes Greenhouse Gas Reduction Fund.

CalFire = California Department of Forestry and Fire Protection; CCC = California Conservation Corps; DOC = Department of Conservation; IBank = California Infrastructure and Economic Development Bank; OPR = Governor's Office of Planning and Research; CNRA = California Natural Resources Agency; CARB = California Air Resources Board; SWRCB = State Water Resources Control Board; OES = Governor's Office of Emergency Services; and UC ANR = University of California Agriculture and Natural Resources.

*Source: LAO, "Crafting Climate, Resources, and Environmental Budget Solutions"*

***Funding Supports Various Programs and Activities.*** The wildfire and forest resilience packages commit funding to more than two dozen programs managed by various state agencies, with CalFire receiving the largest share (about 60 percent). Roughly 40 percent of the funding over the four years—$1.1 billion—is to support programs designed to promote healthy forests and landscapes, generally by removing hazardous fuels. Just over one-quarter of the funding—$766 million—is to support the installation and maintenance of wildfire fuel breaks. The remaining funds—totaling $909 million—are for projects to increase regional capacity for conducting forest health projects, as well as to encourage forest-sector economic stimulus, science-based forest management, and community hardening.

***Packages Represented a Significant Increase in State Funding for Wildfire Resilience***. The state historically has provided some baseline funding from the General Fund for wildfire prevention and resilience activities, typically in the tens of millions of dollars annually. However, the state has greatly increased its funding for such activities in recent years. First, starting in 2017-18, the state allocated roughly $200 million annually from GGRF to support forest health and wildfire prevention. (As part of the 2021-22 budget, the Legislature made this a continuous appropriation lasting from 2022-23 through 2028-29.) Second, the addition of one-time General Fund commitments in the packages discussed above represent unprecedented state funding to support wildfire resilience efforts. Notably, even with these recent commitments, wildfire resilience still only accounts for a relatively small share of CalFire's overall budget (under 15 percent in 2022-23 and 2023-24), with the remainder of the department's budget almost entirely supporting wildfire response.

**LAO Recommendations.** ***Modify Governor's Wildfire Proposal Consistent With Legislative Priorities.*** LAO recommends the Legislature develop its own package of budget solutions based on its priorities and the guiding principles LAO identifies in its report. As it does so, LAO suggests the Legislature be judicious about targeting any reductions in the area of wildfire and forest resilience, given its overall urgency and importance. Based on LAO's review, LAO thinks it is reasonable for the Legislature to consider adopting most of the Governor's proposed reductions since they align with many of the principles LAO identifies in its report.

LAO does, however, recommend the Legislature consider rejecting the Governor's proposed reduction of $5 million for defensible space inspectors given the foundational value they play in educating homeowners and promoting data collection and compliance with state defensible space laws.

LAO also recommends the Legislature consider adopting additional solutions, either in place of or in addition to those proposed by the Governor. The home hardening grant and transportation of woody biomass are two examples of programs LAO thinks are potential candidates for reductions. By reducing but not eliminating their funding, the Legislature could gain information on their effectiveness before determining whether to expand them. The potential availability of federal funds to support similar purposes could mitigate the impacts of potential reductions.

Since the details about these funds are still emerging and departments are often well-positioned to secure timely information, LAO recommends that the Legislature request updates from the administration in the spring on the funding that departments are tracking and how it aligns with state commitments for similar purposes.

**Staff Recommendation. Hold open.**

# 3790 DEPARTMENT OF PARKS AND RECREATION (PARKS)

## Department Overview

The mission of Parks is to preserve the state's biological diversity, protect natural, cultural, and historical resources, and create opportunities for outdoor recreation. Parks manages the state parks system. Parks manages more than 280 park units on over 1.6 million acres and serves tens of millions of visitors annually. Parks costs are mainly supported by the state GF and revenue generated by the parks, including fees paid by park users for day use, camping, and special events.

The department's three-year expenditures and positions budget *(dollars in thousands)* is as follows:

| | | Positions | | | Expenditures | | |
|---|---|---|---|---|---|---|---|
| | | 2021-22 | 2022-23 | 2023-24 | 2021-22* | 2022-23* | 2023-24* |
| 2840 | Support of the Department of Parks and Recreation | 4,426.0 | 4,526.9 | 4,565.9 | $1,410,605 | $801,982 | $739,798 |
| 2850 | Division of Boating and Waterways | 66.7 | 66.8 | 66.8 | 36,158 | 36,485 | 36,495 |
| 2855 | Local Assistance Grants | - | - | - | 554,243 | 313,135 | 228,950 |
| **TOTALS, POSITIONS AND EXPENDITURES (All Programs)** | | **4,492.7** | **4,593.7** | **4,632.7** | **$2,001,006** | **$1,151,602** | **$1,005,243** |

*Source: Department of Finance*

**Classifications.** State parks are classified based on goals and features. Each classification has different rules governing park management and development. The major classifications are:

- ***State Parks.*** State parks (the most general classification that includes the largest number of parks) are relatively spacious scenic areas that oftentimes contain significant historical, archaeological, ecological, or geological features. The purpose of state parks is to preserve these elements and provide access to the most significant examples of the various ecological regions of California, such as the Sierra Nevada, coast, redwoods, foothills, and desert. The Department may undertake improvements at state parks to provide for recreational activities — including camping, picnicking, sightseeing, hiking, and horseback riding — so long as those improvements do not involve any major modification to land, forests, or water.

- ***State Recreation Areas (SRAs).*** SRAs are developed and operated to provide outdoor recreational opportunities. Of all the park classifications, they allow the broadest range of recreational activities. In addition to the activities provided at state parks, SRAs can also be developed for swimming, bicycling, boating, waterskiing, diving, winter sports, fishing, and hunting. SRAs may be established in inland areas of the state.

- ***State Beaches.*** State beaches are similar to SRAs except that they are located in coastal areas. They are developed for the same recreational opportunities.

- ***State Historic Parks (SHPs).*** SHPs are established primarily to preserve objects of historical, archaeological, and scientific importance. Any development at SHPs must be necessary for the safety or enjoyment of visitors, such as to provide access, parking, water, sanitation, education, or picnicking.

- ***State Nature Reserves (SNRs).*** SNRs are selected and managed for the purpose of preserving their ecology, unique habitat, geological features, and natural scenery. Development is kept minimal and is allowed only to provide visitor access and education.

- ***State Vehicular Recreation Areas (SVRAs).*** SVRAs provide off-highway vehicular trails and recreation. They are operated by the Off-Highway Motor Vehicle Recreation Division, which has its own funding sources that are separate from funding for other state parks.

The state park system is diverse and includes beaches, museums, historical and memorial sites, forests, grass fields, rivers and lakes, and rare ecological reserves. Parks offer a wide range of amenities including campsites, golf courses, ski runs, visitor information centers, tours, trails, fishing and boating opportunities, restaurants, and stores. Parks vary in the type of infrastructure they maintain, including buildings, roads, power generation facilities, and water and wastewater systems.

In addition, the Division of Boating and Waterways funds, plans, and develops boating facilities on waterways throughout the state and provides financial aid and training to local law enforcement agencies to ensure safe boating for the public.

**Issue 57: New State Park – Dos Rios Ranch Day Use Public Access**

**Governor's Proposal.** The Governor's budget requests $5.838 million GF one-time funding in 2023-24 for 17 positions, 21 vehicles and equipment costs, and $3.319 million GF ongoing to establish and open Dos Rios Ranch as a new state park for day-use operations to create recreational opportunities and park access to historically underserved communities in the Central Valley. Funds initially allocated for acquisition of a new state park in the 2020-21 Governor's Budget will now be used for larger planning efforts, as well as any acquisition costs.

The 1,603-acre property is currently owned by non-profit, River Partners, and will be donated to the State of California. Once open, a formal General Plan process will take place to identify future public needs which may include trails, campgrounds, boating access, and a visitor center. Currently, there are no useable visitor or office facilities, and no permanent positions, vehicles, or equipment.

**Background.** In 2022, the Dos Rios Ranch property was selected by Parks to become a new state park. The 2,500-acre property is currently owned by River Partners, a non-profit that has worked to rehabilitate the land after years of use as farmland. River Partners spent 10 years acquiring and restoring the property after receiving $40 million from 11 different funding sources, including Prop 84, Prop 50, Prop 117, Prop 1E, Prop 13, and Prop 1. As the property was already acquired by the non-profit with public funds, River Partners plans to donate 1,603-acres of Dos Rios Ranch to the state.

The 2009 Central Valley Vision document called for "five new state parks in the San Joaquin River Valley and Tulare Basin [which] will provide recreation for rapidly growing and underserved populations and protect special resources." Dos Rios was specifically identified as one of these five.

In addition to public access, the property has flood protection benefits. Funding was provided from the California Department of Water Resources (DWR) Flood Protection Corridor Program to originally acquire the property for the purposes of improved flood protection and environmental improvement.

Prior funding was also provided by the San Francisco Public Utilities Commission to protect lands within the Tuolumne River Watershed as the City and County of San Francisco draws its drinking water supply from this river. This project envisioned improved water quality through establishment of permanent native vegetation on the floodplains that lie between irrigated farmlands and the riverbanks. Riparian wetlands, forests, shrublands, and grasslands targeted for restoration at Dos Rios Ranch will capture and filter these waters before they excrete or flow back into the San Joaquin and Tuolumne Rivers.

**Staff Comments.** Based on the Governor's overall budget proposal, existing commitments in the natural resources arena are inevitably facing significant reductions this year. Parks has more than 280 parks in the system to manage. Is it fiscally prudent or urgent for the state to add a new park, which has ongoing costs as well as unknown future costs, at a time when the state needs to address a multibillion dollar budget deficit, and possibly in the upcoming out-years as well?

**Staff Recommendation. Hold open.**

# 0540 CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)
# 3760 STATE COASTAL CONSERVANCY
# 3790 DEPARTMENT OF PARKS AND RECREATION (PARKS)

## Issue 58: Governor's Proposed Budget Solutions: Parks, Museums, and Access

**Governor's Proposal.** According to the LAO, the Governor proposes some notable reductions to a few programs. The largest proposed reductions are to the Statewide Parks Program, which is a long-standing competitive grant program focused on creating new local parks and improving existing parks in disadvantaged communities. Specifically, the Governor proposes to (1) eliminate $75 million appropriated for the program in 2022-23 and (2) reduce the funding planned for the program in 2023-24 through 2025-26 from a total of $150 million to $75 million.

**Governor's Proposed Parks, Museum, and Access Budget Reductions**
2021-22 Through 2025-26 (In Millions)

| Program | Department | Total Augmentations | Proposed Reductions | New Proposed Amounts |
|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | |
| Statewide Parks Program | Parks | $380 | -$150 | $230 |
| Indian Heritage Center | Parks | 95 | -95[a] | — |
| Recreational Trails and Greenways Program | CNRA | 35 | -35 | — |
| Deferred maintenance | Parks | 169 | -31 | 138 |
| Museum Grant Program | CNRA | 50 | -29 | 21 |
| Future capital outlay | Parks | 50 | -15[a] | 35 |
| Explore the Coast Program | SCC | 14 | -3 | 11 |
| Subtotals | | ($793) | (-$358) | ($435) |
| **All Other Parks, Museum, and Access Funding** | | $755 | — | $755 |
| **Totals** | | **$1,548** | **-$358** | **$1,190** |

[a] The Governor proposes to revert funding that was deposited in a specific fund for these activities back to the General Fund. The Governor categorizes these as fund shifts rather than reductions.

Parks = Department of Parks and Recreation; CNRA = California Natural Resources Agency; and SCC = State Coastal Conservancy.

*Source: LAO, "Crafting Climate, Resources, and Environmental Budget Solutions"*

The Governor also proposes to eliminate $35 million appropriated in 2022-23 for the Recreational Trails and Greenways Program, which is an existing program that provides competitive grants to support nonmotorized infrastructure in parks and other outdoor recreational areas. Additionally, the Governor proposes to reduce $31 million from the $185 million appropriated in 2021-22 to help Parks address its over $1.2 billion backlog of deferred maintenance projects. (Parks funding for deferred maintenance was reduced by $16 million in 2022-23, leaving a net increase of $169 million over those two years.) Finally, the proposal would reduce $29 million from the $50 million appropriated in 2021-22 for the Museum Grant Program, which is a competitive grant program that prioritizes funding for museums that serve underserved communities or were severely affected by COVID-19.

In addition, the Governor proposes to revert $110 million of General Fund that was previously set aside in a designated fund for specific park-related activities but is not urgently needed. Of this funding, $95 million was set aside to support the completion of a new Indian Heritage Center. This project is currently in the initial planning phases and the administration indicates that it intends to request additional funding—potentially from lease revenue bonds—when it reaches the construction phase. The remaining $15 million that the Governor proposes to revert was part of a 2022-23 appropriation to support the identification and completion of future Parks capital outlay projects, which are not anticipated to be undertaken at this time. (The Governor presents these reversions as fund shifts rather than reductions.)

***Proposes to Retain Most of the Funding That Was Previously Approved.*** Even with the reductions discussed above, the Governor proposes to maintain roughly three-quarters of the intended General Fund for parks, museums, and access-related programs and projects—$1.2 billion of $1.5 billion. Notably, the Governor proposes to not only maintain most of the funding that has already been appropriated for these activities (79 percent) but also most of the funding intended for the budget year and future years (65 percent).

**Background.** ***Recent Budgets Provided Various One-Time Augmentations.*** Over the past few years, the state has committed significant one-time funding to support parks, museums, and improving public access to parks and open space. As shown in Figure 23, these augmentations provide a combined total of about $1.5 billion over a five-year period, almost all from the General Fund. Of this amount, $1.3 billion has already been appropriated (in either 2021-22 or 2022-23), $88 million is planned for appropriation in 2023-24, and $124 million is planned for appropriation in a future year. (In addition to the items displayed in the figure, the state also provided numerous augmentations in recent years to specific legislative-priority park, museum, and access projects through budget control sections.)

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**Major Recent and Planned Parks, Access, and Museum One-Time Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 and 2022-23 | 2023-24 | 2024-25 and 2025-26 | Totals |
|---|---|---|---|---|---|
| **Competitive Grants for New or Improved Parks Space** | | **$419** | **$56** | **$94** | **$569** |
| Statewide Parks Program[a] | Parks | $230 | $56 | $94 | $380 |
| Urban Rivers and Waterways Program | Parks | 154 | — | — | 154 |
| Recreational Trails and Greenways Program | CNRA | 35 | — | — | 35 |
| **Specific Projects** | | **$459** | **$5** | **—** | **$464** |
| Wildfire repair projects at specific state parks | Parks | $124 | — | — | $124 |
| Indian Heritage Center | Parks | 95 | — | — | 95 |
| India Basin project[a] | Parks | 50 | — | — | 50 |
| Jewish summer camps | CNRA | 40 | — | — | 40 |
| Alameda-Tesla expansion area | Parks | 31 | — | — | 31 |
| Sacramento Railyards | Parks | 30 | — | — | 30 |
| Allensworth State Park and Entrepreneurship Center | Parks, CNRA | 30 | — | — | 30 |
| John Muir Trail projects | CNRA | 23 | — | — | 23 |
| Designated museums | CNRA | 16 | — | — | 16 |
| Public Beach Restoration Fund transfer | Parks | 15 | — | — | 15 |
| San Francisco Greenhouse Project | CNRA | 6 | — | — | 6 |
| Redondo Beach Park | CNRA | — | $5 | — | 5 |
| **Access-Related Programs** | | **$132** | **$27** | **$30** | **$189** |
| Outdoor Equity Grants Program[a] | Parks | $65 | $25 | $25 | $115 |
| Library Pass and other pilot programs[a] | Parks | 23 | — | — | 23 |
| K-12 access[a,b] | Parks | 21 | 2 | 5 | 28 |
| Explore the Coast Program[a] | SCC | 14 | — | — | 14 |
| Whale Tail Program[a] | Coastal Commission | 10 | — | — | 10 |
| **Interpretation and Art-Related Programs** | | **$50** | **—** | **—** | **$50** |
| Cultural Art Installation Program | Parks | $25 | — | — | $25 |
| African American history and engagement | Parks | 15 | — | — | 15 |
| Tribal acknowledgment and interpretation | Parks | 10 | — | — | 10 |
| **Other Programs** | | **$276** | **—** | **—** | **$276** |
| Deferred maintenance | Parks | $169 | — | — | $169 |
| Museum Grant Program | CNRA | 50 | — | — | 50 |
| Future capital outlay | Parks | 50 | — | — | 50 |
| Property acquisitions | Parks | 6 | — | — | 6 |
| **Totals** | | **$1,335** | **$88** | **$124** | **$1,548** |

[a] Included in 2021-22 Outdoors for All package.

[b] Includes $3.2 million in 2020-21 and $2.4 million ongoing from the Environmental License Plate Fee Fund.

Parks = Department of Parks and Recreation; CNRA = California Natural Resources Agency; and SCC = State Coastal Conservancy.

*Source: LAO, "Crafting Climate, Resources, and Environmental Budget Solutions"*

***Most of These Augmentations Were Not Included in Packages.*** The 2021-22 budget grouped several of these augmentations into an "Outdoors for All" package. However, unlike many of the other thematic areas discussed in this report, most of the recent augmentations for parks, museums, and access were not adopted by the Legislature as part of defined packages, but rather as stand-alone proposals.

***Funding Supported Various Programs and Activities.*** Recent and planned augmentations support a variety of types of programs and projects, most of which are administered by Parks or CNRA. Close to 40 percent of the funds—$569 million—is for competitive grant programs to create new or improve upon existing parks and other open spaces. About 30 percent of the funds—$464 million—is to support specific local, state, federal or nonprofit projects. The remaining funds—totaling $515 million—are for programs focused on increasing access to parks (such as through providing transportation or free admission to parks), improving interpretation and art programming in parks, and supporting various other programs. This represents an unusually large amount of General Fund support for these types of activities, many of which have traditionally been funded largely from general obligation bonds.

**LAO Comments.** While all of the Governor's proposed solutions come with trade-offs, on balance, LAO finds them to be reasonable given the difficult choices that the Legislature is likely to face in the coming year.

***Given Potential for Other Funding Availability, Proposed Reductions to Statewide Parks and Greenways Programs Appear Reasonable.*** The largest reductions the Governor proposes are for the Statewide Parks Program and the Recreational Trails and Greenways Program. These are both programs that serve valuable goals, including improving and enhancing parks and open spaces with a focus on underserved communities. Nonetheless, funding for these types of activities is generally needed with less urgency than funding for many other areas within the climate, resources, and environment policy areas because they do not address the most immediate climate risks—which often disproportionately affect these same communities. Additionally, the federal government has recently provided increasing support for similar types of programs. Specifically, since 2018, the amount of federal funding available to California from the Land and Water Conservation Fund (LWCF) program—which provides matching funds for state and local parks projects—has roughly tripled. The state now anticipates receiving over $20 million in formula-based funds annually from LWCF, as well as access to competitive grant funds. Notably, LWCF is not a direct replacement for state dollars, since it requires a 50 percent match and comes with various compliance and other requirements. However, it can provide a complementary source of support to help cover the costs of local and state parks projects, and can help mitigate some of the impacts of modest reductions to state funding for these types of projects. Moreover, these programs have historically been funded with bond funds. Thus, if the Legislature were to consider proposing a bond, these types of programs could be included if they were high legislative priorities. For these reasons, LAO thinks the Governor's proposed reductions merit legislative consideration.

***Reducing Deferred Maintenance Funding Would Mean Fewer Projects, but Likely No Major Near-Term Impacts.*** LAO also thinks it is reasonable for the Legislature to consider reducing the amount of deferred maintenance funding for Parks, as proposed by the Governor. Taking care of state assets—such as through addressing backlogs of deferred maintenance—is a core state responsibility and important to ensuring those facilities and locations can serve Californians for decades to come. However, Parks has received large augmentations to help it address its backlog of deferred maintenance in recent years, in part due to the healthy condition of the General Fund. Moreover, many of Parks' projects are not of high urgency to protect health and safety. For example, these projects include completing assessments of artifacts, replacing interpretive signs, and repairing pavement. Given the change in the General Fund condition, pulling back some of these funds seems justifiable.

***Supporting Museums Is Worthwhile, but Not Urgent State Responsibility.*** The Governor's proposal to reduce the Museum Grant Program also has some merit. Since the program received $50 million in 2021-22, it has provided one round of funding totaling $21 million to support 64 projects. The Governor's proposal to eliminate the rest of the funding for this program would mean that remaining dollars would no longer be available to support a second round of grants, and thus fewer museums would benefit from the program than would otherwise be the case. While this program serves a worthwhile goal of assisting museums, this need is less urgent than many other programs, such as those addressing the immediate impacts of climate change. Additionally, supporting museums is generally not a core state responsibility, as they typically rely primarily on fee revenues and private funding for their operations.

***Most Funding Not Yet Needed for Indian Heritage Center Project.*** The Governor's proposal to shift funding for the Indian Heritage Center also seems reasonable. Reverting the money that was designated for this project back to the General Fund would help solve the 2023-24 budget problem. Notably, these funds are not needed immediately, since the project is still in the early planning phase. When the project is ready for construction—expected to be 2027—depending on the budget condition, the Legislature could decide what fund source to provide for its support (such as General Fund or lease revenue bonds). As such, adopting the Governor's proposal essentially would shift the timing of the costs associated with this project, but would eventually result in at least the same overall costs for the General Fund.

***Legislature Could Consider Making Reductions to Some Other Programs.*** To the extent that the Legislature needs to identify additional solutions either because the budget condition worsens in the coming months or because it would like to reject some of the Governor's proposed solutions, it has various options that we think are reasonable candidates to consider. In particular, the Legislature could consider making more significant reductions to funding for programs or projects in 2023-24 or out-years than the Governor proposes. Since this funding has not yet been appropriated, it has not been committed to specific projects, and as such, making reductions would generally be less disruptive. Some programs the Legislature could consider reducing include:

- ***Cultural Art Installation Program.*** The Legislature could consider reducing funding appropriated in 2022-23 to create this new program. This program is intended to support grants to artists to develop permanent and temporary art installations in state and local parks. These activities have the potential to enhance park users' experiences but do not meet an urgent need or address a core state responsibility. LAO notes that a portion of the funding for this program—$5.7 million of $25 million—has been encumbered. However, the first funds are not anticipated to be provided to projects until July 2023, so a large share of this funding likely could be reduced with only modest disruptions.
- ***Outdoor Equity Grant Program.*** The Governor proposes to maintain all of the planned funding for this program, including the $25 million annually planned for 2023-24 and 2024-25. This is a relatively new program, established pursuant to AB 209 (Limón), Chapter 675, Statutes of 2019, and first funded with $20 million from the General Fund on a one-time basis in 2020-21. The goals of this program are worthwhile—to help enable underserved youth to have more outdoor educational experiences. However, because the program is new, data are not yet available to enable the Legislature to evaluate its effectiveness. The Legislature could wait to see the outcomes of the $85 million already appropriated before determining whether to provide additional funding.
- ***Statewide Parks Program.*** While the Governor proposes some reductions to the Statewide Parks Program, the proposal would retain $25 million annually from 2023-24 through 2025-26. The Legislature could consider further reductions to this program should it need to identify additional General Fund solutions, although taking such action would come with trade-offs. Specifically, reductions would result in fewer projects to rehabilitate and construct local projects which are valuable to local communities, particularly the economically disadvantaged communities on which this program focuses. However, these projects typically do not represent urgent health and safety issues. Moreover, funding from federal programs or a potential bond could potentially support similar types of activities, as discussed above.
- ***Redondo Beach Park.*** The Governor does not propose a reduction to this local project planned for funding in 2023-24. The Legislature could consider whether providing $5 million for this specific project continues to be a high legislative priority since it has not yet been appropriated and given recent deteriorations in the condition of the General Fund.

**LAO Recommendations.** ***Modify Governor's Proposals Related to Parks, Museums, and Access Consistent With Legislative Priories.*** LAO recommends the Legislature develop its own package of budget solutions based on its priorities and the guiding principles we identify in this report. Based on its review, LAO think it is reasonable for the Legislature to consider adopting the Governor's proposed solutions—such as for the Statewide Parks Program, Recreational Trails and Greenways Program, Parks deferred maintenance projects, and the Museum Grant Program—since they align with many of the principles LAO identifies in its report. LAO also recommends the Legislature consider adopting additional solutions, either in place of or in addition to those proposed by the Governor. Some other areas that LAO thinks merit potential consideration for reduction include: (1) the Cultural Art Installation Program and (2) reductions to programs slated for additional funding in 2023-24 or out-years, such as the Outdoor Equity Grants Program, Statewide Parks Program, and Redondo Beach Park.

**Staff Recommendation. Hold open.**

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, March 16, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Joanne Roy

**Item** **Department** **Page**

## VOTE-ONLY

## DISCUSSION

*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# VOTE-ONLY

## 0555 CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY (CALEPA)

### Issue 1: CalEPA Geographic Information Officer

**Governor's Proposal.** The Governor's budget requests $268,000 in permanent funding from the CalEPA Reimbursements account and one new permanent position to administer CalEPA's Geographic Information Systems (GIS) environment and develop strategies, policies, and common GIS frameworks for CalEPA's Boards Divisions and Offices. This request includes approximately $40,000 of permanent annual funding for licensing CalEPA's GIS software tools and services.

**Staff Recommendation. Approve as budgeted.**

### Issue 2: California Environmental Reporting System (CERS) Project

**Governor's Proposal.** The Governor's budget requests $4.3 million from the Unified Program Account in 2023-24 to implement a technology refresh on the California Environmental Reporting System (CERS). This includes continued funding for the five permanent positions approved in the 2022 Budget Act. The project will update the technical platform, improve data quality and the processes supporting data quality, address inefficient input and interactions, and make identified enhancements to CERS.

**Staff Recommendation. Approve as budgeted.**

### Issue 3: Information Technology (IT) Security Posture

**Governor's Proposal.** The Governor's budget requests $605,000 General Fund (GF) in 2023-24, and $555,000 GF in 2024-25 and ongoing to monitor and protect its IT network, computer systems, and system components against cyberthreats and attacks on its IT assets. Cybersecurity monitoring is a detection strategy that uses tools and automation to continuously scan IT network systems for control weaknesses, suspicious activities, and alerting the CalEPA to mitigate information security risks before they lead to data breaches and resulting in public services disruption, data loss, financial losses, reputational damage, and/or loss of public trust.

**Staff Recommendation. Approve as budgeted.**

### Issue 4: Project Management Office and IT Governance Positions

**Governor's Proposal.** The Governor's budget requests permanent funding in the amount of $1 million from the CalEPA Reimbursements account and two permanent civil service positions, resources, technology services, and software licenses to manage the planning and delivery of CalEPA's growing technology project portfolio, develop and promote standardization of processes and technology, drive CalEPA's delivery and use of technology towards constant improvements, and provide oversight of the agency's delegated projects. Additionally, CalEPA requests $300,000 to acquire Project Portfolio Management (PPM) software tools in 2023-24.

**Staff Recommendation. Approve as budgeted.**

## 3860 DEPARTMENT OF WATER RESOURCES (DWR)

### Issue 5: Dam Safety Enforcement and Design Oversight

**Governor's Proposal.** The Governor's budget requests $3.178 million Dam Safety Fund ongoing to support 12 new positions in 2023-24 for the implementation of an Enforcement Program (six positions/$1.594 million) for new statutory authorities provided by SB 92 (Committee on Budget and Fiscal Review), Chapter 26, Statutes of 2017, and to address workload increases related to new dam construction projects, enlargements, repairs/remediations, and removals (six positions/$1.584 million). The Dam Safety Program is funded by annual and application fees paid by dam owners. Revenue to support this request would be collected through annual fees and offset through the modernization of a circa 1991 application filing fee schedule to better align revenue collected with DSOD's regulatory costs for its oversight of application work.

**Staff Recommendation. Approve as budgeted.**

### Issue 6: Federal Rehabilitation of High Hazard Potential Dams

**Governor's Proposal.** The Governor's budget requests $50 million in federal reimbursement authority, $10 million per year for five years (2023-24 through 2027-28). DWR currently receives $2.5 million in federal reimbursement authority for this program and the requested increase will give DWR authority to receive and pass-through additional Federal Emergency Management Agency's (FEMA) Rehabilitation of High Hazard Potential Dams (HHPD) Grant funds. FEMA's allocation for the HHPD program doubled in 2022-23 and future allocations are expected to continue to rise. The purpose of FEMA's HHPD program is to provide eligible dam owners with technical, planning, design, and construction assistance for eligible rehabilitation activities that reduce dam risk and increase community preparedness.

**Staff Recommendation. Approve as budgeted.**

**Issue 7: Joint Operations Center Relocation**

**Governor's Proposal.** The Governor's budget requests $4.773 million GF in 2023-24 for one-time costs for Department of General Services (DGS) expenses related to the relocation of the state/federal Joint Operations Center from the current location on El Camino Avenue to a new facility. This request is specific to the Division of Flood Management's shared portion of the project costs. The facility will be shared with the State Water Project (SWP) who will provide their own share of funding.

**Staff Recommendation. Approve as budgeted.**

**Issue 8: Positions for Water and Drought Package Implementation**

**Governor's Proposal.** The Governor's budget requests six new positions, no new state operations funding, for the delivery and administration of over $800 million allocated to DWR in the 2021- 22 and 2022-23 Budget Acts for drought relief for urban communities and Sustainable Groundwater Management Act (SGMA) implementation.

The Budget Acts of 2021 and 2022 provided $800 million dollars in state funding to DWR to deliver to funding recipients across the State for immediate and interim drought relief and sustainable groundwater management projects to comply with SGMA. This funding will assist communities in dire need due to the state's prolonged extreme drought conditions exacerbated by climate change. DWR lacks enough positions to conduct the work required to deliver the funding and manage the grants. These new positions are intended to provide resources to help communities effectively plan for and manage their water resources and implement projects to address drought and climate change.

**Staff Recommendation. Approve as budgeted.**

**Issue 9: San Joaquin River Basin Groundwater Recharge: Water Availability Analysis and Technical Assistance**

**Governor's Proposal.** The Governor's budget requests $2.5 million GF one-time in 2023-24 and $600,000 annually in 2024-25 through 2028-29 (a total of $4.9 million) for state operations for existing staff positions and consultants. The purpose of this request is for the department to help enable Groundwater Sustainability Agencies (GSA) and local public agencies to complete water rights applications for groundwater recharge by doing the following:

- Support outreach and collaboration with the State Water Resources Control Board (SWRCB).
- Conduct, or provide guidance on, SWRCB required water availability analyses.
- Develop basin-wide modeling tool sets to support SWRCB required downstream impact analyses.
- Provide additional technical assistance to local agencies, as needed. Work will be performed by existing positions and consultants.

**Staff Recommendation. Approve as budgeted.**

## Issue 10: State Water Project (SWP) Accounting and Business Support

**Governor's Proposal.** The Governor's budget requests five new permanent full-time positions to enhance the financial stability of the SWP while improving transparency and providing knowledge transfer to internal and external stakeholders. The increased staffing is intended to support the functional business requirements and technical business requirements of the newly enhanced SAP system (which is DWR's software accounting system and system of record used for accounting, budget, and planning needs), Portfolio and Project Management/Resource Management (PPM/RM) and Cost Allocation and Billing (CAB). In addition, a position is requested to support increased needs of data analysis and investigation for SWP capital financing.

**Staff Recommendation. Approve as budgeted.**

## Issue 11: Urban Water Use Objectives (SB 1157)

**Governor's Proposal.** The Governor's budget requests $7 million GF over 4 years ($2 million in 2023-24, $2 million in 2024-25, $1.5 million in 2025-26, and $1.5 million in 2026-27) for external consulting costs in order to implement the requirements of SB 1157 (Hertzberg), Chapter 679, Statutes of 2022. The resources are intended to be used to:

- Perform a statewide, representative saturation end-use study,
- Quantify the benefits and impacts of the 2030 indoor residential water use standard on water, wastewater, and recycled water systems,
- Evaluate the long-term effects of telework on indoor residential water use using two years of data reflecting implementation of the 2025 indoor residential water use standard,
- Conduct studies and investigations to identify if variances to accommodate unique challenges related to indoor residential use including stranded assets, impacts on disadvantaged communities, environmental flows, wastewater or recycled water operations, and others,
- Collaborate with the State Water Resources Control Board (SWRCB) on any joint recommendations,
- Collaborate with a broad group of stakeholders. These studies and collaborative efforts require external consultants for big data acquisition and analysis, facilitation and communication services, and dedicated DWR staff
- Develop a report to Legislature by October 1, 2028 on outcomes and recommendations as warranted.

SB 1157 lowers the statewide indoor residential water use from 55 gallons per capita daily (gpcd) to 47 gpcd beginning 2025, and to 42 gpcd beginning 2030. SB 1157 requires DWR, in coordination with SWRCB to conduct studies and investigations to assess specified impacts of this standard.

**Staff Recommendation. Approve as budgeted.**

## 3480 DEPARTMENT OF CONSERVATION (DOC)
## 3600 DEPARTMENT OF FISH AND WILDLIFE (DFW)
## 3860 DEPARTMENT OF WATER RESOURCES (DWR)
## 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

### Issue 12: High Priority Stream Gages (SB 19)

**Governor's Proposal.** The Governor's budget requests a total of $4.675 million GF over two years, starting in 2023- 24, to begin implementing recommendations outlined in SB 19 (Dodd), Chapter, 361, Statutes 2019, focusing on the reactivation of historical stream gages.

SB 19 directed DWR and SWRCB to develop a plan to deploy a network of stream gages in consultation with the Department of Fish and Wildlife, Department of Conservation, Central Valley Flood Protection Board, and interested stakeholders. The SB 19 Stream Gaging Prioritization Plan was completed in 2022.

**Staff Recommendation. Approve as budgeted.**

## 3930 DEPARTMENT OF PESTICIDE REGULATION (DPR)

### Issue 13: California Pesticide Electronic Submission Tracking (CalPEST) Project

**Governor's Proposal.** The Governor's budget requests $3.3 million DPR Fund for 2023-24: $2.9 million in one-time funding with an extended encumbrance period to June 30, 2027, and $371,000 ongoing for two permanent staff to continue the CalPEST design, development, and implementation.

**Staff Recommendation. Approve as budgeted.**

### Issue 14: Technical Adjustments: Reappropriation of Transition to Safer, Sustainable Pest Management Funds

**Governor's Proposal.** The Governor's budget requests a one-year extension to the liquidation periods of various General Fund appropriations to continue implementation of previously authorized projects.

**Staff Recommendation. Approve as budgeted.**

# 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

**Issue 15: Augmentation to the Underground Storage Tank Cleanup Fund (USTCF) and the Orphan Site Cleanup Fund**

**Governor's Proposal.** The Governor's budget requests the following:

1) An additional $300 million USTCF one-time for reimbursing costs associated with the cleanup of contamination from leaking petroleum USTs. The request will provide a total of $380 million for this purpose in 2023-24.
2) A one-time transfer of $30 million from USTCF to the Orphan Site Cleanup Fund for reimbursing costs associated with the cleanup of contaminated leaking petroleum USTs where there is no financial responsible party, and the applicant is not eligible for the USTCF program.
3) As part of this request for items 1 and 2 listed above, SWRCB requests extended availability of funding (three years to encumber and three years to liquidate) to align with administrative and programmatic needs.

**Staff Recommendation. Approve as budgeted.**

**Issue 16: Continuation of the Cannabis Cultivation Program**

**Governor's Proposal.** The Governor's budget requests ongoing funding phased in over three years to support 94 positions to continue the Cannabis Cultivation Program, as follows:

- 2023-24: $12 million various funds ($5.227 million Waste Discharge Permit Fund (WDPF), $6.396 million Cannabis Control Fund, and $432,000 Water Rights Fund (WRF)) to support 58 existing and four new positions.
- 2024-25: $19.1 million various funds ($5.578 million WDPF, $13.1 million Cannabis Tax Fund, and $432,000 WDPF) to support 62 existing and 30 new positions as well as aerial imagery and related tools.
- 2025-26: $19.7 million various funds ($6.15 million WDPF, $13,1 million Cannabis Tax Fund; and $432,000 WRF) to support 92 existing and 2 new positions as well as aerial imagery and related tools.

The funding and positions are intended to provide ongoing funding for the Cannabis Cultivation Program, allowing SWRCB and Regional Water Quality Control Boards to fulfill statutory mandates to address water quality and instream flow-related impacts of cannabis cultivation and associated water diversions

**Staff Recommendation. Approve as budgeted.**

# 3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

## Issue 17: Brake Friction Materials Extension Request Support

**Governor's Proposal.** The Governor's budget requests $593,000 in 2023-24 and $590,000 ongoing from the Toxic Substances Control Account (TSCA) and three permanent positions to manage the extension request process and to ensure manufacturer compliance with the motor vehicle brake friction materials law. DTSC's request includes $30,000 TSCA per year to fund the purchase, sampling and analysis of brake pads to ensure compliance with SB 346 (Kehoe), Chapter 307, Statutes of 2010. Costs will be partially offset by fees paid by manufacturers submitting extension requests.

SB 346 restricted the use of copper and other toxic materials in automobile brake pads.

**Staff Recommendation. Approve as budgeted.**

## Issue 18: National Priorities List (NPL) and State Orphan Sites

**Governor's Proposal.** The Governor's budget requests a revenue transfer of $13.7 million from TSCA to the Site Remediation Account (SRA), and corresponding SRA appropriation of $13.7 million, to fund the state's NPL obligations and state orphan sites with Priorities 1A, 1B, 2, and 3, and statewide service contracts. Health and Safety Code Section 25173.7 states the Legislature's intent that the annual Budget Act appropriate an amount sufficient to pay for the estimated direct site remediation costs identified in the department's annual SRA Report.

**Staff Recommendation. Approve as budgeted.**

## Issue 19: San Gabriel Valley Superfund Sites Team

**Governor's Proposal.** The Governor's budget requests seven permanent positions and $1.5 million TSCA ongoing to provide adequate staff for the oversight and management of the San Gabriel Valley Superfund Sites (SGVSS) cleanup projects. The requested positions would be designated exclusively for the SGVSS, which have been prioritized by the US Environmental Protection Agency (USEPA) on the NPL under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA, also referred to as "Superfund").

The SGVSS encompass numerous contamination zones and cleanup projects over an entire drinking water basin, making it one of the largest contaminated groundwater cleanup projects in the state of California. The proposed resources would establish a dedicated team of project managers to carry out DTSC's responsibilities for the SGVSS, including the following:

1) Support to USEPA for management and oversight for each of the six operable units at the SGVSS.

2) Long-term Operation and Maintenance (O&M) of Groundwater Extraction and Treatment Systems (GWETS) required by USEPA to use treated groundwater as a source of drinking water for local communities, including many disadvantaged communities.

3) Site discovery, characterization, and cleanup of shallow zone source areas of the groundwater contamination in soil and soil gas to reduce the potential threat to public health, and (4) ongoing identification and enforcement of Responsible Parties to ensure that they pay the full cost for cleanup of the SGVSS.

**Staff Recommendation. Approve as budgeted.**

**Issue 20: Stringfellow Superfund Hazardous Waste Site Removal and Remedial Action**

**Governor's Proposal.** The Governor's budget requests $7 million GF over five fiscal years; $1.2 million in 2023-24, $1.7 million in 2024-25, $1.5 million in 2025-26, $1.2 million in 2026-27, and $1.4 million in 2027-28 for US EPA-mandated removal and remedial action to continue characterization of the Stringfellow Superfund Hazardous Waste Site.

**Staff Recommendation. Approve as budgeted.**

## 3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CALRECYCLE)

**Issue 21: Battery Embedded Waste: Implementation (SB 1215)**

**Governor's Proposal.** The Governor's budget requests 14 permanent ongoing positions to be phased in over three fiscal years to implement SB 1215 (Newman), Chapter 370, Statutes of 2022. This request includes 12 positions to begin in 2023-24 with annual costs of $2 million Covered Battery-Embedded Waste Recycling Fee Subaccount (Subaccount) in 2023-24, and 2024-25, with an additional two positions to start in 2025-26 with ongoing costs of $2.2 million for all 14 positions.

In addition, CalRecycle requests budget bill language to provide loan authority of $6.2 million in 2023-24 from the Electronic Waste Recovery and Recycling Account (EWRRA) to the Subaccount to ensure that adequate cash is available to implement SB 1215 and support all direct appropriations drawing from the fund. This loan authority is necessary until CalRecycle can collect the batter-embedded waste recycling fee in 2025-26, as authorized by SB 1215. SB 1215 expands the EWRA to include battery-embedded products.

**Staff Recommendation. Approve as budgeted.**

**Issue 22: Beverage Container Recycling: Implementation (SB 1013)**

**Governor's Proposal.** The Governor's budget requests 44 permanent ongoing positions phased in over two years, and 15 two-year limited-term positions with costs of $6.9 million in 2023-24, $8.1 million in 2024-25, and $6.3 million ongoing from the Beverage Container Recycling Fund (BCRF) to implement SB 1013 (Atkins), Chapter 610, Statutes of 2022. CalRecycle also requests an additional $450,000 BCRF one-time for contract funds to update the Division of Recycling Integrated Information System (DORIIS) to accommodate the associated operational changes to the BCRP.

SB 1013 adds wine and distilled spirits to the California Beverage Container Recycling and Litter Reduction Act (commonly referred to as Bottle Bill) commencing January 1, 2024; and commencing January 1, 2025, authorizes dealers in unserved convenience zones to join a dealer cooperative to meet their redemption responsibilities.

**Staff Recommendation. Approve as budgeted.**

## Issue 23: CalRecycle Integrated Information System (CRIIS)

**Governor's Proposal.** The Governor's budget requests $2.3 million in continued project funding in 2023-24 for the CalRecycle Integrated Information System (CRIIS) project and to make the four temporary positions approved in 2022-23 permanent ongoing positions with ongoing costs of $780,000 BCRF. CRIIS will be an ongoing initiative to migrate and modernize the Beverage Container Recycling Program (BCRP)'s current application, the Division of Recycling Integrated Information System (DORIIS). The goal is to consolidate all recycled material programs into a single enterprise solution more easily supported by the department.

**Staff Recommendation. Approve as budgeted.**

## Issue 24: Responsible Battery Recycling Act of 2022: Implementation (AB 2440)

**Governor's Proposal.** The Governor's budget requests 18 permanent, ongoing positions to be phased in over two fiscal years (11 positions in 2023-24 and an additional seven positions in 2024-25) with total ongoing costs of $2.995 million Covered Battery Recycling Fund (CBRF) to implement AB 2440 (Irwin), Chapter 351, Statutes of 2022.

In addition, CalRecycle requests budget bill language to provide loan authority of $2 million EWRRA in 2023-24, $2.995 million EWRRA in 2024-25 and 2025-26 to the CBRF to ensure that adequate cash is available to implement AB 2440 and support all direct appropriations drawing from the fund. This loan authority is necessary until CalRecycle can be reimbursed by the program operator for the actual and reasonable regulatory costs incurred, including those associated with the development, implementation, and enforcement of the regulations. CalRecycle projects that full loan repayment will occur by 2026-27.

AB 2440 (Irwin) creates the Responsible Battery Recycling Act of 2022, which requires producers of covered batteries, as defined, to establish a stewardship program for the collection and recycling of covered batteries.

**Staff Recommendation. Approve as budgeted.**

**Issue 26: Wildfire Debris Cleanup and Removal Contracts Implementation (SB 978)**

**Governor's Proposal.** The Governor's budget requests three permanent, full- time positions and $400,000 GF ongoing to implement the prequalified bidder requirements under SB 978 (McGuire), Chapter 472, Statutes of 2022, for Disaster, Debris Removal for wildfires.

SB 978 requires CalRecycle to prequalify contractors to enter into contracts to perform prescribed wildfire debris cleanup and removal work in communities impacted by wildfires. SB 978 prohibits CalRecycle from awarding a contract to any bidder for the performance of any portion of a wildfire debris cleanup and removal project, unless the bidder meets prescribed eligibility requirements.

**Staff Recommendation. Approve as budgeted.**

## 3980 OFFICE OF ENVIRONMENTAL HEALTH HAZARDS ASSESSMENT (OEHHA)

**Issue 27: Developing a Statewide Extreme Heat Ranking System (AB 2238)**

**Governor's Proposal.** The Governor's budget requests $2.2 million GF and four permanent positions in 2023-24 and $2.4 million GF and an additional one permanent position in 2024-25 to develop and maintain a statewide extreme heat ranking system and to develop a mobile phone application for the ranking system pursuant to AB 2238 (Luz Rivas), Chapter 264, Statutes of 2022. AB 2238 requires CalEPA to develop a statewide extreme heat ranking system. CalEPA has tasked OEHHA with the lead role in its development.

Beginning in 2025-26, $1.2 million is requested on an ongoing basis, which includes five permanent positions and $200,000 in contract funding. The four permanent positions would be used to develop the science needed to support the statewide extreme heat ranking system, ensure the tool is updated regularly to incorporate the latest science and user input, conduct outreach to get input from the public, and create and maintain the mobile application. The additional position starting in 2024-25 would provide maintenance and operation activities which includes user and application support and necessary upgrades to ensure a fully operational application.

As the developers of the system, OEHHA also anticipates providing some consultation to the Integrated Climate Adaptation and Resiliency Program (ICARP) in implementing the provisions of the bill with which ICARP is tasked. An ongoing $200,000 in contract funds is intended to be used for technical consultation, acquisition of data sets, translation services, reimbursement for external reviewers, and maintenance of the mobile phone application.

**Staff Recommendation. Approve as budgeted.**

# DISCUSSION

## 3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

### Department Overview

DTSC protects people and the environment from the harmful effects of toxic substances by restoring contaminated resources, enforcing hazardous waste laws, reducing hazardous waste generation, and encouraging the manufacture of chemically-safer products.

The three-year budget for expenditures and positions is as follows *(dollars in thousands)*:

| | | Positions | | | Expenditures | | |
|---|---|---|---|---|---|---|---|
| | | 2021-22 | 2022-23 | 2023-24 | 2021-22* | 2022-23* | 2023-24* |
| 3620 | Site Mitigation and Restoration Program | 375.1 | 480.6 | 499.6 | $258,220 | $553,560 | $281,924 |
| 3625 | Hazardous Waste Management | 440.5 | 534.0 | 534.0 | 101,859 | 125,392 | 125,119 |
| 3626 | Hazardous Waste Facilities | - | 21.5 | 23.5 | - | 6,458 | 6,864 |
| 3630 | Safer Consumer Products | 68.8 | 110.8 | 113.8 | 16,865 | 27,917 | 28,088 |
| 3635 | State Certified Unified Program Agency | 10.8 | 10.8 | 10.8 | 2,062 | 2,423 | 2,424 |
| 3645 | Exide Technologies Facility Contamination Cleanup | - | - | - | 255,432 | 111,526 | 92,306 |
| 3650 | Board of Environmental Safety | 15.0 | 15.0 | 15.0 | 826 | 3,183 | 3,191 |
| 9900100 | Administration | 183.9 | 232.5 | 232.5 | 41,113 | 63,437 | 63,698 |
| 9900200 | Administration - Distributed | - | - | - | -41,113 | -63,437 | -63,698 |
| **TOTALS, POSITIONS AND EXPENDITURES (All Programs)** | | **1,094.1** | **1,405.2** | **1,429.2** | **$635,264** | **$830,459** | **$539,916** |

*Source: Department of Finance*

Various DTSC programs include the following:

***Site Mitigation and Restoration Program.*** The Site Mitigation and Restoration program implements the state's laws regarding site cleanup and the federal Superfund program. The program currently oversees approximately 1,290 hazardous substance release site investigations and cleanups, and monitors long-term operations and maintenance activities at. More than 249 sites where the cleanup process is complete. Additionally, the program is responsible for ensuring compliance with the terms of approximately 1,061 land-use restrictions in place on properties throughout the state.

New sites are identified through surveillance and enforcement efforts, emergency response activities, examination of other previously-identified potential sites, and public and private entities that voluntarily request that the Department take action to return local properties to productive use. These sites and projects include cleaning up federal and state Superfund properties, abandoned mines, other abandoned and underutilized properties known as "brownfields," and both active and closed military installations. The program is also responsible for the Stringfellow Hazardous Waste Site, a federal Superfund site and former hazardous waste disposal site.

The program works with the Governor's Office of Emergency Services and other state agencies to assure response readiness for acts of terrorism involving the use of toxic chemicals. Additionally, the program mitigates off-highway hazardous waste spills and responds to hazardous waste contamination resulting from illegal drug laboratories.

***Hazardous Waste Management.*** The Hazardous Waste Management program regulates the generation, storage, transportation, treatment, and disposal of hazardous waste to minimize risks to public health and the environment. The program oversees permitting and compliance at 100 authorized facilities that manage hazardous waste, approximately 800 registered businesses that transport hazardous waste, approximately 5,000 federally-regulated generators, over 70,000 state-regulated generators, and approximately 300 facilities that are subject to corrective actions. Additionally, the program manages approximately $2.5 billion in financial assurance resources, and supports and oversees 81 local agencies implementing the hazardous waste program elements of the Unified Program.

The program monitors hazardous waste transfer, storage, treatment, and disposal facilities for illegal activity, including electronic manifest surveillance and monitoring of registered hazardous waste transporters; enforcement of hazardous waste requirement violations found through routine inspections; complaint intake, triage, and investigations; and other focused enforcement initiatives. The program also enforces compliance with hazardous waste requirements related to electronic waste and used oil.

***Hazardous Waste Facilities.*** The Hazardous Waste Facilities program oversees the hazardous waste permitted facilities that are permitting for storage, treatment, and disposal of hazardous waste to minimize risks to public health and the environment. The program oversees the maintenance activities and compliance at 100 authorized facilities that manage hazardous waste and approximately 300 facilities that are subject to corrective actions. Additionally, the program manages approximately $2.5 billion in financial assurance resources.

The program monitors permitted hazardous waste storage, treatment, and disposal facilities for illegal activity, including electronic manifest surveillance, enforcement of hazardous waste requirement violations found through routine inspections; complaint intake, triage, and investigations; and other focused enforcement initiatives.

***Safer Consumer Products.*** The Safer Consumer Products (SCP) program compels manufacturers to reduce human and environmental exposure to toxic chemicals that are used in consumer products. The SCP program calls for industry to develop safer consumer products by identifying safer alternatives that eliminate or reduce the use of hazardous chemicals in products in order to identify Priority Products for possible regulation; provides support and guidance to Priority Product manufacturers for the analysis of safer alternatives, and issues regulatory responses to proposed alternatives. The program encourages the adoption of “green chemistry” practices.

***State as Certified Unified Program Agency.*** CalEPA designated DTSC as the Certified Unified Program Agency (CUPA) in Trinity and Imperial Counties. As the CUPA, the department is responsible for implementing the six elements of the Unified Program: hazardous waste generator and onsite treatment activities, spill-prevention control and countermeasure plans for owners of above ground petroleum storage tanks; the underground storage tank program; hazardous material release response plans and inventories; the California Accidental Release. Prevention program; and certain Uniform Fire Code requirements pertaining to hazardous material management plans and inventories.

***Board of Environmental Safety.*** The Board of Environmental Safety is a five-member board that sets fees through regulations, hears hazardous waste permit appeals, and provides strategic guidance to the department. The board also contains an Ombudsperson who serves as a resource to the public and the regulated community.

**Issue 28: Staff Support for Expedited Cleanup of California National Priorities List (NPL) Sites**

**Governor's Proposal.** The Governor's budget requests six permanent positions and $1.4 million Toxic Substances Control (TSCA) in 2023-24 and annually thereafter for DTSC's Site Mitigation and Restoration Program in order to implement needed oversight of 22 NPL projects during the investigation, remedy construction, and long-term operation and maintenance (O&M). DTSC will seek federal reimbursement for these costs through the Multi- Site Cooperative Agreement (MSCA) federal grant fund.

**Background.** The Legislature enacted California Health and Safety Code (HSC) Section 25173.7 with the intent to appropriate an "amount sufficient to pay for the estimated costs identified by" DTSC at federal Superfund and state orphan sites. The law requires the estimate to include "direct site remediation" costs, which fund contractors to investigate and to clean up sites. State law authorizes DTSC's use of these Site Remediation Account (SRA) funds to pay for the following:

- The state's share at federal Superfund sites (NPL sites).
- Undertaking an investigation, cleanup, or other action when a Potentially Responsible Party (PRP) is noncompliant with an issued order.
- Undertaking a response action when no PRP is identified.
- Implementation of a removal or remedial action when there may be an imminent or substantial endangerment to public health or welfare or to the environment.
- Verifying a suspected chemical release and initiate PRP searches and enforcement.

Because the state provided assurance it would meet its obligations at NPL sites, SRA funds are allocated to the NPL sites first. Remaining SRA funds are then allocated to the state orphan sites. SRA Funds are used solely for contracted activities and cannot be used for DTSC oversight activities.

Once a site remedy becomes "operational and functional", USEPA and the state enter into a Site Transfer Agreement to transfer the O&M activities and funding responsibilities to the state. A remedy is "operational and functional" either one year after remedy construction is complete, or when it is determined, concurrently by the USEPA and the state, to be functioning properly and performing as designed, whichever is earlier.

The cost of cleanup of contaminated sites is site specific and requires that the exposure potential and the nature and extent of contamination are well understood. The process can be complex and time-consuming. However, not expediting the process may allow contaminants to spread, migrate or get dispersed across larger footprints. The larger the footprint of contamination, the more soil and/or groundwater that must be treated. For example, if soil is contaminated and the contaminants reach groundwater the remedy must address the soil and groundwater contamination. Additionally, if the groundwater is not expeditiously treated greater volumes of water must be treated to remove the contamination.

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) established the Hazardous Substance Superfund Trust Fund to pay for the cleanup of sites where the PRP cannot be found or cannot pay. The Superfund Trust Fund was funded through special taxes on industry and general taxpayer revenues. However, on December 31, 1995, Congress allowed the special taxes on industry to expire. Since 1995, the Superfund Trust Fund steadily decreased because it depended on general taxpayer revenues. The decrease in funding resulted in lagging cleanups.

In California, the average number of Remedial Designs has been approximately 2.4 per year. However, given the size and complexity of California's 22 fund-lead NPL sites, the Remedy Designs could be only for portions of the site. Many of the 22 NPL fund-lead sites have been broken up into operable units to allow portions of the sites to be addressed while investigations are ongoing at other operable units.

***Bipartisan Infrastructure Law.*** In November 2021, the federal Bipartisan Infrastructure Law (BIL) was passed, which allocated a one-time $5.4 billion for cleaning up longstanding pollution at Superfund and brownfields sites. The funding includes:

- $3.5 billion for Superfund site clean-up work.
- $1.5 billion to scale-up community-led brownfields revitalization.

The BIL funds can only be used by USEPA for "shovel ready" projects—sites that have completed design and are ready for construction. In addition, the BIL waives states' 10 percent state cost share for sites using the one-time $3.5 billion funding. Additionally, the BIL, reinstated the excise taxes with a focus on chemicals and hazardous imported substances and will have higher rates for a newly expanded group of taxable substances. It is expected to generate $14.5 billion over 10 years or $1.5 billion annually.

***Multi-Site Cooperative Agreement (MSCA) Grant Funding.*** Through a Multi-Site Cooperative Agreement (MSCA), administered by USEPA, states can apply for grant funding to cover the cost of oversight activities. States apply for MSCA grant monies each year. Each year, USEPA caps the annual MSCA grant dollars based on federal funding levels. However, the federal annual appropriations are expected to increase as a result of reinstated excise taxes. As with all grants, MSCA grant monies are not guaranteed to the state. Staff working on NPL fund-lead sites use MSCA grant monies until they are exhausted. Then, DTSC's TSCA fund is used to cover the shortfall.

Since 2007, DTSC has received between $300,000 to $350,000 in MSCA grant funding annually to cover the cost of oversight activities at the 22 sites. This equates to approximately 1.25 to 1.90 personnel years, for the entire state.

In April 2022, DTSC submitted a MSCA grant application requesting $1.4 million in MSCA Grant funds for 2022-23. However, given the prior year forecast(s) of estimated costs, the requested funds could not be granted. Instead, USEPA doubled the funding from prior years and agreed to engage in early discussions to increase the funding in future years. DTSC will receive $750,000 in MSCA funding for FY 2022-23. DTSC has begun discussions with USEPA Region 9 and will submit draft 2023-24 forecasts in April 2023.

***California NPL Sites.*** There are currently 96 NPL sites in California. Of the 96, DTSC is the state-lead agency for 22 NPL fund-lead sites as well as other NPL sites under other funding sources. At NPL fund-lead sites, federal funding is used to investigate and cleanup the sites before passing long-term operation to the state. Many of these sites were identified in the early 1980's or prior and have not yet reached remedy completion. Meanwhile, contamination at these sites continues to cause human health and environmental threat, migrate, and increase the cost to cleanup.

The investigation and cleanup of NPL sites can be funded through multiple sources depending on the financial viability of the responsible parties (RP), any settlements, and the phase of cleanup. If an RP is viable, the RP pays the costs to implement the remedy.

If an RP is not viable, the cleanup and remedy may be funded as part of a settlement agreement, annual appropriations for USEPA, or both. In addition, USEPA may elect to fund-lead NPL sites while pursuing potential RPs.

While DTSC is currently overseeing the cleanup at 22 NPL fund-lead sites, it is also responsible for oversight at six other NPL sites with activities funded by the MSCA grant. Some of these six sites may become fund-lead in the near future. Additionally, depending on the phase at these sites they may or may not be eligible for MSCA grant funds for labor costs.

**Staff Comments.** DTSC notes that providing the requested resources will have long term fiscal benefits. By expediting the eight NPL sites and assisting the USEPA Region 9 in advancing them to remedy selection and eligible for the Bipartisan Infrastructure Law (BIL) funds, DTSC states that the state would be able to take advantage of the BIL's waiver of the state responsibility to provide a 10 percent match for construction cost. These savings could be substantial. For example, securing the waiver at just two of the eight sites would save at least $10 million based on USEPA Region 9's preliminary construction cost estimates. In addition, additional staff resources are intended to ensure that DTSC is able to work with USEPA to develop cost-effective remedy designs that take into account long-term O&M costs, which are a state responsibility. Given competing demands, existing DTSC staff cannot invest sufficient time into in-depth reviews or independent analysis of long-term ramifications to the state for the increased pace of project design anticipated due to the additional federal funding.

DTSC is confident that there is a chance to obtain full funding to cover staffing costs related to this proposal, but there is some level of uncertainty.

**Staff Recommendation. Hold open.**

## 3860 DEPARTMENT OF WATER RESOURCES (DWR)

### Issue 29: Sustainable Groundwater Management Act (SGMA) – Program Delivery

**Governor's Proposal.** According to LAO:

***Proposes $14 Million in Ongoing General Fund to Support 40 Positions, 11 of Which Are New.*** The Governor's budget proposes $14 million General Fund on an ongoing basis and authority for 11 new positions to support SGMA implementation activities. In addition to supporting the new positions, this funding would backfill expiring Proposition 68 funds in order to continue funding 29 existing positions. Overall, the proposal would sustain roughly the same current number of positions in the SGMA program, as most of the 11 new positions would backfill some of the current staff who were temporarily assigned to SMGA work but will be transitioning back to their other DWR responsibilities beginning in 2024-25. The 11 new positions would be conducting:

- ***Enhanced Data Collection.*** DWR plans to increase the frequency at which it collects data from existing and new monitoring wells, particularly in high-priority areas, such as areas in which vulnerable communities rely on domestic wells, areas identified for recharge projects, and areas where land is actively subsiding and dry well mitigation measures are taking place.
- ***Enhanced Basin Characterization.*** DWR plans to conduct higher resolution aerial and ground-based geophysical surveys of groundwater basins. These surveys will benefit recharge projects by providing information about ideal recharge pathways and subsurface layers and land subsidence. They will also inform placement of additional groundwater monitoring stations.
- ***Enhanced Reporting.*** DWR plans to continue sharing information online, to aid in data-informed decision making. In addition, it will more frequently update dry-well susceptibility analyses and provide this information to all levels of government for drought, flood, and recharge planning and response.

***Proposes $900,000 in One-Time General Fund Support to Develop Groundwater Trading Implementation Plan.*** The budget proposes $900,000 General Fund on a one-time basis to develop an implementation plan for groundwater trading that considers vulnerable users. The funding would support two DWR positions and engage consulting services to help complete the plan. The plan would be developed based on recommendations in the California Water Commission's white paper, *A State Role in Supporting Groundwater Trading with Safeguards for Vulnerable Users: Findings and Next Steps*. This one-time planning effort would include interagency coordination among DWR, Department of Fish and Wildlife, Department of Food and Agriculture, and SWRCB. It would consider impacts on disadvantaged communities, small and medium farmers, and the environment.

**Background.** According to LAO:

***Groundwater Depletion Is Escalating.*** Groundwater is a key component of the state's water supply. Water users rely less on groundwater in wet years—when surface water is more abundant—and more in dry years. In some smaller and more vulnerable communities that lack access to surface water, groundwater provides up to 100 percent of drinking water supplies. Overall, California uses more groundwater than is restored through natural or artificial means. This imbalance is leading to depletion (known as "overdraft"), failed wells, water quality problems, permanent collapse of underground basins, and land subsidence. The current drought has heightened the urgent need for sustainable groundwater management. And while recent storms may have helped recharge some shallow groundwater basins, years of overdraft in deeper basins mean it could take months or years to recharge groundwater in some areas.

***State Passed Major Legislation to Regulate Groundwater in 2014.*** In 2014, the Legislature passed and the Governor signed three new laws—Chapters 346 (SB 1168, Pavley), 347 (AB 1739, Dickinson), and 348 (SB 1319, Pavley)—collectively known as SGMA. With the goal of achieving long-term groundwater resource sustainability beginning in 2040, the legislation represents the first comprehensive statewide requirement to monitor and operate groundwater basins to avoid overdraft. The act's requirements apply to 94 of the state's 515 groundwater basins that DWR has found to be "high and medium priority" based on various factors, including overlying population and irrigated acreage, number of wells, and reliance on groundwater. (The remaining 421 basins ranked as being lower in priority—generally smaller and more remote—are encouraged but not required to adhere to SGMA.) While comprising less than one-fifth of the groundwater basins in California, the 94 high- and medium-priority basins account for 98 percent of California's annual groundwater pumping. The figure below displays the time line for meeting SGMA's key requirements.


*Source: LAO*

***SGMA Required Local Agencies to Submit Groundwater Sustainability Plans (GSPs).*** SGMA assigns primary responsibility for ongoing groundwater management to local entities, through the required formation of groundwater sustainability agencies (GSAs). SGMA requires GSAs to develop and implement long-term GSPs. These plans define the specific guidelines and practices that govern the use of individual groundwater basins, including potentially limiting extractions from these basins. Among the 94 high- and medium-priority basins, DWR identified 21 as being "critically overdrafted," which it defines as a condition where a "continuation of present water management practices would probably result in significant adverse overdraft-related environmental, social, or economic impacts." The GSAs managing groundwater in those basins were required to submit their GSPs to DWR for review by January 2020, while GSPs for the remaining basins were due by January 2022. SGMA allows DWR two years to review GSPs. Among the critically overdrafted basins, DWR deemed GSPs for 12 basins to be incomplete and required that they be resubmitted in July 2022. DWR continues to review new and resubmitted GSPs.

***DWR Undertaking Numerous Key Activities.*** SGMA tasked DWR with several key responsibilities in the initial phases of the act's implementation. As GSAs developed and have begun to implement their GSPs, DWR's role has continued to grow. The figure below displays some of DWR's key SGMA activities.

**DWR's Key Sustainable Groundwater Management Act (SGMA) Implementation Activities**

✓ Defining and prioritizing groundwater basins.

✓ Collecting and disseminating data and best practices, including:
- Collecting groundwater level data (and installing new monitoring wells to do so).
- Collecting statewide land use and land subsidence data.
- Conducting statewide geophysical surveys (to understand subsurface conditions and land subsidence, which informs recharge and dry well mitigation).

✓ Providing technical and financial assistance to groundwater sustainability agencies (GSAs).

✓ Reviewing groundwater sustainability plans (GSPs) to determine if they comply with the law.

✓ Assisting GSAs in implementing the activities detailed in their GSPs.

✓ Reviewing GSAs' annual GSP reports.

✓ Reviewing GSAs' five-year GSP updates.

✓ Maintaining an online SGMA portal (for GSAs and the public) and information repository.

DWR = Department of Water Resources.

*Source: LAO*

The State Water Resources Control Board (SWRCB) also has certain responsibilities in implementing SGMA, such as to intervene when local entities do not follow the law's requirements. If any basins ultimately fail to comply with SGMA, SWRCB is charged with taking over their management.

***State Has Provided Significant Funding to Implement SGMA.*** The state has provided more than $800 million since 2014-15 for SGMA implementation activities. This includes:

- ***State Operations.*** DWR has received $314 million ($84 million from Proposition 68 bond funds and $229 million from the General Fund) to support state management of the SGMA program.
- ***Local Planning Grants.*** The state has provided $93 million in Proposition 1 bond funds for planning grants, which supported local agencies as they formed GSAs and developed their GSPs.
- ***Local Implementation Grants.*** The state has provided $430 million ($134 million from Proposition 68 bond funds and $296 million from the General Fund) for local implementation grants. Examples of grant-funded activities include developing ways to inject surface water into aquifers, expanding conveyance infrastructure to increase recharge, installing monitoring wells, and developing or upgrading infrastructure to increase the use of recycled water.

**Sustainable Groundwater Management Act Resource History**

(In Millions)

| | 2014-15 Through 2021-22 | | | 2022-23 | | |
|---|---|---|---|---|---|---|
| | Proposition 1 | Proposition 68 | General Fund | Proposition 68 | General Fund | Totals |
| State operations | — | $68 | $203 | $16 | $27 | $314 |
| Planning grants | $93 | — | — | — | — | 93 |
| Implementation grants | — | 134 | 180 | — | 116 | 430 |
| **Totals** | **$93** | **$202** | **$383** | **$16** | **$143** | **$837** |

*Source: LAO*

***About 125 DWR Staff Currently Support SGMA Program.*** Currently, the SGMA program has authority for 69 positions. In addition, staff from other DWR programs are sometimes assigned to the SGMA program and typically are funded on a limited-term basis. Currently, about 56 positions are on loan from other DWR programs. Of the 125 staff currently supporting SGMA, 31 are funded with Proposition 68 bond funds, while 94 are funded by the General Fund.

**LAO Comments.** ***Successful Implementation of SGMA Is Vital to State's Water Supply, Community Drinking Water, and Agricultural Sector.*** The state relies heavily on groundwater, both for drinking water—particularly for small, vulnerable communities dependent on wells—and agricultural irrigation. As it grapples with periods of prolonged drought and a resulting lack of consistently adequate amounts of surface water, the importance of groundwater continues to grow. Successful implementation of SGMA's requirements will help ensure that the goals envisioned by the Legislature are achieved and remain a priority. The past decade has included a number of key SGMA implementation milestones, including definition and prioritization of groundwater basins; formation of GSAs; data collection; and development, submission, and review of GSPs. The state has entered the next period of SGMA implementation—undertaking the activities articulated in the GSPs that will eventually lead to basin sustainability. DWR plays an important role in ensuring these activities are successful, and the proposed increase in SGMA program funding and position authority could help the department better carry out its responsibilities.

***Having DWR Collect and Disseminate Key Data Makes Sense.*** DWR has taken on more responsibility for collecting and reporting groundwater data statewide than was originally envisioned. This seems appropriate, in that it leverages DWR's economies of scale relative to having each local agency collect and report data. Moreover, having DWR collect key information, such as data about groundwater levels and land subsidence, not only ensures that the data and measurements are consistent across groundwater basins statewide, but that data are collected on a regular and frequent basis.

***Expanding Role of DWR Would Benefit From Increased General Fund Support.*** Although SGMA implementation continues to move from planning to execution, DWR still has workload associated with reviewing GSPs and providing technical assistance to GSAs on their plans. DWR also will have ongoing workload associated with reviewing GSAs' annual reports and regular five-year GSP updates. Because Proposition 68 funds have mostly all been expended, DWR would not be able to continue these existing activities at the same level without more support. In addition, DWR is taking on an expanded role that should help facilitate better decision-making and inform recharge, dry well mitigation, and flood projects.

***Ongoing Legislative Oversight of SGMA Implementation Is Important.*** Given the state's reliance on groundwater and the importance of SGMA to ensuring the sustainability of groundwater basins, ongoing oversight by the Legislature can help ensure implementation remains on pace and legislative priorities are being met. Legislative oversight also can help ensure that GSPs adequately account for equity concerns and that inequities are not exacerbated. For example, legislative oversight can shine a light on whether enough is being done in vulnerable communities that rely on domestic wells for their drinking water and where reports of dry wells have been increasing. The success of SGMA ultimately is not about whether deadlines are being met—although deadlines can help ensure progress—but whether groundwater use, banking, and recharge allow the state to actually reach sustainability.

**LAO Recommendations.*****Consider Approving Ongoing and One-Time Funding and Positions.*** As discussed earlier, in the context of the state's budget problem, LAO recommends the Legislature employ a higher threshold when considering new General Fund spending proposals, given that they necessitate making reductions to existing spending commitments. LAO finds that the proposed funding and position authority for SGMA implementation activities could meet this higher bar, despite the associated trade-offs. They would allow DWR to continue implementing SGMA activities that the Legislature has previously indicated are among its high priorities. Moreover, ensuring sustainable groundwater management is key not only to future water supplies and the state's agricultural sector, but also to protecting drinking water for many vulnerable communities. The proposed funding would support DWR activities that are important to the success of local agencies in achieving statewide groundwater sustainability, and would allow the state to take advantage of economies of scale by supporting centralized data collection. LAO therefore recommends the Legislature consider approving the Governor's proposals.

***Continue to Monitor Successes and Challenges of SGMA Implementation.*** Given its importance in overall statewide water resource management and protecting vulnerable communities, LAO recommends the Legislature continue to conduct robust oversight of ongoing SGMA implementation. The Legislature could do this through a number of ways, including requesting updates at annual budget subcommittee hearings, conducting oversight hearings, or requesting additional reporting when warranted. For example, the Legislature could consider holding oversight hearings or requesting additional reporting at particular milestones, such as the completion of the groundwater trading implementation plan, DWR's final determinations on all GSPs, or at the five-year mark when GSAs must submit GSP updates.

**Staff Recommendation. Hold open.**

# 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

## Department Overview

The State Water Resources Control Board (SWRCB), along with nine Regional Water Quality Control Boards (RWQCBs), promote proper allocation and use of the state's water resources, and preserve, enhance, and restore the quality of state water resources.

The three-year expenditures and positions budget is as follows *(dollars in thousands)*:

| | | Positions | | | Expenditures | | |
|---|---|---|---|---|---|---|---|
| | | 2021-22 | 2022-23 | 2023-24 | 2021-22* | 2022-23* | 2023-24* |
| 3560 | Water Quality | 1,827.5 | 1,874.5 | 1,919.3 | $3,984,347 | $1,561,470 | $1,767,111 |
| 3565 | Drinking Water Quality | 379.3 | 391.3 | 404.6 | 197,469 | 199,374 | 200,602 |
| 3570 | Water Rights | 328.0 | 391.0 | 368.9 | 109,351 | 106,441 | 103,131 |
| 3575 | Department of Justice Legal Services | - | - | - | 2,801 | 2,801 | 2,801 |
| **TOTALS, POSITIONS AND EXPENDITURES (All Programs)** | | **2,534.8** | **2,656.8** | **2,692.8** | **$4,293,968** | **$1,870,086** | **$2,073,645** |

*Source: Department of Finance*

Various SWRCB programs include:

***Water Quality.*** This program advances the highest possible quality of water for the state. Specific activities include the following:

- Formulating, adopting, and updating water quality control plans, permit terms, conditions, and water standards and water management decisions.

- Monitoring water quality to determine compliance with control plans, permit terms, conditions, and water standards and implementing the Total Maximum Daily Load program to address pollution in the state's most seriously impaired water bodies by developing plans that allocate responsibility for reducing pollution.

- Ensuring the waters of the state are not degraded by hazardous waste spills or tank leaks, or by spills or tank leaks from solid and hazardous waste treatment, storage, and disposal facilities.

- Requiring waste dischargers, including storm water dischargers, to prevent and abate water pollution and inspect dischargers to determine compliance with requirements.

- Assisting owners and operators of underground tanks in financing the cleanup of unauthorized releases from their tanks.

- Administering financial assistance programs, that include loan and grant funding for construction of municipal sewage facilities, drinking water systems, water recycling facilities, watershed protection projects, and non point source pollution control projects.

***Drinking Water Quality.*** The Drinking Water Program works to protect and improve the health of all state residents by promoting the safety of drinking water. This program is responsible for enforcing the state and federal Safe Drinking Water Acts, adopting drinking water standards, and enforcing compliance with drinking water standards. The program also establishes criteria for water recycling projects; supports and promotes water system security; provides support for improving technical, managerial, and financial capacity of public water systems; certifies laboratories that analyze environmental samples for regulatory purposes; and maintains a registry of certified water treatment devices.

***Water Rights.*** The Water Rights Program ensures that the state's water resources are put to beneficial use, while protecting prior rights, water quality, and the environment. Specific activities include:

- Allocating the unappropriated waters of the state to ensure water is used in accordance with state laws.

- Maintaining a record of title of appropriative water rights initiated and maintained since 1914, including those for stock ponds, livestock, and small irrigation and domestic use ponds.

- Maintaining records of water diversion and use under riparian and pre-1914 rights and groundwater extractions in four southern counties.

- Enforcing permit and license terms and conditions, abating illegal diversions, protecting public trust resources, and preventing waste or unreasonable use under all rights.

- Assisting the courts in determining existing rights to surface water throughout the states through court reference and statutory adjudication proceedings, and in determining rights to groundwater through the groundwater adjudication process.

***Department of Justice Legal Services.*** This Program includes Department of Justice legal services to support the Water Boards in judicial proceedings related to the Water Boards' authorities.

## Issue 30: Water Rights Modernization Continuation

**Governor's Proposal.** The Governor's budget requests $31.5 million General Fund in 2023-24 for the Updating Water Rights Data for California (UPWARD) modernization project, which is a foundational piece of California's broader water rights modernization effort. This request for one-time contract funds is intended to allow the UPWARD project to be completed on time and with adequate functionality.

**Background.** SWRCB administers water rights laws in California. These laws help provide certainty to water users and are intended to help protect the environment from the impacts that occur because of water diversions. SWRCB's Division of Water Rights regulates and enforces the water rights priority system, oversees development and implementation of the Bay Delta Water Quality Control Plan, and is responsible for protecting resources, such as fisheries, wildlife, recreation, and navigation, which are held in the public trust.

***Surface Water Rights: Brief History and Basics.*** The California water rights system consists mainly of two different kinds of rights: riparian and appropriative. (Other types of rights exist in the state, among them reserved rights [water set aside by the federal government when it reserves land for the public domain] and pueblo rights [a municipal right based on Spanish and Mexican law].)

*Riparian Rights.* Riparian rights entitle the landowner to use a share of the water flowing past their property. While riparian rights require no permits or licenses, they apply only to the water that would naturally flow in the stream and they do not allow the user to divert water for storage or use it on land outside its watershed. Riparian rights remain with the property when it changes hands.

*Appropriative Rights.* Water right law was set on a different course with the Gold Rush. Miners built extensive networks of waterways to work their claims. The water carried in these systems had to be transported far from the original river or stream.

The foundation for how the state manages water rights dates back to the Gold Rush. Miners built extensive networks of waterways to work their claims. The water carried in these systems had to be transported far from eh original river or stream. The self-governing miners applied the "finders-keepers" rule to water.

To stake their water claims, the miners developed a system of "posting notice." It allowed others to divert available water from the same river or stream, but their rights existed within a hierarchy of priorities. This "first in time, first in right" principle became a feature of modern water rights law.

When California became a state in 1850, lawmakers adopted the law of riparian rights. One year later, the Legislature recognized the appropriative right system. The appropriative system continued to increase as agriculture and population increased and ownership of land was transferred into private hands. This is the basis of a series of disputes that continue today.

The conflicting nature of the state's dual water right system has prompted legal disputes. Unlike appropriative users, riparian right holders were not required to put water to reasonable and beneficial use. This clash of rights resulted in a constitutional amendment requiring all water use to be "reasonable and beneficial." These "beneficial uses" include municipal and industrial uses, irrigation, hydroelectric generation, livestock watering, recreational uses, fish and wildlife protection.

Up to the early 1900s, appropriators — most of them miners and non-riparian farmers — had simply taken control of and used what water they wanted. Sometimes notice was filed with the county recorder, but no formal permission was required from any administrative or judicial body.

The Water Commission Act of 1913 established today's permit process and created the agency that evolved into SWRCB, which was given the authority to administer permits and licenses for the state's surface water.

Riparian rights still are a higher priority than appropriative rights. The priorities of riparian right holders generally carry equal weight and during a drought all share in the shortage.

In times of drought and limited supply, the most recent ("junior") right holder must be the first to discontinue use; each right's priority dates to the time the permit application was filed with SWRCB. Although pre- and post-1914 appropriative rights are similar, post-1914 rights are subject to a much greater degree of scrutiny and regulation by SWRCB.

SWRCB was created in 1956 as part of the same legislation that created DWR. There was recognition that DWR would hold water rights and operate water project facilities. The Legislature created an independent board to administer the water rights functions to avoid a conflict of interest by DWR.

***Water Rights System and Management of Water Diversions.*** The state's management of water diversions has not adequately evolved with changing public values and management needs. As the state heads into a fourth year of drought, SWRCB is challenged to provide timely, useful, and meaningful information to guide state and local water management decisions, which are especially vital during periods of drought.

Other western states including Washington, Oregon, Nevada, and Idaho manage water diversions much more nimbly than California, which puts them in better positions to adjust to "aridification" – the transition to a drier climate – that will lead to less available water in reservoirs, aquifers, and streams. The ability to adjust diversions quickly will be crucial for protecting fish and wildlife, other water right holders, and public health and safety as California deals with the new normal of climate change-induced extreme wet and dry conditions. To make a century-old water right system work in this new era, SWRCB needs accurate and timely data and modern data infrastructure.

***Recent Efforts to Modernize Water Rights System.*** This proposal builds on recent state investments to modernize California's water rights system, including $30 million in 2021-22 to begin rebuilding the state's water rights data management system and $52 million in 2022-23 to establish pilot projects to, among other things, collect real-time diversion data, develop data and analytical tools to implement the water rights priority system in additional watersheds, and create more robust supply/demand models for the Delta watershed. The proposal also builds on the Administration's efforts to address aridification and future loss of water supplies due to climate change.

The funding provided in 2021-22 focused on the scoping and initial development of a new water rights data management system to replace the state's outdated legacy system. The initial funding funded the scoping, procurement, staffing, and development of primary functions of a new and robust data system, while providing time to finalize the detailed requirements needed to complete the full system rebuild.

The procurement process to select the software developer (bidder, or vendor) is underway. SWRCB and California Department of Technology (CDT) selected a challenge-based procurement process to select the vendor. This procurement process allows completion of the Project Approval Lifecycle (PAL) before or at the point of awarding the vendor contract. This process has allowed for rapid progress but comes with additional uncertainty related to scope and magnitude when the procurement begins. This uncertainty can result in initial cost estimates being much higher or lower than the initial budget request and allocation.

The UPWARD process to date is summarized as follows:

- July 2021: initial funding provided for UPWARD project.
- August 2021: Solicitation for consulting project manager released.
- September – October 2021: Gartner Consulting selected for consulting project manager; contract executed. Gartner Consulting responsible for managing the master work plan, schedule, report status, risk management and mitigation; developing strategy and determining critical quality measures for business process re-engineering; overseeing change management controls and procedures in coordination with the Board; and developing a data conversion strategy and plan; guiding project and developing primary documentation/artifacts required during a major IT project.
- November – December 2021: Development of scenarios and user stories, which provide narrative guidance and structures to vendors and bidders.
- January – June 2022: Vendors develop Proof of Concept (POC), state staff evaluate bidders' technical approach and capabilities, gauge ability to understand the project, and evaluate bidders working capabilities. Functional and non-functional requirements, and other required components of the PAL, are scoped and drafted.
- July – September 2022: Evaluation and scoring of the system design proposals (July), with negotiations planned for August/September.
- October – December 2022 (projected): Contract award to the selected bidder.
- Of the initial $30 million provided in 2021-22, the UPWARD project currently has $19.7 million remaining and available for system design, build, and implementation. This proposal requests $31.5 million to fully fund the estimated implementation vendor contract to complete the UPWARD system. The State Water Board anticipates the total cost of the UPWARD project will be approximately $62.4 million.

The original anticipated project cost for UPWARD was based on estimates of the minimum funding that would be needed to begin the project quickly and responsibly, while allowing time to build a logical foundation for subsequent funding requests.

Many unknowns of the full system scope were discovered throughout the proof of concept (POC) and internal-facing development processes. With an improved understanding of the actual scope and magnitude of the project, the costs provided by the bidders now serve as the best estimate of the true total cost of the project. An average value was used to determine the value of this request since the costs vary between bidders.

This proposal is intended to address inequity by making water rights documents easily accessible online (so people do not have to drive to Sacramento to view information, which they must do at present).

**Staff Recommendation. Hold open.**

# 3860 DEPARTMENT OF WATER RESOURCES (DWR)
# 3640 WILDLIFE CONSERVATION BOARD (WCB)
# 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)
# 8570 CALIFORNIA FOOD AND AGRICULTURE (CDFA)

**Issue 31: Governor's Proposed Budget Solutions: Drought Response and Water Resilience**

**Governor's Proposal.** According to LAO:

***Proposes Some Modest Changes, but Retains Vast Majority of Water-Related Funding.*** The Governor's budget proposes to reduce spending by $194 million and delays spending by $300 million until 2024-25, yielding combined General Fund budget solutions of $494 million in 2023-24. This approach retains $8.6 billion of $8.8 billion planned for water-related activities over the five years. The proposal retains nearly all of the funding appropriated or planned for immediate drought response and instead focuses most of the funding reductions in other categories. (In addition, the Governor's budget proposes $139 million in new one-time General Fund spending for flood management projects, which we discuss in more detail in a separate publication.)

- ***Water Recycling.*** The proposal reduces $40 million General Fund from planned 2023-24 funding for water recycling programs administered by SWRCB. Recent budgets committed a total of $800 million for both water recycling ($725 million) and groundwater cleanup ($75 million). The proposal retains $685 million for water recycling and the original $75 million for groundwater cleanup.
- ***Watershed Climate Resilience.*** Recent budgets committed $495 million over five years to DWR and WCB to support increased climate resilience at a watershed level. WCB plans to use funding to provide grants through existing programs. DWR has formed a Watershed Resilience Work Group and plans to complete climate risk and preparedness assessments; develop a watershed resilience planning framework, toolkit, and performance metrics; and support four to six pilot studies. The proposal reduces 2022-23 funding and planned 2023-24 funding by $24 million and delays an additional $270 million until 2024-25. On net, the proposal retains $471 million for watershed climate resilience activities.
- ***Per- and Polyfluoroalkyl Substances (PFAs) Support.*** Recent budgets committed $200 million over three years for various activities to address PFAs. These are long-lasting chemicals that are hard to break down and have been used in a variety of consumer and industrial products to create, for example, nonstick surfaces and water- and stain-resistant fabrics. The proposed budget reduces planned 2023-24 spending by $70 million and delays an additional $30 million until 2024-25. On net, the proposal retains $130 million for PFAs support.
- ***State Water Efficiency and Enhancement Program (SWEEP).*** The proposal reduces funding for the SWEEP program by $40 million in 2022-23, retaining $120 million over 2021-22 and 2022-23. This program, administered by CDFA, provides farmers with financial assistance to make improvements to their irrigation systems that would result in using less water and/or energy.
- ***Aqueduct Solar Panel Pilot Study.*** The proposal reduces spending by $15 million in 2021-22 for DWR to support pilot studies on installing solar panels over aqueducts to generate energy and reduce evaporation. The proposal retains $20 million for this purpose.
- ***Water Refilling Stations at Schools.*** The proposal eliminates all $5 million in 2022-23 funding for SWRCB to support water refilling stations at schools.

**Governor's Proposed Drought Response and Water Resilience Budget Solutions**
(In Millions)

| Program | Total Augmentations | Proposed Changes 2021-22 and 2022-23 | 2023-24 | 2024-25 | Net Reductions | New Proposed Amounts |
|---|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | | |
| Water recycling, groundwater cleanup | $800 | — | -$40 | — | -$40 | $760 |
| Watershed climate resilience (WCB) | 334 | -$158 | -64 | $198[a] | -24 | 310 |
| Watershed climate resilience (DWR) | 161 | -42 | -30 | 72[a] | — | 161 |
| PFAs support | 200 | — | -100 | 30[a] | -70 | 130 |
| SWEEP | 160 | -40 | — | — | -40 | 120 |
| Aqueduct solar panel pilot study | 35 | -15 | — | — | -15 | 20 |
| Water refilling stations at schools | 5 | -5 | — | — | -5 | — |
| Subtotals | ($1,695) | (-$260) | (-$234) | ($300) | (-$194) | ($1,501) |
| **All Other Drought Response and Water Resilience Funding** | $7,057 | — | — | — | — | $7,057 |
| **Totals** | **$8,752** | **-$260** | **-$234** | **$300** | **-$194** | **$8,558** |

[a] Reflects funding delayed from a prior year.

WCB = Wildlife Conservation Board; DWR = Department of Water Resources; PFAs = per- and polyfluoroalkyl substances; and SWEEP = State Water Efficiency and Enhancement Program.

*Source: LAO*

**Background.** ***Recent Budgets Committed $8.8 Billion for Drought and Water Resilience Activities.*** Recent budgets have committed a combined $8.8 billion ($8.3 billion from the General Fund and $440 million from other funds) over five years to various departments for emergency drought response and water resilience activities. Of the total, $6.9 billion was appropriated in 2021-22 and 2022-23, while $1.8 billion is intended for 2023-24 through 2025-26. Nearly half of the funding targets activities related to drinking water, water recycling and groundwater cleanup, water supply, and flood management. About $1.4 billion supports immediate drought response activities, such as SWRCB and CDFW to oversee and enforce regulatory restrictions on water diversions and fishing in certain streams. The remaining funding supports habitat restoration, water quality, and conservation activities.

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## Recent and Planned Drought Response and Water Resilience Augmentations

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted [a] (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Totals |
|---|---|---|---|---|---|---|---|
| **Drinking Water, Water Supply, Flood** | | **$2,498** | **$529** | **$473** | **$25** | **$500** | **$4,025** |
| Drinking water, wastewater projects | SWRCB | $1,700 | — | — | — | — | $1,700 |
| Water recycling, groundwater cleanup | SWRCB | 300 | $190 | $310 | — | — | 800 |
| Flood and dam safety | DWR | 313 | 237 | 163 | $25 | — | 738[b] |
| Water conveyance, water storage | DWR | 100 | 100 | — | — | $500 | 700 |
| Aqueduct solar panel pilot study | DWR | 35 | — | — | — | — | 35 |
| Watershed climate studies | DWR | 25 | — | — | — | — | 25 |
| Water storage tanks | DWR | 21 | — | — | — | — | 21 |
| Flood planning | DWR | 4 | 2 | — | — | — | 6 |
| **Immediate Drought Response** | | **$1,250** | **$84** | **$26** | **$26** | **$26** | **$1,411** |
| Community drought relief | DWR | $800 | — | — | — | — | $800 |
| Data, forecasting, communications | Various | 144 | — | $17 | $17 | $17 | 194 |
| Drought contingency control section | Various | 96 | — | — | — | — | 96 |
| Save Our Water campaign | DWR | | $75 | — | — | — | 75 |
| Drinking water emergencies | SWRCB | 62 | — | — | — | — | 62 |
| Water rights activities | SWRCB, CDFW | 88 | 4 | 9 | 9 | 9 | 119[b] |
| Drought salinity barrier | DWR | 27 | — | — | — | — | 27 |
| Drought food assistance | CDSS | 23 | — | — | — | — | 23 |
| Conservation technical assistance | DWR | 10 | — | — | — | — | 10[b] |
| Water refilling stations at schools | SWRCB | — | 5 | — | — | — | 5 |
| **Habitat/Nature-Based Activities** | | **$643** | **$292** | **$160** | **$82** | **$32** | **$1,208** |
| Fish and wildlife protection/study | Various | $300 | $47 | — | — | — | $347 |
| Watershed climate resilience | WCB | 16 | 158 | $96 | $50 | $14 | 334 |
| Watershed climate resilience | DWR | 10 | 67 | 48 | 25 | 11 | 161 |
| Aquatic/large-scale habitat projects | Various | 122 | 7 | 7 | 7 | 7 | 149 |
| MWD resilience projects | DWR | 50 | — | — | — | — | 50 |
| River restoration activities | DWR | 15 | 14 | 9 | — | — | 37[b] |
| Spending from various bonds | WCB, DWR | 105 | — | — | — | — | 105 |
| State land and bird habitat projects | CDFW, DWR | 25 | — | — | — | — | 25 |
| **Water Quality and Ecosystem Restoration** | | **$391** | **$420** | **$380** | **—** | **—** | **$1,191** |
| Water resilience projects | CNRA | $165[b] | $100 | $180 | — | — | $445 |
| Streamflow enhancement program | WCB | 100 | 150 | — | — | — | 250 |
| Salton Sea | DWR | 40 | 100 | 80 | — | — | 220 |
| PFAs support | SWRCB | 30 | 50 | 120 | — | — | 200 |
| Urban streams and border rivers | Various | 50 | 20 | — | — | — | 70 |
| Clear Lake | CNRA | 6 | — | — | — | — | 6 |
| **Conservation/Agriculture** | | **$726** | **$110** | **$80** | **—** | **—** | **$916** |
| SGMA implementation | DWR | $236 | $60 | $60 | — | — | $356 |
| SWEEP | CDFA | 110 | 50 | — | — | — | 160 |
| Multi-benefit land repurposing | DOC | 90 | — | 20 | — | — | 110 |
| Water conservation programs | DWR | 180 | — | — | — | — | 180 |
| Agricultural conservation | DWR, CDFA | 110 | — | — | — | — | 110 |
| **Totals** | | **$5,508** | **$1,435** | **$1,119** | **$133** | **$558** | **$8,752** |

[a] In total, $440 million is from a variety of non-General Fund sources, including bond funds, federal funds, special funds, and reimbursements.
[b] Includes funding from sources other than General Fund.

SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; CDFW = California Department of Fish and Wildlife; CDSS = California Department of Social Services; WCB = Wildlife Conservation Board; MWD = Metropolitan Water District; CNRA = California Natural Resources Agency; PFAs = per- and polyfluoroalkyl substances; SGMA = Sustainable Groundwater Management Act; SWEEP = State Water Efficiency and Enhancement Program; CDFA = California Department of Food and Agriculture; and DOC = Department of Conservation.

***State Investments for These Types of Activities Historically Supported Primarily Through Bonds.*** The vast majority of total spending on water systems—including drinking water and wastewater systems, water delivery, and flood management—comes from local water utilities, which are funded by local water charges and taxes. According to data compiled by the Public Policy Institute of California, from 2016 through 2018, local sources contributed 84 percent of total spending on water in California, with much smaller shares coming from the state (13 percent)—primarily via bond funds—and federal (3 percent) governments. State bond funding historically has filled important gaps, such as by supporting infrastructure improvements in areas that lacked local and/or long-term funding streams. The General Fund traditionally has supported emergency drought response, but in recent years also has funded more expanded types of drought response activities, such as projects to upgrade community water systems.

**LAO Comments.** ***Some Drought and Water Resilience Activities Remain Important.*** While LAO generally finds identifying budget solutions among the many recent one-time augmentations appropriate, LAO thinks retaining funding for the most critical activities should remain a priority. For example, maintaining funding to address drinking water emergencies and to support SWRCB's modernization and enforcement of water rights are key to the state's ability to effectively manage drought conditions. Recent storms also demonstrated the importance of flood and dam management. LAO therefore finds the Governor's proposed approach to leave funding for these efforts untouched to be prudent.

***Proposed Reductions Appear Reasonable.*** Overall, the individual reductions the Governor proposes appear reasonable—they do not take funding away from the most urgent needs and, in some cases, federal funding is available for similar purposes. In addition, based on LAO's assessment, these reductions will not lead to major disruptions in the programs. Specifically:

- ***Water Recycling—Significant State and Federal Funding Still Available for This Purpose.*** SWRCB indicates that even with the Governor's proposed $40 million reduction for water recycling, it expects the remaining $685 million would be sufficient to provide the maximum grant amount to all eligible projects based on current demand. In addition, SWRCB receives federal funding through the Clean Water State Revolving Fund (CWSRF), which can be used for water recycling projects. (The CWSRF provides low-cost financing and forgivable loans for water projects.) On top of the regular annual amount of federal CWSRF funds the state receives (roughly $54 million), IIJA is providing CWSRF with a significant increase (roughly $850 million over five years from 2022 through 2026).
- ***SWEEP—Reduction Would Maintain Program at Historical Levels.*** Recent budgets provided the SWEEP program with $110 million General Fund in 2021-22 and $50 million General Fund in 2022-23. Even with the proposed $40 million reduction, it would still receive $10 million General Fund in 2022-23, which is more in line with historical average annual allocations. (From 2013-14 through 2019-20, SWEEP received an average of $18 million annually from GGRF or bond funds; it did not receive funding in 2019-20 or 2020-21.) Because this is a grant program, reducing funding likely would mean fewer grants to farmers.
- ***Aqueduct Solar Panel Pilot Study—State Could Wait for Study Results Before Expanding.*** DWR awarded 2021-22 funding ($20 million General Fund) to Turlock Irrigation District in February 2022 to install and study solar panels over several sections of its irrigation canals. The district anticipates starting construction in early 2023 and completing it in 2024. The Governor's proposal to reduce the $15 million for similar demonstration projects would give the state time to see whether the Turlock project has the desired results before it decides whether to fund additional pilots or expand solar panels over canals more broadly in the future.

- ***Water Refilling Stations at Schools—Funding Reduction Would Not Cause Major Disruptions.*** While the proposed $5 million reduction would decrease funding explicitly for new water refilling stations at schools, SWRCB's broader Drinking Water for Schools Program, which also supports water refilling stations, would continue. This program was established in 2016 and has provided two rounds of grant funding to schools totaling $16.3 million to increase access to and/or improve the quality of their drinking water. SWRCB indicates that demand for this funding has been modest and that it has other services and funding available depending on schools' needs. In addition, schools could choose to use their general purpose funding and federal COVID-19-related funding for water refilling stations.

***Legislature Could Consider Converting Governor's Proposed Delays to Reductions Instead.*** In light of the state's budget condition, the Legislature could consider reducing rather than delaying funding—as the Governor proposes—for watershed climate resilience and PFAs support. The Legislature could then revisit whether to provide more funding for these programs in 2024-25 or a future year.

- ***Watershed Climate Resilience.*** Reducing this funding would result in an overall decline from $495 million to $201 million for watershed climate resilience. For WCB, this would mean providing fewer and/or smaller grants. For DWR, this could mean conducting fewer or no pilot studies over the five-year window and perhaps scaling back some of its planning and assessment activities. Should it decide to make these reductions, the Legislature also could consider redirecting more of the remaining funds from WCB to DWR. The activities DWR is undertaking—climate risk assessments; development of frameworks, toolkits, and performance metrics; and pilot studies—could be used to inform more effective and strategic spending on projects in the future.
- ***PFAs Support.*** Reducing this funding would result in an overall decline from $200 million to $100 million for PFAs support. Another funding source is available, however. The IIJA is providing California with supplemental funds of about $330 million over five years through the Drinking Water State Revolving Fund (DWSRF) specifically to address "emerging contaminants," including PFAs.

***Legislature Could Consider Additional Reductions.*** As the Legislature weighs additional budget solutions in response to a potentially worsening revenue picture, some programs it could consider reducing—or reducing further—include:

- ***Water Resilience Projects (California Natural Resources Agency (CNRA)).*** Recent budgets have provided a total of $445 million to CNRA over three years, including $180 million General Fund planned for 2023-24, for water resilience projects in the Delta. This program is new and was created with the funding provided in 2021-22. It allows the Administration to select projects to implement voluntary agreements with water users. The purpose is to improve conditions for native fish species and maximize water for human purposes, without necessitating stricter regulatory flow requirements. CNRA was given significant discretion over how to use these funds with few statutory parameters or reporting requirements. The Legislature could reduce or eliminate the 2023-24 amount and instead request reporting and evaluation of the use of funds to date before providing additional funds.
- ***Drinking Water (SWRCB).*** Recent budgets provided $1.7 billion General Fund to SWRCB for drinking water projects. This includes providing financial assistance to small and/or disadvantaged communities that had projects underway to repair, upgrade, or consolidate drinking water or wastewater systems. SWRCB thus far has committed about $265 million of the $1.7 billion and indicates it should reserve $400 million to meet state matching requirements for federal DWSRF funds. However, this leaves up to about $1 billion that could be reduced. While

the activities funded by this program are important—for example, they help increase equitable access to safe, clean, and affordable drinking water within vulnerable communities—an unprecedented amount of federal funding currently is available for these purposes. This includes more than $2.5 billion from IIJA over five years, on top of historical grant levels, for DWSRF programs (including the aforementioned $330 million to address emerging contaminants). In addition, state statute requires an annual GGRF appropriation (through 2030) to SWRCB of $130 million to provide more flexible funding and grants to support these types of projects. As such, the state could continue to pursue its goals and focus on the needs of disadvantaged communities even with a reduction in General Fund support.

- ***Multi-Benefit Land Repurposing (Department of Conservation, DOC).*** Recent budgets provided DOC with $90 million in 2021-22 and planned $20 million in 2023-24 for a new grant program to support repurposing agricultural land for other beneficial uses. Such uses might include dry farming, wildlife habitat, or groundwater capture. The program is not needed to respond to immediate and urgent drought impacts and it is too early in its implementation to know how effective it is at addressing longer-term land transition goals. As such, the Legislature could consider reducing or eliminating the $20 million in 2023-24 and collecting information about program design, demand, and outcomes before making any future funding decisions.
- ***Additional Water Recycling Reductions (SWRCB).*** Given the influx of federal IIJA dollars to the state's CWSRF (which can be used for a variety of purposes, including water recycling projects), the Legislature could consider reducing the amount planned for 2023-24 ($310 million) by more than the proposed $40 million. While this could mean that SWRCB might be unable to fully meet current demand for the program using state funds, federal funds could help make up for some of that gap.

***State Could Use Coordinated Approach in Seeking Reductions Within Habitat Programs That Support Similar and Complementary Efforts.*** Recent state budgets have included and planned for numerous augmentations to support ecosystem health, habitat restoration, and fish and wildlife protection and resilience. Such programs were funded in both the water and drought packages, as well as the nature-based activities package discussed in more detail later in this report. Many of these programs have similar types of objectives, even if their specific areas of focus may differ somewhat. The Legislature could look across these various programs and consider them together when deciding where to make needed reductions. While decreasing funding levels for some of these programs likely would mean completing fewer total projects, taking a holistic approach about where to cut and where to preserve funding could allow the state to maintain complementary efforts and continue to pursue its overall habitat and ecosystem goals in a more coordinated way. For example, programs could be categorized thematically by their overarching goal, such as protecting native fish/salmon populations. The state could then maintain funding for one or two of the programs that would most effectively achieve that goal, while potentially reducing funding for others. The figure below describes the various programs included in recent funding packages that support similar and complementary habitat restoration and wildlife protection efforts.

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**Habitat Restoration and Wildlife Protection Programs Funded in Recent Budgets**
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | Description | Funding Provided and Planned (2021-22 Through 2023-24) |
|---|---|---|---|
| Water resilience projects (DRWR package) | CNRA | New program supporting projects to implement voluntary agreements with water users in the Sacramento-San Joaquin Delta, improve conditions for native fish, and maximize water for human purposes without using flow regulations. | $445[a] |
| Protect fish and wildlife from changing climate conditions (NBA package) | WCB | Fish and wildlife protection projects, including land acquisition and restoration, invasive plants and species control, and wildlife corridors development. | 353 |
| Streamflow enhancement program (DRWR package) | WCB | Grant program for projects to benefit fish and wildlife by changing the amount, timing, or quality of stream flows, including by purchasing water or water rights. | 250 |
| Various WCB programs (NBA package) | WCB | Support for planning, acquisition, and restoration projects on natural and working lands. | 245 |
| Habitat restoration (NBA package) | DWR | Multi-benefit habitat projects supporting efforts to reach voluntary agreements on species protections and water flows in the Delta. | 200 |
| Aquatic habitat and drought resilience (DRWR package) | DWR | Programs and projects, such as habitat restoration projects, promoting recovery of native fish in the Sacramento-San Joaquin watershed. | 122 |
| Resilience projects for fish and wildlife (DRWR package)[b] | WCB | Projects to construct, repair, modify, or remove infrastructure to improve fish and wildlife passage. | 105 |
| Salmon protection (DRWR package)[b] | CDFW | Projects to protect, restore, and enhance riparian and aquatic salmon habitat, including restoring river channels and reconnecting flood plains. | 100 |
| Fish and wildlife protection (DRWR package)[b] | CDFW | Support to rehabilitate and shelter fish and wildlife at risk from drought conditions. | 75 |
| Climate change impacts on wildlife (NBA package) | CDFW | Projects to benefit fish and wildlife by protecting instream flows, purchasing water, and building conservation projects. | 50 |
| Fisheries and wildlife support (DRWR package)[b] | CDFW | Support for fish and wildlife at-risk during drought, including fish hatchery improvements and terrestrial and fish species monitoring and rescue. | 33 |
| Climate induced hatchery upgrades (DRWR package)[b] | CDFW | Support for an assessment of existing fish hatcheries to inform future planning and development efforts. | 17 |
| Salmon study, tribal co-management (DRWR package)[b] | DWR, CDFW | Support to study the reintroduction of salmon on the North Fork Feather River and for CDFW to work with tribal nations on fish passage above large dams. | 7 |

[a] Includes $125 from Proposition 68 (2018) bond funds.
[b] Included as part of the "Fish and wildlife protection/study" item in Figure 10.

DRWR package = funded in one of the Drought Response and Water Resilience packages; CNRA = California Natural Resources Agency; NBA package = funded in the Nature-Based Activities package; WCB = Wildlife Conservation Board; DWR = Department of Water Resources; and CDFW = California Department of Fish and Wildlife.

*Source: LAO*

**LAO Recommendations.** ***Modify Governor's Proposals to Reflect Legislative Priorities.*** Overall, LAO finds the Governor's proposed reductions for water and drought programs to be reasonable and therefore recommends the Legislature give them careful consideration. The proposals do not take funding away from the most urgent needs (such as responding to drinking water emergencies or supporting water rights enforcement) and, in some cases, federal funding is available for similar purposes. Should the Legislature wish to seek alternative or additional reductions, some of the particular modifications LAO recommends it consider include: (1) reducing rather than delaying funding for watershed and PFAs support programs; (2) reducing or further reducing programs receiving federal IIJA funding, such as drinking water and water recycling; (3) reducing or eliminating 2023-24 funding for new programs such as DOC's multi-benefit land repurposing program and CNRA's water resilience activities; and (4) taking a coordinated approach to reducing funding for wildlife habitat programs with similar activities and goals.

***Consider Requiring Reporting and Assessment for New Programs.*** The Legislature could require the administration to provide reporting and assessment of newer programs, such as DOC's multi-benefit land repurposing, CNRA's water resilience activities, DWR's aqueduct pilot, and DWR's watershed climate resilience planning and assessments. Particularly if it were to reduce funding for these programs, the various evaluations and information would enable the Legislature to make more effective funding decisions in the future.

**Staff Recommendation. Hold open.**

# 3970 Department of Resources Recycling and Recovery (CalRecycle)

## Issue 32: Development of a Statewide Zero Waste Plan

**Governor's Proposal.** According to the LAO, the Governor's budget includes $2 million on a one-time basis in 2023-24 from the Beverage Container Recycling Fund to develop a zero waste plan. The zero waste plan would identify gaps in CalRecycle's programs and existing laws and recommend changes needed for the state to meet and exceed the goal established under AB 341 by 2035. The department would aim to complete the plan in fall 2025. The Governor's budget also includes $301,000 ongoing from multiple special funds beginning 2023-24 to support two positions to oversee the development of the plan and coordinate its implementation once completed.

**Background.** According to the LAO:

***CalRecycle Administers and Provides Oversight of Waste Management and Recycling Programs.*** CalRecycle administers and provides oversight of the state's waste handling and recycling programs, which largely are managed at the local level by cities and counties. CalRecycle also implements several statewide programs. This includes the Beverage Container Recycling Program, a deposit-refund system that encourages the recycling of certain beverage containers. The department also oversees multiple extended producer responsibility programs for specific products—such as carpet and paint—which require that producers collect and recycle their used products.

***AB 341 Established Statewide Goal.*** The Legislature enacted AB 341 (Chesbro), Chapter 476, Statutes of 2011, which, among other provisions, established a goal that by 2020, at least 75 percent of statewide solid waste generated be source reduced, recycled, or composted.

For the purpose of measuring the state's progress in achieving the AB 341 goal, CalRecycle uses the term recycling for a range of activities related to source reduction, recycling, and composting—including anaerobic digestion. As shown in figure below, the state was not able to meet the 75 percent goal by 2020.

In 2021, the statewide recycling rate was 40 percent, which was down from a recent high of 50 percent in 2014 and still significantly lower than the goal set out in AB 341.

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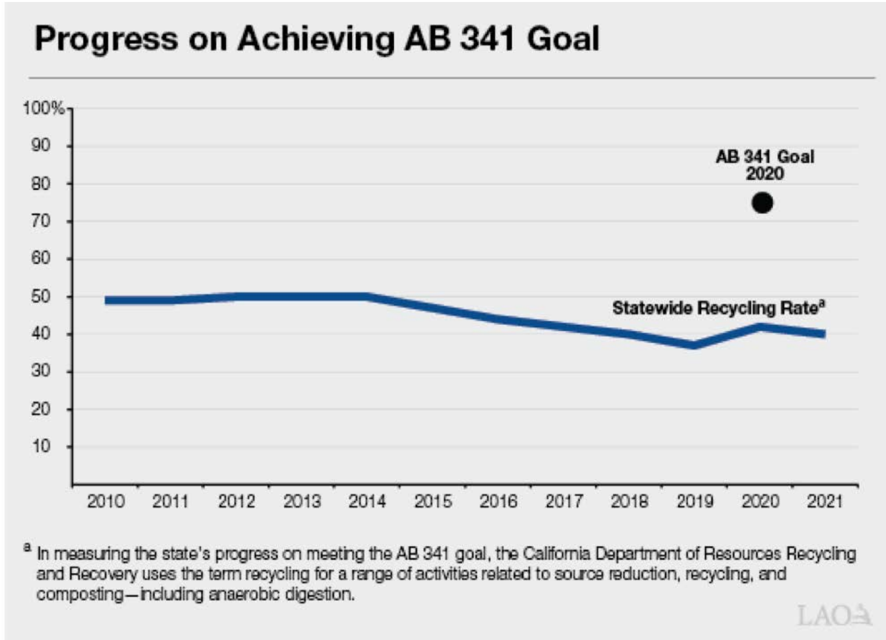



*Source: LAO*

***AB 341 Required Comprehensive Report on State's Efforts to Meet Recycling Goal.*** AB 341 also included a requirement for CalRecycle to report to the Legislature on strategies to achieve the 75 percent recycling goal. The first report was due by January 2014 and annually thereafter until the statutory reporting requirement ended in January 2017. The report, which CalRecycle ended up only submitting once in 2015, was required to include the following: (1) evaluation of current programs and recommendations for improvements, (2) identification of problematic waste streams and recommendations on handling those streams; (3) recommendations for reprioritizing existing resources; and (4) recommendations for statutory and regulatory changes. CalRecycle has continued to provide annual updates on the state's progress in meeting the AB 341 goal, but has not conducted a comprehensive assessment since 2015.

***Recent Legislation Expanded CalRecycle's Responsibilities for Certain Waste Streams.*** Over the past several years, the Legislature has enacted legislation that has significantly expanded CalRecycle's responsibilities with regard to certain waste streams. These include:

- ***SB 1383 (Lara), Chapter 395, Statutes of 2016.*** This law requires CalRecycle to adopt regulations designed to reduce the statewide disposal of organic waste to 50 percent of 2014 levels by 2020 and 75 percent by 2025. It also requires CalRecycle to adopt regulations designed to recover at least 20 percent of disposed edible food by 2025.
- ***SB 54 (Allen), Chapter 75, Statutes of 2022.*** This law requires producers of single-use packaging and food service ware to implement an extended producer responsibility program. The legislation also phases in several product and recycling requirements by 2032, such as requiring that 100 percent of covered materials be recyclable or compostable. CalRecycle is charged with adopting the regulations necessary to implement the legislation.
- ***SB 1013 (Atkins), Chapter 610, Statutes of 2022.*** This law expands the Beverage Container Recycling Program to include wine and distilled spirit containers starting in January 2024. CalRecycle is in charge of overseeing the expansion of the program.

- ***SB 1215 (Newman), Chapter 370, Statutes of 2022.*** This law expands the existing Covered Electronic Waste Program—which uses consumer fees to support the proper collection and recycling of certain electronic devices—to include most battery-embedded products, such as cell phones. CalRecycle is in charge of overseeing the expansion of the program.

**LAO Comments.** ***Identifying Program Shortcomings and Implementing Improvements Is a Core Department Responsibility.*** The Administration indicates that the zero waste plan would identify programmatic improvements that would help the state achieve and exceed the goal set out in AB 341. This would also include identifying ways in which programs could better complement one another. While this could be helpful, these activities should already be occurring on an ongoing basis—both within individual programs and across the department. As part of its core responsibilities, CalRecycle should be (1) conducting regular program evaluations to assess how well programs are meeting their intended goals, (2) identifying any changes needed to improve programs, (3) assessing to what extent programs are aligning with the department's core mission and statutory goals, and (4) applying lessons learned across programs to make continuous improvements.

***Plan Could Become Quickly Outdated Given Recently Enacted Legislation.*** As mentioned above, recently enacted legislation has significantly expanded the department's responsibilities for certain waste streams. In several cases, the activities in the legislation that the department is tasked with implementing will take effect around the same time the plan would be expected to be nearing its completion. For instance, the department likely will finalize regulations for SB 54 and SB 1215 in late 2024, which is around the time the proposed plan would begin finishing its research and analysis phase. As such, conducting the plan as proposed would preclude the department from being able to fully incorporate the impacts of these significant policy changes. In other cases, CalRecycle would only have a minimal amount of data available regarding the impact of recent statutory changes to be able to incorporate into the plan. For instance, the expansion of the Beverage Container Recycling Program under SB 1013 is expected to take effect in January 2024. While the plan might be able to capture some early outcomes from the expanded program, the data collected likely would not be significant enough for the department to include a full assessment of the program's changes. Additionally, the assessment of program needs likely will evolve based on the degree to which the new policies are or are not having their intended outcomes. The fact that it would necessarily be dependent upon soon-to-be-outdated data raises questions about the ultimate value of the proposed plan.

***High-Level Plan May Not Be Best Approach for Identifying Issues Specific to Individual Programs.*** As currently proposed, the plan would look broadly across all programs to identify areas where improvements could be made. However, this high-level assessment may not be the best approach for identifying improvements that are specific to individual programs. This is because each program will likely experience unique barriers and have different needs. For instance, improvements needed to increase the diversion of organic waste from landfills—as directed under SB 1383—will be different from those needed to increase the rate at which beverage containers are recycled. While the plan may be able to provide an assessment of general statewide needs and high-level goals, it is unlikely to identify improvements needed for individual programs at the level of specificity required to result in meaningful changes. This is a key reason why the department should be engaged in conducting program evaluations on an ongoing basis.

***Premature to Establish More Ambitious Goal Before Meeting Existing Statutory Goal.*** The proposal indicates that the zero waste plan would recommend programmatic and statutory changes needed for the state to meet and *exceed* the goal established under AB 341 by 2035. As mentioned earlier, the state has not yet been able to make significant progress towards meeting the current statutory AB 341 goal.

Overall, LAO finds that planning for a more ambitious goal is premature when (1) the state has made minimal progress towards the current goal and (2) a new goal has not been established in statute.

***CalRecycle Has Undertaken Similar Programmatic Assessments Before Without Additional Resources.*** As mentioned above, AB 341 included a reporting requirement that directed the department to identify strategies to achieve the 75 percent recycling goal. That annual requirement was in effect from January 2014 to January 2017. In many cases, the proposed new zero waste plan is very similar to the one that the department previously was required to complete under AB 341. CalRecycle indicates it was able to complete its AB 341 reporting requirement within its existing resources. This raises questions as to why, if the department found this type of assessment helpful, it could not undertake a similar planning exercise within its existing resources again. Similarly, if the Legislature found the AB 341 report useful, it could consider reestablishing the previous requirements in statute. However, providing the department with $2 million for contract support and an ongoing increase of $300,000 for two new positions to review its existing programs does not seem justified—particularly because it has experience in conducting a similar study without those augmentations.

**LAO Recommendation.** ***Reject Proposal to Develop Zero Waste Plan.*** LAO recommends that the Legislature reject this proposal given that (1) many of the activities that would be completed under this initiative should already be occurring within the department, (2) the plan would become quickly outdated as recently enacted legislation is implemented, and (3) the high-level nature of the plan would make it difficult to identify specific improvements to individual programs. LAO also finds that it is premature for the department to develop a plan to meet a more ambitious goal when the state has thus far made minimal progress towards its current statutory recycling goal. Finally, the department has undertaken similar programmatic assessments before without additional resources. If the Legislature believes that receiving periodic programmatic assessments from the department would be helpful, it could consider reestablishing the original AB 341 reporting requirement.

**Staff Recommendation. Hold open.**

## Issue 33: Governor's Proposed Budget Solutions: Circular Economy

**Governor's Proposal.** According to the LAO:

In the circular economy area, the Governor's budget requests to reduce three programs. The largest is the elimination of $15 million for recycling feasibility grants, which is a new program that provides grants to entities that are in the research, development, feasibility assessment, and pilot phases of new recycling technologies and projects. Reductions are also proposed for a program that provides grants to community groups operating small-scale composting programs in green spaces within disadvantaged and low-income communities ($5 million) and the Recycling Market Development Zone (RMDZ) Loan Program ($5 million).

2021-22 Through 2023-24 (In Millions)

| Program | Department | Total Augmentations | Proposed Reductions | New Proposed Amounts |
|---|---|---|---|---|
| **Circular Economy Programs Proposed for Solutions** | | | | |
| RMDZ Loan Program | CalRecycle | $50 | -$4.5 | $45.5 |
| Recycling feasibility grants | CalRecycle | 15 | -15 | — |
| Composting opportunities | CalRecycle | 5 | -5 | — |
| Subtotals | | ($70) | (-$24) | ($46) |
| **All Other Circular Economy Funding** | CalRecycle | $398 | — | $398 |
| **Circular Economy Totals** | | **$468** | **-$24** | **$444** |

*Source: LAO*

***Retains Most of the Funding That Was Previously Approved for Circular Economy Activities.*** The Governor also proposes to maintain 95 percent of the funding for circular economy activities. Most of the funding in this area was provided in 2021-22 and 2022-23, so there has been more time for the funding to be committed to projects as compared to some of the other packages. Also, a notable portion of the funding for these activities was from non-General Fund sources, and thus was not the focus of the Governor's reductions.

**Background.** According to the LAO:

***Circular Economy Funding Supports Several Different Programs.*** Circular economy funding is committed to roughly a dozen programs, all of which are administered by CalRecycle. Roughly half of the funds ($240 million) are for a program that provides grants to local jurisdictions to help them in implementing and complying with the organic waste requirements established by SB 1383 (Lara), Chapter 395, Statutes of 2016. Significant funding is also allocated to support (1) the expansion of organics recycling infrastructure, such as composting and digestion facilities ($105 million), and (2) the RMDZ Loan Program, which provides loans to recycling businesses that prevent, reduce, or recycle recovered waste materials ($50 million).

***Circular Economy Activities Historically Not Significant Recipients of General Fund.*** Typically, the state has supported most of CalRecycle's budget from special funds, such as BCRF, which is supported by deposit fees consumers pay when purchasing beverages in recyclable containers. The state has not historically provided significant General Fund support for the department to undertake the types of activities included in the circular economy package.

In some cases, the package includes funding for new programs, such as those that support recycling feasibility grants, edible food recovery grants, and composting opportunities. In other cases, it supports expansions of existing programs, often with a greater reliance on the General Fund than in the past. For example, the package provides General Fund support for the expansion of the existing Greenhouse Gas Reduction Fund (GGRF)-funded grant program to include food waste co-digestion projects at wastewater treatment plants. Notably, local jurisdictions administer various programs aimed at promoting recycling and waste reduction, typically supported by user fees.

***Recent and Planned Circular Economy Augmentations***

*(In Millions)*

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | Totals |
|---|---|---|---|---|---|
| **Circular Economy** | | **$205** | **$263** | **—** | **$468** |
| SB 1383 implementation grants | CalRecycle | $60[a] | $180[a] | — | $240 |
| Organic waste infrastructure | CalRecycle | 90[a] | 15 | — | 105 |
| RMDZ Loan Program | CalRecycle | 25 | 25 | — | 50 |
| Co-Digestion capacity | CalRecycle | 10 | 10 | — | 20 |
| Recycling feasibility grants | CalRecycle | 2 | 13 | — | 15 |
| Quality incentive payments | CalRecycle | 10[b] | — | — | 10 |
| Methane reduction from waste | CalRecycle | — | 10[a] | — | 10 |
| Compost permitting pilot and edible food recovery | CalRecycle | 3 | 10 | — | 13 |
| Composting opportunities | CalRecycle | 5 | — | — | 5 |

[a] Includes funding from the Greenhouse Gas Reduction Fund (GGRF).
[b] Includes funding from Beverage Container Recycling Fund.

*Source: LAO*

**LAO Comments.** ***RMDZ Loan Program Reduction Is Reasonable.*** Reducing this program by $4.5 million represents a relatively modest decrease. Leaving the program with $45.5 million, as the Governor proposes, would enable it to continue providing nearly as many loans to recycling businesses.

***Legislature Could Consider Reducing GGRF for SB 1383 Implementation Grants and Organic Waste Infrastructure Program to Offset General Fund Support for Other Activities***. While the Governor does not propose funding changes for these two circular economy programs, LAO thinks they are reasonable candidates for reducing should the Legislature seek additional or alternative budget solutions. Decreasing this funding likely would result in smaller grants to local governments to support their compliance with SB 1383 and organic waste management efforts. While these grants help offset costs faced by local jurisdictions (costs which are typically passed on to users through fees), local waste management does not represent a core state responsibility and SB 1383 requirements will be implemented regardless of whether the grants are provided. Notably, of the combined $345 million appropriated in 2021-22 and 2022-23 for these two related programs, as of February 2023, roughly $240 million (about 70 percent) remained uncommitted and thus potentially is available for reduction. LAO notes that almost all of the uncommitted funding is from GGRF rather than the General Fund. However, to the extent that the Legislature were to reduce these GGRF expenditures, it would free up those funds to redirect and use in place of General Fund for other programs the Legislature wants to preserve, thereby achieving state budget solutions.

**LAO Recommendations.** ***Modify Governor's Proposal Consistent With Legislative Priorities, Identify Additional Potential Solutions.*** LAO recommends the Legislature develop its own package of budget solutions based on its priorities and the guiding principles LAO identifies in its report, *Crafting Climate, Resources, and Environmental Budget Solutions*. Based on LAO's review, LAO recommends the Legislature consider adopting the Governor's proposed reductions for circular economy since it aligns with many of the principles LAO identifies in its report.

LAO also recommends the Legislature consider adopting additional solutions, either in place of or in addition to those proposed by the Governor. Options for legislative consideration include: (1) reducing CalRecycle's SB 1383 implementation grants, and (2) reducing organic waste infrastructure grants. While these latter two programs are funded with GGRF, such reductions would free up those funds to offset General Fund spending on other legislative priorities.

**Staff Recommendation. Hold open.**

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, March 23, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Eunice Roh

**Item** **Department** **Page**

## VOTE –ONLY

## DISCUSSION ITEMS



*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# VOTE-ONLY

## 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

### Issue 1: Building Decarbonizing Financing and Incentive Assistance Program (SB 1112, Becker)

**Governor's Proposal.** The Budget includes $422,000 from the Energy Resources Programs Account in 2023-24 and ongoing for two permanent positions to implement Chapter 834, Statutes of 2022 (SB 1112, Becker). SB 1112 requires CEC to coordinate with various state agencies to identify state and federal financing and incentive options that will enable electric utilities and Community Choice Aggregators (CCAs) to provide zero-emission, clean energy, and decarbonizing building upgrades; apply for federal financing or investment solutions (where applicable); provide technical assistance to electric utilities and CCAs applying for state and federal funding; and assess and deliver a report describing statutory changes necessary to improve access to Federal financing or investment solutions, to the Legislature by December 31, 2023. Two positions (1.0 staff scientist position (Energy Commission Specialist III) and 1.0 staff attorney position (Attorney III)) are needed to be the technical and legal CEC issue experts on these new tasks, will lead engagement with federal and partner state-agencies, provide technical support, and identify and recommend solutions to the Legislature as relates to statutory barriers. This request is generally consistent with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 2: Electric Vehicle Charging Infrastructure Reliability Data Collection and Assessment (AB 2061, Ting)

**Governor's Proposal.** The Governor's Budget provides $351,000 annually from the Alternative and Renewable Fuel and Vehicle Technology Fund for two permanent positions to collect, manage, and analyze reliability data collected for electric vehicle chargers and charging stations, as required by Chapter 345, Statutes of 2022 (AB 2061, Ting). New responsibilities under this bill include: developing and refining reliability related recordkeeping and reporting requirements; drafting and proposing a regulation that adopts these requirements; holding workshops to seek public feedback and input; conducting analysis and creating reports to communicate findings; coordinating with funding recipients for data submission and reporting; and conducting technical research to ensure that data requirements are optimized relative to the state of technology and the industry. This request is generally consistent with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 3: Funding to Expand and Improve Energy Reliability Models (SB 1020)

**Governor's Proposal.** The Budget includes $1 million on a one-time basis from the Cost of Implementation Account for contract support to improve and expand the current reliability models to encompass the whole state and address both system and local reliability. Additionally, these funds will be used to equip staff to maintain and continue this analysis into the future. These funds will allow CEC to prepare and release a Request for Proposal to enter a contract for contracting services and use the selected consultant to produce the first and second joint agency reliability progress report. CEC staff will continue to maintain the models once the contract has ended.

**Staff Recommendation.** Approve as budgeted.

### Issue 4: Measuring and Reducing the Carbon Intensity in Construction Materials (AB 2446, Holden)

**Governor's Proposal.** The Governor's Budget includes $238,000 from the Cost of Implementation Account in 2023-24 and ongoing for one permanent position to implement Chapter 352, Statutes of 2022 (AB 2446, Holden). AB 2446 requires the CEC to collaborate with other state agencies to develop a framework for measuring and reducing the carbon intensity in the construction of new buildings. The funds would support one Senior Mechanical Engineer to coordinate with CARB to develop the technical framework to achieve a 40 percent net reduction in the carbon intensity of construction and materials used in new construction by 2035, with the interim goal of 20- percent net reduction by 2030. Specifically, this position would help establish the state's first standardized life-cycle assessment methodology for buildings, so that carbon intensity of construction materials can be determined in a standardized way in alignment with the bill's intent.

**Staff Recommendation.** Approve as budgeted.

### Issue 5: Resources to Gather and Report Medium-Duty and Heavy-Duty (MDHD) Fleet Data (AB 2700, McCarty)

**Governor's Proposal.** The Budget includes $391,000 annually from the Cost of Implementation Account for one permanent position to gather and report medium-duty and heavy-duty fleet data into existing CEC work products, as required by Chapter 354, Statutes of 2022 (AB 2700, McCarty). AB 2700 creates a new requirement for the CEC to annually collect fleet data for on-road and offroad medium- and heavy-duty vehicles in fleets regulated by CARB, and then share that data with utilities. The information includes existing fleet data, the fleets' physical addresses, and information that would help utilities anticipate electrical load growth. Completing this requirement involves coordinating with CARB, investor-owned utilities (IOUs), and publicly-owned utilities (POUs). It also requires processing and quality checking the data, providing additional analysis, integration of the data within existing work products at the CEC and to meet IOU and POU needs, and ensuring proper transition and maintenance of the data. Meeting these needs will require one permanent position at the EGSS I level and additional forecasting work and data analysis. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 6: Solar Equipment List Direct Appropriation

**Governor's Proposal.** The Budget provides $1,281,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a four-year limited-term basis to fund the CEC's Solar Equipment List Program and replace the current Interagency Agreement (IA) funding mechanism. The Solar Equipment Lists includes solar equipment that meets established national safety and performance standards. These lists provide information and data that support existing solar incentive programs, utility grid connection services, consumers, and state and local programs. Currently, the program is funded via an IA—meaning CEC gets reimbursed from CPUC from the PUCURA. In this request, the CEC is seeking a direct appropriation from PUCURA, instead of the reimbursement. This is more efficient because it eliminates the staff time dedicated to IA development, review, approval, and processing of invoices between CPUC and CEC on this long-standing effort.

**Staff Recommendation.** Approve as budgeted.

## 8660 PUBLIC UTILITIES COMMISSION

### Issue 7: CalSPEED Testing Continuation

**Governor's Proposal.** The Governor's Budget requests $2,988,000 in 2023-24, 2024-25, and 2025-26, and $1,902,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) for three positions and other related communication services, training, travel, IT, equipment, and contracts to continue testing mobile broadband through the CalSPEED Mobile project.

**Background.** The CalSPEED Mobile Project consists of collecting, analyzing, and mapping mobile broadband data through drive testing and crowdsourcing mobile apps. This helps measure mobile broadband throughput, latency, download speed, upload speed, and other indicia of service quality. CPUC proposes to conduct two drive tests annually through 2025-26 (hence the higher request in these years) and decrease to one drive tests afterwards.

Such data has a diverse range of purposes—for consumers to get a transparent source on mobile broadband quality, school districts to understand the problems their students have encountered in using mobile broadband WiFi hotspots from various providers, and public safety entities in informing emergency response during natural disasters. In addition, CPUC has used data from CalSPEED to evaluate T-Mobile's progress in complying with the 5G deployment obligations as part of the CPUC decision approving the company's acquisition of Sprint.

In 2020-21, CPUC received $2,813,000 on a three-year limited-term basis to do this work. As part of the CPUC decision on T-Mobile and Sprint merger, T-Mobile is expected to provide reimbursements to the state for these activities. However, to date, CPUC has not received reimbursements from T-Mobile. Currently, CPUC is working to collect up to $3 million in reimbursements and assumes T-Mobile will reimburse up to $1,000,000 annually through 2025-26. The CPUC will return with a future proposal for additional ongoing costs after evaluating the operation of CalSPEED program beyond 2025-26 following the end of monitoring period and reimbursements.

**Staff Recommendation.** Approve as budgeted.

### Issue 8: Corrections: Communications (SB 1008)

**Governor's Proposal.** The Governor's Budget requests $626,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) for three positions to develop, implement, enforce, and support new Service Quality (SQ) rules for Incarcerated Persons Calling Services (IPCS) providers, as required by Chapter 827, Statutes of 2022 (SB 1008, Becker). SB 1008 requires CPUC to establish SQ standards for IPCS—because regulation of SQ standards specifically for IPCS providers do not exist currently, this represents new workload for the department. The three positions will allow CPUC to develop SQ standards for IPCS, review and analyze SQ reports, and enforce compliance with the IPCS SQ rules, as needed. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

## Issue 9: Electric Transmission Rates Advocacy

**Governor's Proposal.** The Budget includes $1,500,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a three-year limited-term basis for consultant technical expertise to assess Transmission Owner (TO) capital projects that have a direct influence on electric transmission rates to inform CPUC advocacy for California ratepayers at the Federal Energy Regulatory Commission (FERC). In addition, the department requests position authority for five positions that support electric transmission advocacy. This request builds upon the 2018-19 Budget, wherein CPUC received initial funding of about $1.5 million from PUCURA to address electric transmission costs in FERC rate cases. Since then, CPUC reports their advocacy has helped yield approximately $2.5 billion in savings and refunds in the four largest cases. This proposal would provide position authority for the existing positions that support this work, as well as expand the scope of the technical consultant work to improve data transparency and stakeholder engagement of TO capital projects.

**Staff Recommendation.** Approve as budgeted.

## Issue 10: Electricity: Electricity Planning and Procurement

**Governor's Proposal.** The Budget includes $3,313,000 ($2,853,000 ongoing and $460,000 limited-term) from the Public Utilities Commission Utilities Reimbursement Account for eight positions, consulting services, software licenses, and training to implement the following legislation: Chapter 229, Statutes of 2022 (SB 1174, Hertzberg), Chapter 358, Statutes of 2022 (SB 887, Becker), Chapter 367, Statutes of 2022 (SB 1158, Becker), and Chapter 361, Statutes of 2022 (SB 1020, Laird). The legislation adds several new responsibilities to the department. Specifically:

- SB 1174 requires the CPUC to formally track the development and expected in-service dates of transmission and interconnection facilities needed to provide transmission deliverability for renewable energy and storage resources, and to annually assess the system-wide impact of delays to transmission and interconnection upgrades for clean energy resources. To implement the bill, the department requests $1,779,000 for two positions in the Energy Division, one position in the Legal Division, ongoing consulting services, software licenses, and GIS training services.
- SB 887 requires the CPUC to provide transmission-focused guidance to the CAISO regarding future renewables/zero carbon resources and to request the CAISO identify the highest priority transmission projects needed to increase transmission capacity into local capacity areas. To implement the bill, the department requests $654,000 for one position in the Energy Division, one-time consulting services, software, and GIS training services.
- SB 1158 requires the CPUC to review the total GHG emissions and the annual average GHG emissions intensity reported for each retail supplier of electricity and assess whether those emissions, combined with the retail supplier's procurement plans for subsequent years, demonstrate adequate progress towards achieving the retail supplier's GHG emissions reduction

targets. To implement the bill, the department requests $430,000 for one position in the Energy Division and one Administrative Law Judge position.

- SB 1020 requires the CPUC to establish new interim targets to reach SB 100 clean energy goals to purchase 100 percent zero carbon electricity by 2035. To implement the bill, the department requests $447,000 for one position in the Energy Division and one Administrative Law Judge position.

**Staff Recommendation.** Approve as budgeted.

### Issue 11: Electricity: Storage Facilities: Standards and Records (SB 1383)

**Governor's Proposal.** The Budget includes $2,217,000 in 2023-24 and 2024-25, $1,717,000 in 2025-26, and $1,194,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to implement and enforce standards for the maintenance and operation of electric storage facilities owned or contracted for by investor-owned electrical corporations, as required by Chapter 725, Statutes of 2022 (SB 1383, Hueso). This legislation extends the CPUC's current authority to inspect wholesale electric generators to include battery energy storage resources. As a result, this request includes engineering and analytical staff to provide continuous oversight of energy storage systems; legal staff to conduct audits and enforcement activities for energy storage projects; an administrative law judge to support ongoing rulemaking and procedural work; consulting service contract to provide battery storage technical expertise; specialized training for battery storage systems and operations; and specialized field equipment. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 12: Federal Energy Regulatory Commission and Federal Courts of Appeal Litigation Contract

**Governor's Proposal.** The Budget includes $1,300,000 from the Public Utilities Commission Utilities Account (PUCURA) to extend a legal services contract with outside counsel who represents the CPUC in active litigation before Federal Electric Regulatory Commission (FERC) and Federal Courts Appeal. The ongoing litigation stems from the long-term contracts that the state entered to alleviate electricity shortages during the 2000-01 energy crisis. Although most of the cases have settled, there are two ongoing claims, which CPUC has contracted with outside counsel to represent California ratepayers since 2008. Due to the complexity of the case, continued use of outside counsel is necessary to represent the state's interests. It is unclear when the litigation will be resolved, due to the uncertainty of appeals and rehearings.

**Staff Recommendation.** Approve as budgeted.

### Issue 13: Low-income Utility Customer Assistance Programs: Concurrent Application Process (SB 1208)

**Governor's Proposal.** The Governor's Budget includes $1.315 million ($815,00 ongoing and $500,000 one-time over two years) from the Public Utilities Commission Utilities Reimbursement Account to develop a concurrent application process for income-qualified programs, as required by Chapter 840, Statutes of 2022 (SB 1208, Hueso). The CPUC will work with the IOUs to implement the concurrent application process for Energy Savings Assistance (ESA), California Alternate Rates for Energy (CARE), and Family Electric Rate Assistance Program (FERA) to include: developing and executing the procedural steps necessary to initiate implementation with an expanded set of utilities, developing solicitation and/or necessary interagency agreements, and approving funding through ESA, CARE, and FERA ratepayer funds. To manage this additional workload, the department requests four positions as well as information technology consulting services to support planning activities for the technological solution to implement the concurrent application process.

**Staff Recommendation.** Approve as budgeted.

**Issue 14: Net Energy Metering: Construction of Renewable Electrical Generation Facilities: Prevailing Wage (AB 2143)**

**Governor's Proposal.** The Budget includes $1,347,000 ($1,069,000 ongoing and $379,000 limited-term) from the California Public Utilities Commission Reimbursement Account to implement Chapter 774, Statutes of 2022 (AB 2143, Carrillo). AB 2143 requires the CPUC by December 31, 2023, to (1) implement a new compliance system requiring the use of prevailing wages in all qualified renewable electrical generation projects and any associated battery storage taking service on Net Energy Metering tariffs, (2) develop an infraction system for any willful violations, and (3) prepare annual reports on the growth of DER in disadvantaged and low-income communities for residential customers. To implement AB 2143, CPUC requests two permanent positions, two-year limited-term funding for one position, as well as ongoing and one-time consultant services.

**Staff Recommendation.** Approve as budgeted.

**Issue 15: Public Advocate's Office: Wildfire Safety Geographic Information System Implementation**

**Governor's Proposal.** The Governor's Budget requests one position and $171,000 from the Public Utilities Commission Public Advocates Office Account (PUCPAOA) to address ongoing workload stemming from the increased need to analyze geographic information systems (GIS) data when reviewing electric and gas utilities safety-related proposals and projects. Currently, the Public Advocates Office has two existing positions dedicated to GIS analysis. However, these positions primarily work on telecommunication and water issues. The requested position would mainly work on infrastructure issues related to fire risk reduction, an area with growing workload due to recent legislation that have set more regular and stringent review of utility infrastructure and wildfire mitigation.

**Staff Recommendation.** Approve as budgeted.

**Issue 16: Server Room and Telecommunications Closet Upgrade**

**Governor's Proposal.** The Governor's Budget requests $365,000 ongoing from various special funds to provide sustained support for necessary maintenance of IT infrastructure in the CPUC San Francisco headquarters. Specifically, CPUC requests $150,000 for ongoing maintenance of the heating, ventilation, and air conditioning (HVAC) units and fire suppression system in the IT server room and communications room and $215,000 for ongoing maintenance of the HVAC system to cool telecommunication closets. Preventative maintenance of equipment allows CPUC to protect IT assets, extend the useful life of equipment, and ensures equipment is reliable.

**Staff Recommendation.** Approve as budgeted.

## Issue 17: Strengthen CPUC Administrative Functions

**Governor's Proposal.** The Governor's Budget includes $592,000 ongoing from various special funds for two positions to strengthen the CPUC administrative oversight of its programs and improve support of and compliance within the Administrative Services Division and Legal Division. Specifically, CPUC requests one position to serve as Administrative Services Division (ASD) Director and another position to serve as Deputy General Counsel for the Legal Division. As CPUC grown in both size and complexity in recent years, the need for administrative and legal support has grown as well. According to CPUC, these positions will help address organizational gaps in its structure and its ability to complete administrative, contractual, and statutorily-mandated workload.

**Staff Recommendation.** Approve as budgeted.

## Issue 18: Support for Communications Regulatory Program

**Governor's Proposal.** The Budget includes $210,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and position authority for eight positions to fulfill statutory mandates and operational needs in functional areas under the CPUC's regulatory oversight of communications services in California. Specifically, the department requests two positions for its Communications Licensing and Compliance program; one position for the Service Quality, Emergency Preparedness, and Network Resiliency program; three positions for the California LifeLine program; and two positions for the California Advanced Services Fund (CASF) program. These four programs have experienced increased workload in recent years due to regulatory changes, new statutory mandates, increasing need for emergency response, and pandemic-related demand for broadband services (which falls under communications services). The five positions for the Communications Licensing and Compliance program and the CASF program were previously approved on a limited-term basis, to ensure the workload was ongoing in nature. According to CPUC, the department has found the workload is not only ongoing, but in some cases, increasing, and therefore requests these positions be continued on a permanent basis.

**Staff Recommendation.** Approve as budgeted.

## Issue 19: Transportation Electrification: Electrical Grid Distribution Grid Upgrades (AB 2700)

**Governor's Proposal.** The Budget includes $300,000 from the Public Utilities Reimbursement Account on an ongoing basis for cloud services to host the data required by Chapter 354, Statutes of 2022 (AB 2700, McCarty). AB 2700 requires the CPUC and the electric utilities to receive and evaluate information regarding fleets of on-road and off-road vehicles in the medium- and heavy-duty sectors to help utilities plan distribution upgrades to accommodate more electric vehicle loads. CPUC will need to collect electric vehicle data, as well as other available data for this analysis—data storage needs are estimated to reach petabytes in the coming years. This funding will provide CPUC the cloud computing services necessary to store all of the required data. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

## Issue 20: Water Compliance and Enforcement

**Governor's Proposal.** The Governor's Budget requests $419,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a three-year limited-term basis for two positions dedicated to compliance and enforcement in the CPUC Water Division. Currently, the Water Division has no dedicated staff solely responsible for compliance and enforcement actions. According to the CPUC, a dedicated compliance and enforcement team will help the Division act on water quality concerns for the large number of small water utilities subject to CPUC jurisdiction that have potential health and safety implications. The two positions in this request will staff the Water Division Enforcement Team. The department expects having these dedicated positions will increase the number of staff-initiated citations and administrative enforcement orders.

**Staff Recommendation.** Approve as budgeted.

## Issue 21: Water Corporation: Rates (SB 1469)

**Governor's Proposal.** The Budget includes $950,000 from the Public Utilities Commission Utilities Reimbursement Account on an ongoing basis for four positions to implement Chapter 890, Statutes of 2022 (SB 1469, Bradford). SB 1469 requires the CPUC to consider the implementation of a mechanism that separates the water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism". As a result, the CPUC estimates an increase in the number application materials (as well as additional complexity in proceedings that will require additional staff resources) from water utilities requesting to establish a decoupling mechanism. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

# DISCUSSION

## 0509 Governor's Office of Business and Economic Development
## 3360 Energy Resources Conservation and Development Commission
## 3860 Department of Water Resources
## 3900 State Air Resources Board
## 4700 Community Services and Development
## 8660 Public Utilities Commission

### Issue 22: Implementation and Reduction of the Energy Package

**Governor's Proposal.** The Governor's Budget requests a reduction of $510 million from 2022-23 appropriations and $820 million from funding intended for 2023-24, budget-year savings of $1.3 billion. These reductions, however, include a shift of $433 million in General Fund spending from 2022-23 and 2023-24 to future years, which would delay program expenditures but not result in a net reduction. Therefore, on net, the Governor's proposal would result in $897 million less spending across energy programs. For the most part, the administration would implement these reductions by making fewer grant awards and funding fewer projects. The majority of programs approved in the past two budgets are unaffected. All of the Governor's solutions propose to maintain at least 50 percent of the intended funding for individual programs. In total, the Governor proposes to maintain $8.7 billion, or 91 percent, of the intended energy funding of $9.6 billion.

Figure 9

**Governor's Proposed Energy Budget Solutions**

(In Millions)

| Program | Total Augmentations | Proposed Changes 2022-23 | Proposed Changes 2023-24 | Proposed Changes 2024-25 and Out-Years | Net Reductions | New Proposed Amounts |
|---|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | | |
| Arrearage Payment Program | $1,200 | -$400 | — | — | -$400 | $800 |
| Residential Solar and Storage | 900 | — | -$270 | — | -270 | 630 |
| Equitable Building Decarbonization (CEC) | 922 | -50 | -320 | $283[a] | -87 | 835 |
| Equitable Building Decarbonization (CARB) | 40 | — | -20 | — | -20 | 20 |
| Climate Innovation Program | 525 | -50 | -100 | 150[a] | — | 525 |
| Long duration storage | 380 | — | -50 | — | -50 | 330 |
| Transmission financing | 250 | — | -25 | — | -25 | 225 |
| Carbon removal innovation | 100 | — | -25 | — | -25 | 75 |
| Industrial decarbonization | 100 | -10 | — | — | -10 | 90 |
| Food production | 75 | — | -10 | — | -10 | 65 |
| Subtotals | ($4,492) | (-$510) | (-$820) | ($433) | ($897) | ($3,595) |
| **All Other Energy Funding** | $5,133 | — | — | — | — | $5,133 |
| **Totals** | **$9,625** | **-$510** | **-$820** | **$433** | **-$897** | **$8,728** |

[a] Reflects proposed delays from prior years to 2024-25 through 2026-27.

CEC = California Energy Commission and CARB = California Air Resources Board.

***Makes Reductions Across Eight Programs, Delays Funding Two Programs.*** The administration proposes reducing funding for eight programs, with most representing relatively modest reductions or scaling down of planned amounts. The proposal also includes delaying funding for two programs. The most significant of these proposals include:

- ***The California Arrearage Payment Program.*** The Governor proposes a $400 million reduction to this program, which received $1.2 billion from the California Emergency Relief Fund via General Fund resources in 2022-23. The administration states that updated data indicate that not all of this funding will be needed to address overdue energy bills for eligible households, so the proposed amount can be reverted back to the General Fund without programmatic impact.

- ***Residential Solar and Storage.*** This $900 million incentive payment program was designed with two components: (1) $630 million for residential customers in lower-income, tribal, and disadvantaged communities to install solar systems with or without energy storage systems, and (2) $270 million for general customers who install energy storage systems. The Governor proposes to eliminate the second portion for a net reduction of $270 million and maintain the $630 million targeted for lower-income, tribal, and disadvantaged populations.

- ***Equitable Building Decarbonization.*** The Governor proposes three changes to this multifaceted program, which has the overarching goal of reducing GHGs from buildings. The first two affect the portion of this program administered by CEC, which supports low-energy building upgrades for low-to-moderate income families in under-resourced communities and incentives for low-carbon building technologies. The Governor proposes to (1) delay $283 million from 2023-24 and instead provide it spread over the subsequent three years, and (2) reduce the program by $87 million in 2023-24. These changes would result in fewer funded projects and delayed time lines for projects. Third, for the portion administered by CARB—which provides incentives for low global warming-potential refrigerants in homes—the Governor proposes to reduce funding by $20 million in 2023-24.

- ***Climate Innovation Program.*** The Governor proposes delaying $50 million from 2022-23 and $100 million from 2023-24 and instead providing these funds in 2026-27. This program is to provide financial incentives to California-headquartered companies developing and commercializing new technologies that help reduce GHGs or improve climate resiliency.

***Largely Does Not Reduce Reliability Programs.*** The suite of energy reliability programs included in the 2022-23 budget package—the largest category of funded activities—are kept mostly intact in the Governor's proposal. These include significant programmatic investments, including $2.3 billion to the Department of Water Resources (DWR) for investments in strategic reliability assets, $700 million to CPUC for the Distributed Electricity Backup Assets Program, and $295 million to CEC for the Demand Side Grid Support Program.

**Background.** According to the LAO:

***$9.6 Billion Planned for Energy Programs Across Five Years.*** As shown in Figure 8, the previous two budgets and corresponding budget trailer legislation provided significant funding for a variety of energy programs and activities. The 2021-22 budget provided $175 million for a package of investments, including programs intended to promote building electrification, planning and permitting renewable energy projects, and activities intended to ensure electric reliability. The 2022-23 budget planned for an additional $7.9 billion through 2025-26 (including $2.3 billion scored in 2021-22) as part of another energy package. Both packages were funded almost entirely by the General Fund. Funded activities focus primarily on three categories—reliability, clean energy, and ratepayer relief, with most investments going to reliability-related programs. The 2022-23 budget also created the California Climate Innovation program, which offers grants for technology innovation projects that reduce emissions, and provided $525 million through 2025-26.

Figure 8

**Recent and Planned Energy Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Activity | Department | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Totals |
|---|---|---|---|---|---|---|---|
| **2021-22 Energy Package** | | **$175** | **—** | **—** | **—** | **—** | **$175** |
| BUILD expansion | CEC | $75 | — | — | — | — | $75 |
| Permitting initiatives | CEC/DFW | 39 | — | — | — | — | 39 |
| SB 100 planning and participation | CEC/CPUC | 20 | — | — | — | — | 20 |
| Various offshore wind activities | CEC | 18 | — | — | — | — | 18 |
| Emergency planning and support | CEC/CPUC | 14 | — | — | — | — | 14[a] |
| Wildfire Operational Observer | OES | 9 | — | — | — | — | 9 |
| **2022-23 Energy Package** | | **$2,250** | **$3,002** | **$2,626** | **$654** | **$918** | **$7,925** |
| **Reliability** | | | | | | | |
| Strategic Reliability Reserve | DWR | $1,500 | $700 | $20 | $75 | $75 | $2,370 |
| Residential Solar and Storage | CPUC | — | — | 900 | — | — | 900 |
| Distributed Electricity Backup Assets | CPUC | 550 | — | 100 | 25 | 25 | 700 |
| Demand Side Grid Support | CEC | 200 | — | 95 | — | — | 295 |
| Transmission financing | IBank | — | 200 | 50 | — | — | 250 |
| DOE grid resilience match | CEC | — | 5 | — | — | — | 5 |
| Support for reliability | DWR | — | 3 | — | — | — | 3 |
| **Clean Energy** | | | | | | | |
| Equitable Building Decarbonization | CEC | — | $112 | $665 | $53 | $92 | $922 |
| | CPUC | — | 50 | 95 | — | — | 145 |
| | CARB | — | 20 | 20 | — | — | 40 |
| Long duration storage | CEC | — | 140 | 240 | — | — | 380 |
| Oroville pump storage | DWR | — | 100 | 140 | — | — | 240 |
| Carbon removal innovation | CEC | — | 50 | 50 | — | — | 100 |
| Industrial decarbonization | CEC | — | 100 | — | — | — | 100 |
| Hydrogen grants | CEC | — | 100 | — | — | — | 100 |
| Food production | CEC | — | 25 | 50 | — | — | 75 |
| Offshore wind infrastructure | CEC | — | 45 | — | — | — | 45 |
| Energy modeling | CEC | — | 7 | — | — | — | 7 |
| Distributed energy workload | CPUC | — | 1 | 1 | 1 | 1 | 4[b] |
| Hydrogen Hub | GO-Biz | — | 5 | — | — | — | 5 |
| Energy data infrastructure | CEC | — | 5 | — | — | — | 5 |
| AB 525 implementation | Various | — | 4 | — | — | — | 4[c] |
| **Ratepayer Relief** | | | | | | | |
| Arrearage Payment Program | CSD | — | $1,200 | — | — | — | $1,200[d] |
| Capacity building grants | CPUC | — | 30 | — | — | — | 30 |
| **Other Funding** | | **—** | **$100** | **$200** | **$500** | **$725** | **$1,525** |
| Clean Energy Reliability Investment Plan | Various | — | — | $100 | $400 | $500 | $1,000 |
| Climate Innovation Program | CEC | — | $100 | 100 | 100 | 225 | 525 |
| **Totals** | | **$2,425** | **$3,002** | **$2,626** | **$654** | **$918** | **$9,625** |

[a] Includes $2 million Public Utilities Commission Utilities Reimbursement Account.
[b] Public Utilities Commission Utilities Reimbursement Account.
[c] Includes $1.5 million Energy Resources Program Account and $2.6 million General Fund.
[d] General Fund through the California Emergency Relief Fund.

BUILD = Building Initiative for Low-Emissions Development; CEC = California Energy Commission; DFW = Department of Fish and Wildlife; CPUC = California Public Utilities Commission; OES = Governor's Office of Emergency Services; DWR = Department of Water Resources; IBank = California Infrastructure and Economic Development Bank; CARB = California Air Resources Board; DOE = U.S. Department of Energy; GO-Biz = Governor's Office of Business and Economic Development; and CSD = Department of Community Services and Development.

***Includes $1 Billion for a Clean Energy Reliability Investment Plan***. As shown in Figure 8, the $9.6 billion total also includes funding to support implementation of a Clean Energy Reliability Investment Plan (CERIP), pursuant to Chapter 239 of 2022 (SB 846, Dodd). This legislation requires CEC to develop and submit the CERIP to the Legislature by March 2023, and dedicates $1 billion from the General Fund from 2023-24 through 2025-26—subject to appropriation—to implement the plan's proposed activities and projects, including $100 million in 2023-24.

***General Fund Commitments Represent Unusually Large State-Level Investment in Energy Programs.*** The state historically has operated programs that encourage renewable energy and conservation, but the magnitude of General Fund commitments for energy efforts displayed in Figure 8 is uncommonly large, and most of the activities represent new efforts for the state. Many energy programs, including programs that promote energy efficiency and rooftop solar, largely are run through utilities and typically are funded by ratepayers. For example, since 2009, the California Public Utilities Commission (CPUC) has collected $1.7 billion from ratepayers to fund incentives for households and businesses to undertake energy and storage activities through the Self-Generation Incentive Program.

**LAO Recommendations.** We find the Governor's proposed reductions to be reasonable and believe they merit legislative consideration. We recommend the Legislature prioritize maintaining funding for programs that focus on equity, such as providing residential solar incentives and grants to decarbonize homes in lower-income communities. To the degree the Legislature wants to identify alternative or additional programs for reductions, we recommend it consider providing less funding for: (1) the Oroville pump storage project (which is still in the planning phases); (2) the Climate Innovation Program (which has an unclear focus and has not yet begun implementation); and (3) potentially to three primary reliability programs—the Strategic Reliability Reserve, Distributed Electricity Backup Assets, and Demand Side Grid Support—based on what it learns about the outcomes from these programs thus far.

**Staff Comments.** The Governor proposes almost $900 million in reductions within the Energy Package. Of the reductions, almost half comes from funding for the California Arrearage Payment Program (CAPP). According to the Administration, this reduction is proposed because CAPP received far fewer applications for eligible energy utility debt than what was expected in the prior year. To be eligible for these funds, the energy utility debt had to be accrued during the specified pandemic period of March 4, 2020 through December 31, 2021. However, energy affordability remains a prevalent issue, especially in light of the recent spike in natural gas prices that have led to significant increases in residential gas and electricity bills. To address the high natural gas prices, CPUC has ordered utilities to provide the Climate Credit to residential customers as soon as possible, prior to the scheduled month of April.

In addition to the reductions of CAPP, the Governor proposes reductions in nine more programs. According to the Administration, these programs were selected for reductions because (1) these programs are still in the development phase, (2) had available funds following program expenditures, (3) there is potential federal support to supplement reductions, and (4) there may be funding opportunities through the Clean Energy Reliability Investment Plan. Below are the estimated programmatic impacts of the proposed reductions:

| Program | Description | Reduction | Impact |
|---|---|---|---|
| Residential Solar and Storage (CPUC) | This program was designed with two components: (1) $630 for residential customers in lower-income, tribal, and disadvantaged communities to install solar systems with or without energy storage systems, and (2) $270 million for general customers who install energy storage systems. | $270 million | The Governor proposes to eliminate the second portion for a net reduction of $270 million and maintain the $630 million targeted for lower-income, tribal, and disadvantaged populations. |
| Carbon Removal Program (CEC) | The CEC planned to fund demonstrations and test of prototypes, provide cost share in response to federal funding opportunities and fund the establishment of a research test center. | $25 million | Cuts in each area of the program: demonstrations and test of prototypes, provide cost share in response to federal funding opportunities and fund the establishment of a research test center. |
| Long Duration Energy Storage Program (CEC) | The CEC planned to use the funds to demonstrate commercial readiness of megawatt scale storage to provide grid services and improve local resiliency. | $50 million | Deployment of two fewer competitively awarded projects. |
| Food Production Investment Program (CEC) | The CEC planned to use the funds to provide grants to food processing facilities to decarbonize their processes and provide benefits to the electric grid. | $10 million | Six or seven fewer demonstration projects. |
| Industrial Decarbonization Program | The CEC planned to use the funds to target opportunities for industries to decarbonize and support the grid. | $10 million | Two to three fewer demonstration projects. |
| Equitable Building Decarbonization programs (CARB & CEC) | These programs are intended to support low-energy building upgrades for low-to-moderate income families, incentives for low-carbon building technologies, and incentives for low global warming-potential refrigerants in homes. | $107 million | Fewer projects completed and delayed timelines for completion of projects. |
| Climate Innovation Program (CEC) | The Climate Innovation Program had a very broad scope. The CEC planned to conduct a stakeholder process to identify technology topics for the program that would have the greatest potential impact. | $0 (Delay of $150 million to outyears) | Because of the program reduction in the initial years, the CEC will instead initially focus on opportunities to use the funding to leverage significant federal funding to California, specifically around the topic of next-generation battery manufacturing where significant federal investment is expected. |
| Transmission Financing (IBank) | This is a financing program dedicated to supporting the development of strategic transmission projects that will assist the state in meeting its reliability, affordability and climate goals | $25 million | This will reduce the state's support in the initial short-term financing of the Salton Sea transmission line project. In addition, it will reduce the amount available to finance other clean energy transmission projects in the future. |

As the Legislature balances its priorities and assesses these proposed cuts, it will be important to consider what level of federal funding will be available for similar purposes. Although there are significant amounts of federal funding through IIJA and IRA for clean energy programs, it is currently unclear to the extent federal funds will be able to complement the state programs and how they will be distributed. If such information is not available by the time the budget must be enacted, the Legislature may want to consider how to provide oversight over these not yet identified federal funds that flow through the state through control section language, to ensure there is sufficient legislative input and direction, as well as to prepare agencies and recipients to be competitive and realistic about how much money will be allocated to recipients in California.

In addition, the Legislature will want to consider alternative reductions to the energy package, contrary to the ones the Governor has proposed. The LAO highlights the Oroville Pump Storage Project, Climate Innovation Program, and energy reliability programs as areas with potential for reductions. In assessing the Governor's proposed reductions to the energy package, the Legislature will want to assess the ongoing implementation and initial outcomes of all of the programs included, to ensure funding is concentrated for the most effective and efficient programs that best meet their intended goals.

**Staff Recommendation.** Hold Open.

## 0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT
## 0521 SECRETARY FOR TRANSPORTATION AGENCY
## 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
## 3900 STATE AIR RESOURCES BOARD

### Issue 23: Implementation and Reduction of the Zero Emission Vehicle Package

**Governor's Proposal.** The Budget includes a reduction of General Fund spending on ZEV programs by a total of $2.5 billion, including $1.5 billion in 2023-24. However, the Governor proposes using $1.4 billion from discretionary GGRF revenues across three years to backfill some of these reductions. As shown in Figure 7, this amount includes $611 million in 2023-24. The Governor also proposes pledging $414 million in annual discretionary GGRF revenues in 2024-25 and 2025-26 to partially backfill proposed reductions in those years. Largely because of this proposed use of GGRF, the majority of ZEV programs would be unaffected by the Governor's proposed reductions, including Clean Cars 4 All (CC4A, which provides rebates to lower-income individuals for purchasing ZEVs), and a program shared by CARB and CEC to support ZEV and lower-emission drayage trucks and infrastructure. For most of the programs that would receive reductions, the Governor would maintain at least 50 percent of funding. The one exception is the proposed elimination of a new program shared by CARB and CEC aimed at reducing mobile source emissions from port equipment. Overall, the Governor proposes maintaining $8.9 billion, or 89 percent, of intended funding for ZEV programs across the five years.

Figure 6

## Governor's Proposed Zero-Emission Vehicle (ZEV) Budget Solutions

(In Millions)

| Program | Total Augmentations | General Fund Reductions 2023-24 | General Fund Reductions 2024-25 and 2025-26 | GGRF Backfill (2023-24 Through 2025-26) | Net Reductions | New Proposed Amounts |
|---|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | | |
| School Buses and Infrastructure (CARB) | $1,525 | -$135 | — | — | -$135 | $1,390 |
| School Buses and Infrastructure (CEC) | 425 | -15 | — | — | -15 | 410 |
| ZEV Fueling Infrastructure Grants | 870 | -210 | -$130 | $130 | -210 | 660 |
| Clean Cars 4 All and Other Equity Projects | 656 | -125 | — | 125 | — | 656 |
| Transit Buses and Infrastructure (CARB) | 520 | -176 | -180 | 293 | -63 | 457 |
| Transit Buses and Infrastructure (CEC) | 230 | -66 | -80 | 130 | -16 | 214 |
| Drayage Trucks and Infrastructure (CARB) | 445 | -80 | -48 | 128 | — | 445 |
| Drayage Trucks and Infrastructure (CEC) | 500 | -85 | -49 | 134 | — | 500 |
| Sustainable community plans and strategies | 339 | -140 | -44 | 25 | -159 | 180 |
| Equitable At-Home Charging | 300 | -160 | -120 | 280 | — | 300 |
| Clean Trucks, Buses, and Off-Road Equipment | 299 | -98 | -56 | 154 | — | 299 |
| Ports (CARB) | 250 | -60 | -190 | — | -250 | — |
| Ports (CEC) | 150 | -40 | -110 | — | -150 | — |
| Charter boats compliance | 100 | -40 | — | 40 | — | 100 |
| Emerging Opportunities (CARB) | 100 | -35 | -12 | — | -47 | 53 |
| Emerging Opportunities (CEC) | 100 | -35 | -11 | — | -46 | 54 |
| Subtotals | ($6,809) | (-$1,500) | (-$1,030) | ($1,439) | (-$1,091) | ($5,718) |
| **All Other ZEV Package Funding** | $3,135 | — | — | — | — | $3,135 |
| **Totals** | **$9,944** | **-$1,500** | **-$1,030** | **$1,439** | **-$1,091** | **$8,853** |

GGRF = Greenhouse Gas Reduction Fund; CARB = California Air Resources Board; and CEC = California Energy Commission.

Figure 7

## Governor's Proposed Use of GGRF for ZEV Program Backfills

(In Millions)

| Program | Department | Backfill General Fund With Fund Shift to GGRF 2023-24 | 2024-25 | 2025-26 | GGRF Three-Year Totals |
|---|---|---|---|---|---|
| Transit Buses and Infrastructure | CARB | $38 | $56 | $199 | $293 |
| | CEC | 25 | 40 | 65 | 130 |
| Equitable At-Home Charging | CEC | 160 | 80 | 40 | 280 |
| Clean Trucks, Buses, and Off-Road Equipment | CEC | 98 | 31 | 25 | 154 |
| Drayage Trucks and Infrastructure | CARB | 80 | 48 | — | 128 |
| | CEC | 85 | 49 | — | 134 |
| ZEV Fueling Infrastructure Grants | CEC | — | 90 | 40 | 130 |
| Clean Cars 4 All and Other Equity Projects | CARB | 125 | — | — | 125 |
| Charter boats compliance | CARB | — | 20 | 20 | 40 |
| Sustainable community plans and strategies | CARB/CalSTA | — | — | 25 | 25 |
| **Totals** | | **$611** | **$414** | **$414** | **$1,439** |

GGRF = Greenhouse Gas Reduction Fund; ZEV = zero-emission vehicles; CARB = California Air Resources Board; CEC = California Energy Commission; and CalSTA = California State Transportation Agency.

***Proposes Trigger Restoration Approach for GGRF.*** The Governor proposes a trigger restoration approach for GGRF revenues that the state might receive above current estimates during the 2023-24 fiscal year. Specifically, proposed budget control section language would require the administration to allocate additional GGRF revenues to backfill additional proposed reductions to ZEV programs. The language identifies specific activities for which these revenues could be used—fueling infrastructure grants, transit and school buses, ports, community-based efforts, emerging opportunities, and charter boat compliance—but would allow the Director of DOF the discretion to determine which of these ZEV programs to augment and at what levels.

***Administration Plans to Seek Federal Funds to Offset Other Reductions.*** The administration indicates plans to use potential federal funding from IIJA and the Inflation Reduction Act to help further offset the proposed decrease in state funds. For example, the administration has identified federal funding for activities that reduce GHG emissions at ports ($3 billion total available), support charging infrastructure ($2.5 billion total available), and support ZEV buses and bus infrastructure ($5.6 billion total available)—three areas proposed for General Fund reductions.

***Proposes $35 Million New Spending for Charging Stations at State-Owned Locations.*** Outside of the ZEV package—and therefore not displayed in any of the figures—the Department of General Services (DGS) Office of Sustainability is requesting $35 million from the General Fund over three years to install ZEV infrastructure at state-owned and leased facilities.

**Background.** According to the LAO:

***2021-22 and 2022-23 Budget Acts Included $9.9 Billion in Planned Investments for ZEV Programs.*** The previous two budgets committed significant funding for programs intended to promote purchase and use of ZEVs. As shown in Figure 5, this funding is spread across five years, including $6.5 billion already provided and $2.1 billion intended for 2023-24. The majority of this funding is from the General Fund ($6.3 billion), but also includes $1.6 billion from Proposition 98 General Fund (for school buses), $1.3 billion from GGRF, $307 million from federal funds, and $366 million from other special funds. Most of the funding is for continuing or expanding existing programs, such as rebates for purchasing vehicles and incentive payments for developing charging infrastructure. As shown in the figure, ZEV funding is primarily split between the California Air Resources Board (CARB) and the California Energy Commission (CEC). CARB oversees vehicle incentive programs, while CEC oversees ZEV charging infrastructure programs. The majority of planned ZEV augmentations ($5.5 billion) support heavy-duty vehicle programs.

Figure 5

**Recent and Planned Zero-Emission Vehicle (ZEV) Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Totals |
|---|---|---|---|---|---|---|---|
| **Light-Duty Programs** | | **$1,210** | **$396** | **$495** | **$170** | **$80** | **$2,351** |
| ZEV Fueling Infrastructure Grants | CEC | $515 | $15 | $210 | $90 | $40 | $870 |
| Clean Vehicle Rebate Project | CARB | 525[a] | — | — | — | — | 525 |
| Clean Cars 4 All and Other Equity Projects | CARB | 150[b] | 381[a] | 125 | — | — | 656 |
| Equitable At-Home Charging | CEC | 20 | — | 160 | 80 | 40 | 300 |
| **Heavy-Duty Programs** | | **$1,627** | **$2,635** | **$1,205** | **$488** | **$225** | **$6,180** |
| School Buses and Infrastructure | CARB | $130 | $1,260[c] | $135 | — | — | $1,525 |
| | CEC | 20 | 390[c] | 15 | — | — | 425 |
| Clean Trucks, Buses, and Off-Road Equipment | CARB | 500[a] | 600[a] | — | — | — | 1,100 |
| | CEC | 299 | — | 315 | $31 | $25 | 670 |
| Transit Buses and Infrastructure | CARB | 70 | 70 | 200 | 110 | 70 | 520 |
| | CEC | 30 | 30 | 90 | 50 | 30 | 230 |
| Drayage Trucks and Infrastructure | CARB | 157 | 75 | 165 | 48 | — | 445 |
| | CEC | 181 | 85 | 185 | 49 | — | 500 |
| Ports | CARB | — | — | 60 | 120 | 70 | 250 |
| | CEC | — | — | 40 | 80 | 30 | 150 |
| ZEV Manufacturing Grants | CEC | 125 | 125 | — | — | — | 250 |
| Near-Zero Heavy-Duty Trucks | CARB | 45 | — | — | — | — | 45 |
| Drayage Trucks and Infrastructure Pilot Project | CARB | 40 | — | — | — | — | 40 |
| | CEC | 25 | — | — | — | — | 25 |
| ZEV Consumer Awareness | GO-BIZ | 5 | — | — | — | — | 5 |
| **Other** | | **$514** | **$137** | **$407** | **$200** | **$155** | **$1,413** |
| Transportation package ZEV | CalSTA | $407[b] | $77[d] | $77[d] | $77[d] | $76 | $714 |
| Sustainable community plans and strategies | CARB/CalSTA | — | — | 200 | 80 | 59 | 339 |
| Emerging Opportunities | CARB | 53 | — | 35 | 12 | — | 100 |
| | CEC | 54 | — | 35 | 11 | — | 100 |
| Charter boats compliance | CARB | — | 60[a] | 40 | — | — | 100 |
| Hydrogen Infrastructure | CEC | — | — | 20 | 20 | 20 | 60 |
| **Totals** | | **$3,351** | **$3,168** | **$2,107** | **$858** | **$460** | **$9,944** |

[a] Includes Greenhouse Gas Reduction Fund.
[b] Includes $200 million Public Transportation Account and $80 million federal funds.
[c] Proposition 98 General Fund.
[d] Federal funds.

CEC = California Energy Commission; CARB = California Air Resources Board; Go-BIZ = Governor's Office of Business and Economic Development; and CalSTA = California State Transportation Agency.

***Package Represents Unusually Large State-Level Investment in ZEV Programs.*** The large investments reflect the state's policy goals of reducing GHGs from transportation. Transportation is the single largest source of GHGs—responsible for 40 percent of emissions—making the sector a critical area for seeking reductions. In the fall of 2022, CARB adopted regulations to require all new cars sold in California to be ZEV or hybrid-electric by 2035. While the state has historically administered a variety of programs intended to promote ZEVs, the funding displayed in Figure 5 is significant compared to previous amounts, as is the use of General Fund. For example, in 2019-20, the state invested a total of $435 million for ZEV programs, from GGRF. Certain vehicle fees commonly known as "AB 8" fees have provided another consistent source of funding for ZEV and mobile source emission reduction programs. These fees provide about $170 million annually for programs that support ZEVs and lower-emission vehicles. (As we discuss in a separate publication, a portion of these fees are scheduled to sunset in 2023, and the Governor is proposing that the Legislature renew them to continue to support existing programs.)

**LAO Assessment.**

***Consider Highest-Priority Goals When Making Funding Decisions.*** The large number of ZEV-related programs reflects diversity in approaches to achieve various state goals, such as reducing air pollution, lowering GHG emissions, and providing subsidies and infrastructure benefiting low-income and disadvantaged communities. Prioritizing among these complementary goals and assessing how effective each program is at attaining them can help guide the Legislature's decisions about where to make funding reductions. For example, if the Legislature's highest-priority goal is to reduce air pollution from mobile sources, then it may want to prioritize maintaining funding for programs that incentivize medium- and heavy-duty ZEVs, as these are more effective at achieving that objective than programs that focus on passenger vehicles or charging infrastructure. Alternatively, if the most important goal is reducing GHGs, then maintaining funding for programs that promote passenger ZEVs make sense. (Please see our 2022 report, *The 2022-23 Budget: Zero-Emission Vehicle Programs*, for more information on the effectiveness of ZEV programs by goal.)

***Governor's Proposed Solutions Appear Generally Reasonable.*** We find merit in the Governor's approach of focusing budget solutions on newer programs and in areas with potential federal funding availability. For example, eliminating funding for the ports program is less likely to cause disruption as compared to some existing programs, given that this program has not begun implementation. Furthermore, federal funds for similar activities at ports are available to help offset a loss in state funds. We also see value in the Governor's approach of retaining funding for programs that reduce emissions and air pollution in low-income/disadvantaged communities, including the drayage truck programs and CC4A. These communities are more likely to be located in heavy transit corridors with higher levels of air pollution, so they represent a worthwhile area of state focus and intervention. This is consistent with the Legislature's historical prioritization of programs that provide ZEV funding for low-income and disadvantaged communities. Finally, a rationale exists for making reductions in ZEV charging infrastructure support, as the market for charging is maturing and the same level of state intervention may no longer be needed to spur development. Additionally, new federal funding is becoming available for charging infrastructure.

***Consider Refining Some Programs to Focus on Highest-Priority Needs.*** As it considers making funding reductions, the Legislature may want to also consider narrowing the scope of certain ZEV programs. This could help to ensure that remaining funding is specifically targeted towards achieving the Legislature's highest-priority goals. For example, this might include more narrowly focusing benefits on lower-income Californians who are not eligible for federal subsidies and efforts where state investments could be most effective at spurring growth in ZEV infrastructure. Two possible approaches include:

- ***Focusing CC4A Rebates on Consumers Who Do Not Qualify for Federal Incentives.*** The Governor proposes to maintain the full funding amount for the CC4A program ($656 million), which provides rebates for low-income car buyers who purchase ZEVs. Some individuals who purchase ZEVs are also eligible for federal tax credits up to $7,500. For example, a car buyer at or below 300 percent of the federal poverty level and living in a disadvantaged community could receive up to $12,000 from CC4A, up to $7,500 from the state's Clean Vehicle Rebate Program, and up to $7,500 of federal incentives. As the program is currently structured, some consumers can qualify for both CC4A and other state ZEV rebate programs in addition to the federal tax incentive. In contrast, some Californians are only eligible for CC4A because their incomes are too low to participate in the federal program. (The federal program provides incentives as a tax credit and very low-income households are not required to file taxes so therefore are not able to take advantage of this benefit.) Particularly if it were to make reductions to the CC4A program, the Legislature could consider further limiting the program's income-eligibility threshold to focus exclusively on consumers who do not qualify for federal incentives. This would allow the Legislature to focus funding on those who do not have other options for subsidizing their ZEV purchases and facilitate more equitable outcomes.

- ***Focusing Light-Duty ZEV Charging Funding on Chargers That Would Otherwise Not Be Developed.*** The state has invested heavily in chargers and these investments have helped support a private market for public charging stations. More chargers likely will be deployed with or without additional state investments due to increased availability of federal funding and the growth of companies that install chargers in public locations. This is particularly true for passenger light-duty vehicles in locations with higher concentrations of ZEVs, which tend to be higher-income areas. The Legislature may want to consider whether the state should focus less on funding light-duty chargers and instead prioritize infrastructure investments in areas that do not have as much private investment. This could include helping to subsidize installment of chargers in multiunit dwellings and in lower-income neighborhoods. This also could include prioritizing funding for medium- and heavy-duty vehicles and hydrogen vehicles rather than light-duty electric chargers. While these types of chargers and fueling stations may also qualify for federal funds, they are more emergent technologies and may need additional support before reaching the same availability as passenger electric vehicle chargers.

***Legislature Will Need to Weigh Whether ZEV Programs Represent Its Highest Priority for GGRF Discretionary Funds…*** The Governor proposes to use the majority of discretionary GGRF funds for ZEV programs. Together with $250 million proposed for backfilling a reduction to the AB 617 air quality improvement program (discussed in the "Community Resilience" section of this report), this represents nearly all of the administration's projected 2023-24 discretionary GGRF expenditures. Typically, the Legislature and Governor negotiate annually to allocate discretionary GGRF revenue for a variety of programs and priorities. As such, directing these revenues towards only two program areas is unusual. The Governor's proposal presents the Legislature with the key decision of whether sustaining ZEV programs is its highest priority for the 2023-24 discretionary GGRF revenue. However, should the Legislature reject the Governor's GGRF approach, this could mean deeper reductions to ZEV or other programs compared to what the administration proposes if it wants to realize the same amount of General Fund savings.

***…And Whether It Wants to Commit Out-Year GGRF Revenues Now.*** As shown in Figure 7, in addition to the $611 million of discretionary GGRF revenues in 2023-24, the Governor proposes using $414 million annually in future GGRF discretionary funds to backfill ZEV programs in 2024-25 and 2025-26. This is somewhat unusual—in general, after allocating funding for statutorily required expenditures, uses for remaining GGRF funds typically are determined by the Governor and Legislature on an annual basis as part of the deliberations on the budget for the fiscal year in which they would be spent. Committing future GGRF revenues now would reduce the discretionary funds available in future years that could support other programs and preclude the Legislature's ability to weigh whether it might have different spending priorities in 2024-25 and 2025-26.

***GGRF Trigger Proposal Also Raises Concerns.*** We have concerns about the Governor's proposal to allow DOF to allocate potential midyear increases in GGRF revenues. Historically, the Legislature has opted to delay action on any additional discretionary GGRF revenues that materialize midyear and allocate them as part of the subsequent year's budget package. This standard approach allows the Legislature the discretion to consider its highest priorities for that spending as part of a more comprehensive discussion. When midyear adjustments have been necessary due to GGRF revenues coming in lower than expected, the administration has cut programs proportionally (rather than making discretionary decisions to prioritize some over others). Allowing the administration to select which ZEV programs it would fund with any potential new monies and at what levels—without any statutory direction from the Legislature—shifts too much decision-making authority away from the Legislature to the administration.

***Potential for Higher GGRF Revenues Highlights Importance of Identifying Legislative Spending Priorities.*** We believe a strong possibility exists that additional GGRF revenues will be available to spend in 2023-24, as the administration historically underestimates cap-and-trade auction revenues. This makes it particularly important for the Legislature to consider its priorities for these discretionary funds—and to maintain decision-making over how to spend potential midyear increases. Extra GGRF revenues could be especially helpful this year, given the potential for a worsening budget picture. The Legislature could consider using such funds to support other climate-related activities that might otherwise need to be reduced.

***Federal Funds May Help Offset Some Reductions, but No Guarantee.*** The Governor has identified federal funding opportunities for ports ($3 billion total), school and transit buses ($5.6 billion total), and ZEV charging ($2.5 billion total). The administration believes this funding could offset reductions in state funding for various ZEV programs. However, applicants for the funding would most likely be individual entities (such as transit agencies interested in purchasing electric buses, charging developers, or ports pursuing lower-emission technologies) rather than state departments. Such applicants would be competing for funding against entities from around the country. As such, while this funding could help offset reductions to similar state programs, California entities would not necessarily be the beneficiaries of the same amounts or allocations of federal funding.

***Funding to Prepare State Properties for ZEV Transition Could Make Sense to Add to ZEV Package.*** DGS is subject to the Advanced Clean Fleets regulation planned for adoption this year by CARB, which will require government vehicle fleets to be zero-emission by 2035. As noted above, the Governor proposes $35 million in new General Fund spending outside of the ZEV package to install charging stations at state-owned and leased facilities to help meet this requirement. Given the General Fund condition and the fact that overseeing the state fleet is a core state responsibility, the Legislature may want to consider whether it should prioritize funding for this activity within the ZEV package over paying for privately owned vehicles and charging stations. Making room for this activity within the existing ZEV package would necessitate making deeper reductions to the programs displayed in Figure 5 if the Legislature wants to avoid an additional $35 million net General Fund cost. However, we think such action could be justified to enable the state to comply with ZEV fleet requirements and given budget constraints.

**LAO Recommendations.**

***Adopt Package of Solutions From ZEV Programs Reflecting Legislative Priorities.*** We recommend the Legislature begin with the Governor's proposals, which we find reasonable, but also consider additional or alternative reductions across ZEV programs based on its goals and highest priorities. As it considers additional reductions, we recommend the Legislature consider whether it wants to further refine certain ZEV programs—such as support for ZEV charging infrastructure and CC4A—to have a narrower scope and focus on the highest-priority populations, locations, and emerging technologies. We also recommend the Legislature consider whether ZEV programs represent its highest-priority for GGRF discretionary spending and whether it wants to commit future-year GGRF revenues for ZEV programs now. The Legislature may also want to determine whether it wants to accommodate funding the costs for installing chargers at state-owned and leased facilities within the existing ZEV package rather than as a new additional General Fund expenditure—though this could come at the expense of other intended ZEV expenditures.

***Reject or Modify Governor's GGRF Trigger Approach, Maintain Legislative Flexibility.*** We also recommend the Legislature either (1) follow its historical approach of waiting to allocate any unforeseen increases in 2023-24 GGRF revenues as part of the 2024-25 budget process; (2) appropriate such revenues by passing a midyear spending bill in early 2024; or (3) adopt language that directs the administration specifically how it should allocate additional GGRF revenues, such as to which programs—ZEV or otherwise—and at which levels. Any of these approaches would better preserve the Legislature's authority over making spending choices as compared to the Governor's proposal.

**Staff Comments.** As the LAO notes, the Governor's proposal to allow DOF to allocate potential midyear increases in GGRF revenues limits Legislative oversight and discretion over the GGRF. To ensure a greater level of flexibility in times of budget uncertainty, staff recommends to reject this component of the proposal, so that if GGRF revenues are higher than expected in the upcoming year, the Legislature retains the opportunity to review what the highest priorities are for GGRF in the following budget year and appropriate accordingly.

With regards to the proposed reductions, the Legislature will want to consider how much federal funding is available for similar purposes. In both the IIJA and IRA, there are several programs with significant amounts of monies available for medium- and heavy-duty ZEVs and charging infrastructure across several sectors. DOF has identified the following programs:

| ZEV Federal Funding | | |
|---|---|---|
| **Program/Purpose** | **Amount (in millions)** | **Code Sections** |
| Class 6 and 7 Trucks Electrification (IRA) | $1,000 | 60101 |
| Ports (IRA) | $3,000 | 60102 |
| Advanced Technology Vehicle Manufacturing (ATVM) Loan Program Emerging Opportunities (IRA) | $3,000 | 50142 |
| Domestic Manufacturing Conversion Grant Program ZEV Manufacturing Grants (IRA) | $2,000 | 50143 |
| Electric drive vehicle battery recycling and second-life applications program (IIJA) | $200 | Div. J, 40208 |
| Charging and Fueling Infrastructure Grants (community charging) (IIJA) | $1,250 | 11101, 11401 |
| Charging and Fueling Infrastructure Grants (corridor charging) (IIJA) | $1,250 | 11101, 11401 |
| Bus and Bus Facilities: Low or No Emissions (Appropriations) (IIJA) | $5,250 | Div. J, 30018 |
| Bus and Bus Facilities: Low or No Emissions (Contract Authority) (IIJA) | $375 | 30017, 30018 |
| Electric or Low-emitting Ferry Program (IIJA) | $250 | Div. J, 71102 |
| Clean School Bus Program (IIJA) | $5,000 | Div. J, 71101 |
| **Total** | **$22,575** | |

In addition, the National Electric Vehicle Infrastructure (NEVI) Formula Program will provide formula-based funding to strategically deploy electric vehicle charging stations. California is estimated to receive over $383 million over five years. There are also a number of federal non-refundable tax credits for consumer purchases of ZEVs. For some programs, it is clear how much the state will receive. However, for many programs, especially competitive grant programs, the federal government has not yet established guidelines or awarded many of the funds. As the Legislature assesses its priorities in the budget, it will want to consider the potential gaps in the federal funding and focus protecting those program areas when taking action on this budget item.

**Staff Recommendation.** Hold Open.

# 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
# 8660 PUBLIC UTILITIES COMMISSION
# 3860 DEPARTMENT OF WATER RESOURCES

## Issue 24: Supporting Energy Reliability and the Clean Energy Transition

**Governor's Proposal.** The Governor has put forward two major proposals related to procuring sufficient clean energy resources to meet reliability and GHG reduction goals. These proposals are contained in budget trailer legislation. The proposals include: (1) establishing a new centralized energy procurement role for the state, for which costs could be recovered from ratepayers, and (2) requiring "capacity payments" from LSEs that experience energy resource deficiencies during months when the state utilizes the ESSRRP. The figure below describes each proposal in detail.

Figure 3

### Summary of Governor's Major New Energy Policy Proposals

**New Centralized Procurement Role for the State**

✓ ***New Central Energy Procurement Authority.*** The proposal provides the California Public Utilities Commission (CPUC) with the option to identify either an Investor Owned Utility (IOU), the Department of Water Resources (DWR), or both to procure energy resources through a centralized procurement process on behalf of Load Serving Entities (LSEs) that provide electricity services to customers. The proposal primarily focuses on establishing requirements for DWR, as DWR does not yet have the authority to centrally procure electricity resources in the way that IOUs currently do. Any resources that DWR procures through this process would be available for IOUs, Publicly Owned Utilities (POUs), and other types of LSEs to use. DWR would utilize its new Strategic Reliability Reserve office and staff to manage the procurement.

✓ ***Requirements for Types of Resources Procured.*** The proposal requires DWR to conduct a competitive procurement process and prioritize investments that do not compete with LSEs' traditional procurement. According to the administration, the DWR procurement is intended to be for long lead-time resources such as offshore wind, geothermal, and long duration storage. The proposed statutory changes, however, do not explicitly limit this procurement option to those types of resources.

✓ ***Authority for New Electricity Rate Charges to Cover Central Procurement Costs.*** The proposal gives CPUC the authority to impose a non-bypassable charge to ratepayers to cover DWR's procurement costs, should CPUC find that the charge would not unreasonably increase costs to customers. A new Clean Energy Procurement Fund would receive the customer charges and support the procurement activities.

✓ ***Authority for DWR to Issue Bonds.*** The proposal gives DWR the authority to issue bonds, if necessary, to fund up-front costs for its central procurement activities. These bonds would be repaid with the ratepayer charges noted above.

**New Charges for LSEs That Do Not Procure Sufficient Energy Resources**

✓ ***Require Payments if LSEs Do Not Meet Energy Capacity Targets.*** To discourage LSEs (including POUs, which are outside the CPUC's jurisdiction) from over-relying on the Electricity Supply Strategic Reliability Reserve Program (ESSRRP), the proposal would require utilities that do not procure sufficient energy capacity to make payments to help support the ESSRRP.

✓ ***Payments Calculated Based on Energy Resource Deficiency.*** The state would assess a payment if an LSE does not meet its reliability obligations in a month when the state had to access the ESSRRP. Specifically, the payment would be based on a calculation that factors in the cost of the energy resource provided by the ESSRRP and the LSE's deficiency in meeting its monthly Resource Adequacy or planning reserve requirements. The payments would be calculated by CPUC and the California Energy Commission.

✓ ***Payments Would Be in Addition to Existing Integrated Resource Planning Enforcement Penalties.*** The proposed new payments would be in addition to existing enforcement protocols. Specifically, an LSE that fails to meet its planning reserve margin or Resource Adequacy requirements for the given month when the state used the ESSRRP would be subject to both this new charge and existing penalty payments.

***Some Initial Funding to Come From the General Fund.*** As described in the figure, the Governor proposes to fund the ongoing support and operational costs for DWR's new procurement role from new charges to ratepayers. These charges also would be used to pay off any bonds that DWR might issue for large capital costs. In addition, the Governor proposes using General Fund in 2023-24 to help "stand up" the new procurement function at DWR. Specifically, the CERIP that CEC recently submitted to the Legislature includes $32 million—of the intended $100 million budget-year amount—to help establish this new central procurement office and process.

***Other Technical Statutory Changes to Existing Energy Policies and Programs.*** The proposed trailer legislation also includes various statutory changes for the three Strategic Reliability Reserve programs and DCPP which the administration considers to be technical "clean up."

**Background.** According to the LAO:

***State Facing Some Energy Reliability Challenges.*** Climate change is contributing to demands on the state's electric grid, with warmer temperatures leading to more calls for electricity during peak evening hours in the summer months. In August 2020, California experienced rolling power outages due to a heatwave and accompanying strain on the electric grid. The state avoided outages in 2021 and 2022, but energy resources were strained during summer heatwaves. A major heatwave in September 2022 caused the state to send an emergency text message alert to 27 million Californians to encourage energy conservation—the first time such a measure had been deployed. While the state has experienced significant growth in renewable energy sources in recent years, some of those variable energy resources are estimated to require additional planning and diversity to maintain reliability. Greater development of energy storage technology, development of complementary renewable resources, energy efficiency and demand response programs, and more accurate planning and modeling will be needed to help address the misalignment challenge of growing demand during times that a key renewable energy source is not available.

***Significant Growth in New Energy Resources, but Also Project Delays.*** In recent years, the number of clean energy projects across the state has increased exponentially, with the amount of renewable energy supply more than tripling since 2005. Between 2020 and 2022, 130 new clean energy projects came online to serve customers in the California Independent System Operator network, which provides electricity to 80 percent of California. However, some projects also have experienced delays due to issues with the supply chain, permitting, and connecting new resources to the electric grid. While the state is on track to continue to develop new clean energy resources over the next decade, such delays in bringing these projects online could pose challenges in meeting the state's clean energy, emissions, and reliability goals.

***Recent Budgets and Policy Actions Provided Significant Funding for Clean Energy and Reliability.*** The 2022-23 budget package planned for $9.6 billion over five years for clean energy programs and reliability efforts. The administration indicates that California also has received federal funds to support various energy efficiency efforts through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act, but has not yet provided specific details on the status of this funding or what types of projects it could support. The Governor's budget proposes some reductions to state energy activities, but would maintain the majority of the planned funding ($8.7 billion). Moreover, a large share of this funding—$3.3 billion across five years—is for three programs intended to increase statewide electricity reliability, which the Governor does not propose reducing. Together, the administration refers to these three programs as the "Strategic Reliability Reserve," and they include:

- ***Electricity Supply Strategic Reliability Reserve Program (ESSRRP, $2.3 Billion).*** This program funds the Department of Water Resources (DWR) to secure additional electricity resources to help ensure summer electric reliability. So far, these activities have included extending the life of gas-fired power plants that were scheduled to retire, and procuring temporary diesel and natural gas power generators as well as extending retiring facilities. DWR says it has avoided procuring zero-emission resources, such as battery storage, as existing code requires the agency to not compete with generation planned for POUs and IOUs. The ESSRRP provided between 554 megawatts (MW) and 1,416 MW of energy during last September's extreme heat event. For context, the rotating outages in 2020 were caused by a shortfall of about 500 MW.

- ***Demand Side Grid Support ($295 Million).*** This new program, administered by the California Public Utilities Commission (CPUC), provides customer incentives to reduce net electricity load during extreme events. In the summer of 2022, utilities began enrolling participants in the program, which pays customers to reduce their energy usage during summer peak evening hours when the electric grid is strained. This program, administered as the Emergency Load Reduction Program, has increased the compensation provided per kilowatt hour of energy reduction (now $2 per kWh, compared to $1 per kWh in 2021) to encourage enrollment.

- ***Distributed Electricity Backup Assets ($700 Million).*** This new program, administered by the California Energy Commission (CEC), provides incentives for certain distributed energy resources that can be used to support the state's electrical grid during extreme events. The CEC is still developing the program, which is intended to fund zero- or low-emissions technologies such as fuel cells and energy storage at both existing energy facilities and new facilities.

In addition to these budget actions, Chapter 239 of 2022 (SB 846, Dodd) authorized the extension of the Diablo Canyon Power Plant (DCPP)—which was scheduled to retire by 2025—through 2030. Diablo Canyon is California's last remaining nuclear power plant, and the state has identified it as a valuable near-term source of zero-carbon energy during the transition to greater renewable resources. While the legislation authorized an extension, DCPP still has to receive required permits at the local, state, and federal levels in order to continue operations. SB 846 also authorized the following expenditures:

- ***Loan to Pacific Gas & Electric (PG&E) (up to $1.4 Billion).*** The Legislature specified intent to provide a General Fund loan of up to $1.4 billion to PG&E to support extended operations at Diablo Canyon. Of this total amount, the Legislature has authorized $600 million so far. The potential remaining $800 million is subject to a future appropriation. PG&E was awarded a $1.1 billion federal grant from the U.S. Department of Energy in November 2022 and is expected to use this award to pay back the state for loans it ultimately receives.

- ***Clean Energy Reliability Investment Plan (CERIP, $1 Billion).*** Senate Bill 846 also included legislative intent to provide a total of $1 billion General Fund from 2023-24 through 2025-26—$100 million in 2023-24, $400 million in 2024-25, and $500 million in 2025-26—to support the CERIP, which CEC recently developed. The legislation required the plan to support investments that address near- and mid-term reliability needs and the state's GHG and clean energy goals. In accordance with the legislation, the administration proposes to provide $100 million in 2023-24 for CERIP-identified activities. Specifically, the Governor proposes: (1) $32 million for DWR to develop a proposed new central procurement role described below; (2) $33 million for extreme event support (including additional funding for the Demand Side Grid Support and Distributed Electricity Backup Assets programs); (3) $20 million for various administrative, community engagement, and planning expenditures; and (4) $15 million to help new energy resources come online.

**Staff Comments.** This proposal includes several significant policy changes that would establish a new centralized procurement role for the state. According to the Administration, the intended goals of these policy changes are to support long-term energy reliability by ensuring long lead time, diverse, and large (LLTDL) energy resources, such as offshore wind, geothermal, and long duration storage, gets procured. However, several uncertainties remain about the proposal:

- **What will central procurement be used for?** Though this procurement process is intended to be used for LLTDL energy resources, the trailer bill language does not define what is included in this term. The Administration intends to be more specific in the CPUC regulatory processes and provide a range of attributes for the projects in the solicitation. However, this statutory ambiguity has raised concerns for some stakeholders, particularly since LSEs are already competing in a very tight market for energy resources. Additional competition from a state procurement entity could potentially further increase prices and prevent LSEs from meeting its requirements.
- **What will be the impact on costs to ratepayers?** The proposal includes some cost containment measures, to ensure DWR does not enter into contracts that incur unreasonably high costs to ratepayers. Specifically, CPUC will be able to review the procurement and allow cost recovery only if the costs are found to be "just and reasonable". In addition, the Administration reports DWR would convene an advisory group to review contracts to consult during the procurement process to assess the reasonableness of costs. However, as the LAO notes, it is still unclear how the market as a whole will be affected by a state entity entering the procurement market. It is possible that prices could increase due to another large, well-resourced entity entering the market.

In addition, it is still unclear whether this central procurement process is (1) really necessary given the other avenues the state has to procure energy resources and (2) urgently needed, given the Administration estimates it would not utilize this central procurement option in 2023-24. In recent years, the Budget has included several significant budget and policy items for energy reliability. Before the Legislature takes on another significant new policy and budget proposal to address energy reliability, it might be prudent to first assess the existing programs and funding, evaluate the measurable outcomes that are available, and identify the gaps and problems with the state approach, to ensure that any new policies will be addressing those issues.

This proposal also includes a new mechanism to require energy resource deficient LSEs to make a capacity payment to support the Electricity Supply Strategic Reliability Reserve Program (ESSRRP) for any capacity purchased on behalf of these LSEs by DWR. This would be in addition to any penalties assessed by CPUC for not meeting capacity requirements. Capacity payments would also be assessed on POUs if they did not procure sufficient energy resource capacity to reliably meet their forecasted load. Although this policy makes sense in concept, it raises some concerns. Specifically, several stakeholders have reported that the near-term energy resource capacity market is extremely tight, and several entities are competing for a limited number of projects. Some analyses have shown there is simply not enough (or barely enough) supply to meet the increasing capacity requirements. As a result, some LSEs are already having to pay penalties (from CPUC and CAISO) for not meeting their requirements, despite their best efforts to procure and willingness to pay exorbitant prices. Under this proposal, these same LSEs will be required to pay an additional capacity payment, which ultimately will result in even higher costs for their ratepayers. Given that these LSEs are already required to pay a penalty, it is unclear whether an additional payment will achieve its intended goal—to incentivize LSEs to meet their energy resource capacity requirements—and make energy costs even higher for certain ratepayers.

Furthermore, the legislature may want to consider the extent to which past programs versus proposed programs align with California's long-term and interim clean energy transition targets, such as those created in SB 100 (DeLeón, 2018) and updated by SB 1020 (Laird, 2022). The Electricity Supply Strategic Reliability Reserve Program has since predominantly procured low-emission resources at a higher cost compared to direct market procurement. Other proposals in this year's budget may provide additional opportunity for less variable clean energy resources.

**Staff Recommendation.** Hold Open.

# 3360 Energy Resources Conservation and Development Commission
# 3900 State Air Resources Board

## Issue 25: Reauthorization of the Clean Transportation Program Fees and Program Amendments

**Governor's Proposal.** The Governor's Budget requests to extend until June 30, 2035 the following vehicle registration, smog abatement, vessel registration, and identification plate fees at the existing rates:

| AB 8 Fees | Code Section | Average Annual Number & Type of Fee Payers | Department | Average Annual Revenue (Dollars in Millions) | Fund | Program |
|---|---|---|---|---|---|---|
| $2 Vehicle Registration Fee | Vehicle Code section 9250.1 | 33.6 million vehicles | CEC | $67 | ARFVTF (3117) | Clean Transportation Program (CTP) |
| $4 Smog Abatement Fee | Health and Safety Code section 44060.5 | 10.0 million vehicles | CEC | $42 | ARFVTF (3117) | Clean Transportation Program |
| $5 Vessel Registration Fee / $10 Vessel Registration Fee | Vehicle Code section 9853.6 | 24,000 original vessel registrations | CEC | $0.21 | ARFVTF (3117) | Clean Transportation Program |
| $2.50 Identification Plate Fee * | Vehicle Code sections 9261 and 9261.1 | ~135,000 specialized vehicles | CEC | $0.08 | ARFVTF (3117) | Clean Transportation Program |
| $1 Vehicle Registration Fee | Vehicle Code section 9250.1 | 33.6 million vehicles | CARB/BAR | $33 | Enhanced Fleet Modernization Account (3122) | Enhanced Fleet Modernization Program/Consumer Assistance Program |
| $4 Smog Abatement Fee | Health and Safety Code section 44060.5 | 10.0 million vehicles | CARB | $42 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| $5 Vessel Registration Fee / $10 Vessel Registration Fee | Vehicle Code section 9853.6 | 24,000 original vessel registrations | CARB | $0.18 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| $2.50 Identification Plate Fee * | Vehicle Code sections 9261 and 9261.1 | ~135,000 specialized vehicles | CARB | $0.08 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| | | | Total Annual Revenue | $185 | | |

* Identification Plate Fee - Since 1986, Identification Plates shall be renewed between Jan 1 and Feb 4 every five calendar years. FY 15/16 and FY 20/21 were renewal years. Average Non-renewal yea

The Governor also proposes to slightly modify which types of projects and entities would be eligible to receive funding grants from the CTP. First, the proposal would limit eligibility for CTP funding to zero-emission technologies. (CTP historically has funded both low-emission and zero-emission technologies, although has begun to prioritize the latter in recent years.) Second, the proposal would modify CTP's existing statute to allow for U.S. Department of Energy national laboratories to receive awards under the program. Third, the proposal would expand the definition of tribes that may receive funding through the program to all California tribes, rather than only federally recognized tribes.

**Background.** According to the LAO:

***Vehicles Are a Major Source of Greenhouse Gas (GHG) Emissions and Air Pollution.*** The state has undertaken a variety of steps to try to limit the magnitude of climate change and reduce GHG emissions. Transportation is the largest single source of GHG emissions—responsible for about 40 percent of total GHG emissions overall, with 25 percent of the total coming from passenger vehicles. This makes vehicles a key area of focus for achieving GHG reductions. Additionally, vehicles—particularly heavy-duty trucks—are major sources of air pollution. Numerous counties in the state are out of attainment with federal air quality standards, and several counties in the Central Valley and Southern California are classified as extreme non-attainment communities. Air pollution from mobile sources is responsible for about 80 percent of nitrogen oxide emissions and 90 percent of diesel particulate matter emissions, both of which are harmful to human health. Communities with larger percentages of low-income households and people of color are disproportionately exposed to air pollution.

***AB 8 Fees Include Various Vehicle-Related Taxes.*** Chapter 750 of 2008 (AB 118, Núñez) established several different vehicle-related fees that primarily support climate and air quality programs. Chapter 401 of 2013 (AB 8, Perea) extended these fees until January 1, 2024. Throughout this brief, we refer to the vehicle charges imposed by AB 8 as "fees," which is generally consistent with how they are characterized in statute. However, under the State Constitution, these charges qualify as taxes. These fees include an annual smog abatement fee for vehicles six years old or less ($8), an annual vehicle registration fee ($3), an annual vehicle identification fee ($5), and a vessel registration fee ($20 every other year). These vehicle fees are only charged for light-duty passenger vehicles and, in the case of the vessel fee, boats. (These numbers reflect the share of these fees that go to AB 8 programs; the state also charges some additional vehicle fees that are not reflected here.)

***Fee Revenue Supports Five Vehicle Emissions-Related Programs.*** The revenue from these fees supports five environmental and clean transportation programs, most of which are targeted at mitigating climate change and improving air quality. The amounts shown reflect approximate AB 8 annual revenues, based on statutory formula allocations.

- ***Clean Transportation Program (CTP, $110 Million).*** The CTP program, administered by the California Energy Commission, provides grants to accelerate development and deployment of clean vehicles, including ZEV fueling infrastructure, alternative vehicle technologies, and alternative fuels. According to the administration, about 50 percent of funded projects are located in low-income or disadvantaged communities experiencing disproportionate levels of pollution.

- ***Carl Moyer Program ($50 Million).*** This joint state and local program provides financial support for early vehicle retirement and cleaner-than-required equipment. The program largely focuses on reducing criteria and toxic air emissions from heavy-duty diesel engines. It is administered by the California Air Resources Board (CARB) and local air districts.

- ***Waste Tire Program ($35 Million).*** This program, administered by the California Department of Resources Recycling and Recovery, supports permitting and enforcement activities to ensure tires are stored and transported safely. It also funds tire recycling and market development activities.

- ***Enhanced Fleet Modernization Program (EFMP, $33 Million).*** The EFMP provides subsidies to retire older, high-polluting vehicles and replace them with newer vehicles, with higher subsidies for low-income households. The Bureau of Automotive Repair (BAR) implements the scrap-only portion of the program statewide, which receives about 90 percent of the funds, through its Consumer Assistance Program. Under the program, low-income consumers are eligible for a $1,500 incentive to retire higher-polluting older vehicles at a BAR-contracted dismantler. CARB administers the scrap-and-replace portion of EFMP, which provides a retirement incentive and additional compensation towards the purchase of a cleaner hybrid or zero-emission replacement vehicle. Participants must make 400 percent or less of the federal poverty level (FPL) to qualify for the scrap-and-replace option.

- ***Air Quality Improvement Program (AQIP, $29 Million).*** AQIP is a mobile source incentive program that focuses on reducing criteria pollutants and diesel particulate emissions. In recent years, CARB has allocated these revenues to the Truck Loan Assistance Program, which helps small-business fleet owners secure financing for cleaner truck upgrades in order to meet regulatory requirements. To be eligible, program participants must earn less than 225 percent of the FPL annually.

***Portion of Fees Scheduled to Expire at End of 2023.*** In 2022, the Legislature enacted Chapter 355 (AB 2836, E. Garcia), which extended the portion of the AB 8 fees that support the Carl Moyer Program and the Waste Tire program until 2034. The portion of the fees that supports the three remaining programs—AQIP, EFMP, and CTP—however, has not been extended, and is scheduled to sunset on January 1, 2024. The figure below displays the annual fees that are scheduled to sunset and how they currently are allocated across programs. As shown, the fees represent a total cost of up to $16 annually per vehicle for a typical vehicle owner and $20 per vessel every other year for boat owners.

Figure 1

**Allocation of Sunsetting AB 8 Fees by Program**

(In Dollars)

| Fee | AQIP | CTP | EFMP | Totals |
|---|---|---|---|---|
| Vessel Registration Fee[a] | $10.00 | $10.00 | – | $20.00 |
| Smog Abatement Fee[b] | 4.00 | 4.00 | – | 8.00 |
| Vehicle Identification Fee | 2.50 | 2.50 | – | 5.00 |
| Vehicle Registration Fee | – | 2.00 | $1.00 | 3.00 |
| **Totals** | **$16.50** | **$18.50** | **$1.00** | **$36.00** |

[a] These fees are applied for boat registrations and are charged every other year rather than annually.
[b] Applies to vehicles six years old or less.

AB 8 = Chapter 401 of 2013 (AB 8, Perea); AQIP = Air Quality Improvement Program; CTP = Clean Transportation Program; and EFMP = Enhanced Fleet Modernization Program.

**LAO Assessment.**

***Proposal Would Require Californians to Continue Paying Existing Taxes.*** In concept, it is reasonable for the state to have drivers bear some of the costs of efforts to reduce the impacts of mobile emissions, given they represent a key source of the resulting pollution and GHG emissions. Moreover, continuing to charge the AB 8 fees would not represent a new cost to or increase in taxes for vehicle owners, but rather maintain existing, relatively modest levels ($8 in annual registration fees and $8 in annual smog abatement fees for cars six years old or less). However, vehicle owners essentially already pay an additional fee to help mitigate pollution and reduce GHG emissions resulting from the cap-and-trade program, which adds about 22 cents to the cost of each gallon of gas. (This takes into consideration the costs that fossil fuel companies—covered under the cap-and-trade program—add to each gallon of gas, reflecting their program compliance costs that they choose to pass on to customers.) Moreover, although AB 8 fees are modest, they represent a direct cost to vehicle owners—including to lower-income households, which are more likely to be negatively affected by higher registration prices. California vehicle owners already pay high registration fees compared to other states and have experienced significant increases in the past decade. For example, average total annual fees paid per vehicle have increased from $143 for automobiles in 2013 to $245 in 2020, not including air quality fees such as the smog fee. Given these trends, together with inflationary pressures and the exceptionally high cost of living in California, it will be important for the Legislature to carefully consider how important AB 8 revenues are to meeting the state's goals and whether they are worth the costs they place on households.

***Significant New Policy Goals Since AB 8 Fees Were Enacted and Reauthorized…*** The state has adopted new, more ambitious GHG reduction goals since the AB 8 fees were reauthorized in 2013. For instance, Chapter 249 of 2016 (SB 32, Pavley) updated the state's GHG reduction limit from 1990 levels by 2020 to 40 percent below 1990 levels by 2030. Chapter 337 of 2022 (AB 1279, Muratsuchi) requires the state to achieve net-zero GHG emissions by 2045. In addition to these goals, the administration has introduced new regulations to promote ZEV adoption. The Advanced Clean Cars II rule, adopted by CARB in 2022, requires 100 percent of new cars and light-duty trucks sold in California to be ZEVs or hybrid-electric by 2035. The proposed Advanced Clean Fleets rule, which CARB anticipates adopting this spring, would require all new trucks and buses sold to be ZEVs by either 2036 or 2040 (CARB has not yet decided which year). The state also has undertaken numerous efforts to improve air quality, especially in communities that are out of attainment with federal air quality standards. Taken together, the challenge of meeting ambitious goals, carrying out regulatory requirements, and addressing continuing air quality problems may provide some rationale for a continued need for AB 8 fee revenues.

***…But Also Significant New Other Sources of Funding to Support Those Goals.*** While the state's goals have evolved notably since the Legislature enacted AB 118 and AB 8, so too have the sources and amounts of funding to improve air quality and vehicle emissions. For example, cap-and-trade auction revenues that flow into the Greenhouse Gas Reduction Fund (GGRF) have increased from $257 million in 2012-13 to more than $3 billion annually in recent years. Much of this funding has been allocated to mobile source emissions reduction programs, including "AB 617" community air pollution reduction efforts as well as various clean transportation programs. The state also committed roughly $10 billion over five years for ZEV programs, primarily from the General Fund, in the 2021-22 and 2022-23 budgets. Although the Governor's 2023-24 budget proposes making some reductions to this funding, it would maintain the significant majority. In addition to these state investments, recent federal spending bills provided considerable funding to support ZEVs and other clean transportation efforts. Federal programs include tax incentives for households to purchase ZEVs, grants for charging infrastructure, funding for electric buses and truck electrification, and funding to promote cleaner vehicle technologies.

***Extending AB 8 Fee Revenues Could Provide Reliable Funding Source and Help Offset Potential Budget Reductions.*** Though the state's commitments of General Fund and GGRF revenues are significant, these sources are not consistently reliable into the future. Should the Legislature believe deeper investments in clean transportation efforts are necessary through 2035, reauthorizing the AB 8 fee revenues could provide a consistent funding source without raising new taxes or fees. Moreover, extending these fees could help the Legislature continue to pursue its goals at the same time it needs to address the state's current budget problem. For example, the Legislature could opt to reduce General Fund expenditures from the ZEV package for similar activities currently being supported by AB 8 fee revenues. While this would result in a net reduction to ZEV program spending, it could allow the Legislature to achieve General Fund savings while feeling confident that some level of its desired activities will still be conducted.

***Potential Reauthorization Presents Opportunity to Consider Highest-Priority Use of Funds.*** When initially authorized, these fees were intended to support then-emerging lower-emission/ZEV technologies and help transition car owners to less-polluting vehicles. The landscape of ZEV adoption and other clean transportation incentive programs has changed significantly since that time, however, with greater consumer demand, more available incentives for purchasing ZEVs, and expanded availability of infrastructure to support them. For example, about 20 percent of all new cars sold in California in 2022 were ZEVs (compared to about 10 percent in 2020), and there are currently about 80,000 ZEV chargers in California. Research suggests roughly half of the households that receive an incentive to purchase a ZEV would have purchased one anyway, revealing the extent to which the ZEV market has matured and thus may not need as many government incentives to further develop compared to when these fees were last authorized. Therefore, should the Legislature determine that AB 8 fee revenues still are essential for meeting the state's clean air and GHG reduction goals, it may also want to reconsider the highest-priority uses for the funds to ensure they are being used effectively to achieve desired outcomes. For example, the Legislature could consider:

- ***Revising the Focus of Existing Programs.*** As discussed earlier, the Governor is proposing some minor eligibility changes for CTP. The Legislature could consider additional revisions to the current AB 8-funded programs that would allow them to better support the state's GHG and air quality goals. For example, new state regulations will promote greater adoption of medium- and heavy-duty ZEVs. Given that this is already the direction in which the state is heading, rather than using AQIP AB 8 funds to support purchases of trucks with traditional combustion engines (as is allowed under current program rules), the Legislature could consider requiring AQIP to focus exclusively on upgrades to ZEVs. In addition, the Legislature could consider adopting statutory changes to further modify the focus of CTP. For instance, the administration has reported that about 50 percent of funded projects have been located in low-income or disadvantaged communities. The Legislature could require the program to further prioritize these communities, such as by adding a focus on multiunit dwellings, given that existing chargers are more heavily located in affluent areas. The Legislature could also consider requiring CTP investments to support newer, more emergent technologies such as hydrogen charging and medium- and heavy-duty chargers, which are less prevalent than passenger vehicle chargers but will be needed as more hydrogen-powered and large ZEVs enter the market.

- ***Funding Different Clean Vehicle Programs and Activities.*** The Legislature also could fund a different mix of programs and activities to ensure AB 8 funds are used to strategically complement other ZEV activities. For example, AB 8 fee revenues could be used to support more ZEV heavy-duty truck and bus vouchers, which are one of the most cost-effective mobile source programs for reducing GHG emissions.

- ***Using the Funds for Other Purposes.*** The Legislature also could extend these fees but use them for other budgetary purposes, such as to (1) help the balance of the Motor Vehicles Account (MVA); (2) support other clean air or climate activities; or even (3) direct them for other, non-vehicle-related funding priorities, given the state budget problem. (As we describe in a separate publication, the MVA, which receives revenue from vehicle registration and other driver-related fees to primarily support the California Highway Patrol and Department of Motor Vehicles, is currently experiencing shortfalls.) This third option would be a departure from the original intent and longstanding usage of these funds, but is an available alternative given these are taxes and not fees.

***Legislature Could Consider Restructuring Fees.*** The Legislature also could consider restructuring the way these fees are charged. For example, one option would be to adopt a more progressive structure that takes vehicle value into consideration. Some other transportation fees—such as the Transportation Improvement Fee, which funds road improvements—vary charges based on the value of the vehicle. Should the Legislature take this approach, it could help reduce some of the negative impacts on low-income households and create a more equitable structure. However, depending on how it was structured, such an approach likely would increase the cost burden for some other vehicle owners and might generate a different amount of overall revenue. In addition, AB 8 fee revenues are collected from passenger light-duty vehicles, but about half of the fee revenues are used to support programs that target heavy-duty vehicles. Another option the Legislature could consider is to also charge these fees to heavy-duty vehicle owners, given that such vehicles cause air pollution and GHG emissions at an even greater level than passenger vehicles and currently are an area of focus for expenditures of this funding.

**LAO Recommendations.**

***Consider Whether AB 8 Fee Revenues Still Are Essential to Meeting State Goals.*** We recommend that the Legislature weigh whether AB 8 revenues still are vital to helping the state pursue its clean air and GHG emission reduction goals, given the continued—albeit modest—tax burden they represent for California vehicle owners. Significant changes in policies and funding for ZEVs and clean transportation have occurred since the fees were last reauthorized in 2013. While the state's desire to pursue more aggressive goals could argue for a continued need for the revenues, significant other funding sources have become available to help support those efforts. As part of its deliberations, we recommend the Legislature consider whether the state needs a consistent and ongoing fund source along with the significant, but limited-term, General Fund, GGRF, and federal funds for these purposes. We also recommend the Legislature assess the merits of directing AB 8 fee revenues to help it solve the state's current budget problem, such as by using them for some ZEV programs and making corresponding General Fund reductions.

***If Fees Are Reauthorized, Consider Highest Priorities for Funding.*** Much has changed since these fees were last reauthorized in 2013—a more robust ZEV market, greater funding for ZEVs, and an increased need to support lower-income communities in making the vehicle transitions the state is now requiring. Should it choose to reauthorize AB 8 fees, we recommend the Legislature consider its highest-priority goals for the associated funding. The Legislature could consider revising existing programs, supporting a different mix of clean vehicle efforts, or using the funds for other budgetary priorities.

***Consider Restructuring Fees.*** Unlike some other vehicle registration fees, AB 8 fees are set at equal levels regardless of the cost of the vehicle. If the Legislature decides to reauthorize the fees, it also could consider restructuring them, such as to require more expensive vehicles to pay a higher rate than lower-cost vehicles. This could create a more progressive structure and ease cost burdens for some lower-income vehicle owners, though it would represent a notable shift in policy approach and could change the amount of annual revenues generated. The Legislature could consider also charging fees for heavy-duty vehicles, as larger diesel vehicles exacerbate air pollution and GHG emissions at greater rates than light-duty passenger vehicles. Moreover, this category of vehicle owners currently receives significant benefits from AB 8 program expenditures.

**Staff Comments.** The Legislature has historically approved these fees through the policy process. In the current session, Senator Gonzalez has introduced SB 84, which would extend the existing fees that fund CTP, AQIP, and EFMP at their current levels through 2035. The bill will also make programmatic changes to the CTP—more specifically, (1) it will require 50 percent of CTP funds to be spent on programs and projects that directly benefit or serve residents of disadvantaged and low-income communities and (2) it will prioritize projects that advance the deployment of medium- and heavy-duty vehicles and that fill deployment gaps for light-duty vehicle infrastructure. This bill mirrors AB 241, which has been introduced by Assemblymember Reyes. As the Legislature reviews this proposal, it may want to consider whether the budget process would provide sufficient discussion and revision to inform the level and structure of the fees and its intended programs. To the extent that the Legislature decides to discuss the fee extension as part of the budget process, this provides a natural opportunity to review the intended goals of the fees and priorities in clean transportation. As the LAO highlights, the Legislature can restructure and reprioritize the funding, whether through adjusting the criteria that CEC and CARB uses to select projects or through adjusting the fee structure so that medium- and heavy-duty vehicles, who are often the focus of these funding programs, pay a greater fee.

**Staff Recommendation.** Hold Open.

## 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

### Issue 26: Implementing Hourly Electricity Retail Resource Accounting (SB 1158, Becker)

**Governor's Proposal.** The Governor's Budget requests $214,000 from the Energy Resources Programs Account (ERPA) for one permanent position to develop regulations implementing hourly retail resource accounting (hourly accounting) under the Power Source Disclosure (PSD) Program and to collect, process, and produce hourly data in support of Integrated Resource Planning and other activities, as required by Chapter 367, Statutes of 2022 (SB 1158, Becker).

**Background.** The PSD Program is a consumer information program that requires California retail electricity suppliers to report and disclose the electricity sources and GHG emissions intensities associated with electricity portfolios that serve retail customers during the previous calendar year. To complete this requirement, retail suppliers report their gross electricity procurements, resales of electricity, and net electricity sources used to serve annual retail load in the previous year. The CEC uses this information, in part, to generate California's total system electric generation, which represents a full inventory of in-state generation and imports. Retail suppliers are required to disclose on a power content label the fuel mixes and GHG emissions intensities associated with their electricity portfolios, along with the fuel mix of California's total system electric generation and utility average GHG emissions intensity. SB 1158 creates a new requirement for the California Energy Commission (CEC) to develop regulations implementing hourly retail resource accounting (hourly accounting) under the Power Source Disclosure (PSD) Program, and to collect, process, and produce hourly data in support of Integrated Resource Planning and other activities. The regulations are to be adopted by July 1, 2024.

**Staff Comments.** ERPA is funded by a statutory surcharge on electricity consumption. The surcharge was increased to its statutory maximum – from $0.00029 to $0.0003 per kilowatt-hour (kWh) – by the CEC effective January 1, 2019. The surcharge generated approximately $73 million in 2021-22 and costs the average household $2 annually. However, ERPA is in a structural deficit—appropriations have outstripped revenues for most of the last decade. To address this fund imbalance, the CEC has reduced ERPA spending by about $40 million over four budget cycles. In part due to these actions, ERPA will maintain an adequate fund balance through 2023-24. However, the fund is projected to have a negative fund balance beginning in 2025-26:

Energy Resources Program Account (ERPA) Fund Condition
(dollars in thousands)
2023-24 Governor's Budget

| | Past Year 21-22 | Current Year 22-23 | BY 23-24 | BY+1 24-25 | BY+2 25-26 |
|---|---|---|---|---|---|
| **BEGINNING RESERVES** | $48,171 | $41,234 | $28,544 | $15,747 | $2,977 |
| **REVENUES & TRANSFERS** | | | | | |
| *Revenues* | | | | | |
| Revenue | $70,638 | $73,520 | $73,520 | $73,520 | $73,520 |
| **Total Resources** | **$118,809** | **$114,754** | **$102,064** | **$89,267** | **$76,497** |
| **EXPENDITURES** | | | | | |
| *Baseline Support Expenditures* | | | | | |
| Energy Resources Conservation and Development Commission - Base Budget | $71,630 | $72,287 | $74,257 | $74,257 | $74,257 |
| Other - Department Users and Pro Rata | $5,945 | $9,623 | $7,760 | $7,760 | $7,760 |
| SB 84 Loan Repayment | $0 | $4,300 | $4,300 | $4,273 | $4,273 |
| **Total, Support Expenditures** | **$77,575** | **$86,210** | **$86,317** | **$86,290** | **$86,290** |
| **Expenditure Total** | **$77,575** | **$86,210** | **$86,317** | **$86,290** | **$86,290** |
| **FUND BALANCE** | **$41,234** | **$28,544** | **$15,747** | **$2,977** | **-$9,793** |

Any increase in ERPA expenditures may accelerate the need for an increase in the statewide surcharge on electricity consumption that provide revenue for this fund. To ensure SB 1158 is implemented fully and funded from a sustainable source, the Legislature may want to consider alternatives to address some of the cost pressures to ERPA.

**Staff Recommendation.** Hold Open.

# 8660 PUBLIC UTILITIES COMMISSION

## Issue 27: Implementation and Delay of the Broadband Infrastructure Funding

**Governor's Proposal.** The Governor's Budget proposes to defer a total of $1.1 billion General Fund allocated to two broadband programs. Specifically, the Administration proposes to (1) defer $550 million for the last-mile infrastructure grants in 2023-24 to future years ($200 million in 2024-25, $200 million in 2025-26, and $150 million in 2026-27) and (2) defer $175 million from 2022-23 and $400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years ($300 million in 2024-25 and $275 million in 2025-26).

**Updated Broadband Infrastructure Spending Plan, Delays Proposed in Governor's Budget**
(In Millions)

| | | Funding Source | | |
|---|---|---|---|---|
| **Program or Project** | **Fiscal Year** | **Total Funds** | **General Fund** | **Federal Funds** |
| **Middle-Mile Network** | 2021-22[a] | $3,250 | $887 | $2,363[b] |
| | 2022-23 | — | — | — |
| | 2023-24[c] | 300 | 300 | — |
| | 2024-25[c] | 250 | 250 | — |
| | 2025-26 | — | — | — |
| | 2026-27 | — | — | — |
| Subtotals | | ($3,800) | ($1,437) | ($2,363) |
| **Last-Mile Projects[d]** | 2021-22[e] | $1,072 | $522 | $550[f] |
| | 2022-23 | 125 | 125 | — |
| | 2023-24 | 253 | 253 | — |
| | 2024-25 | 200 | 200 | — |
| | 2025-26 | 200 | 200 | — |
| | 2026-27 | 150 | 150 | — |
| Subtotals | | ($2,000) | ($1,450) | ($550) |
| **Broadband Loan Loss Reserve Fund[g]** | 2021-22 | — | — | — |
| | 2022-23 | — | — | — |
| | 2023-24 | $175 | $175 | — |
| | 2024-25 | 300 | 300 | — |
| | 2025-26 | 275 | 275 | — |
| | 2026-27 | — | — | — |
| Subtotals | | ($750) | ($750) | (—) |
| **All Programs and Projects** | 2021-22 | $4,322 | $1,409 | $2,913 |
| | 2022-23 | 125 | 125 | — |
| | 2023-24 | 728 | 728 | — |
| | 2024-25 | 750 | 750 | — |
| | 2025-26 | 475 | 475 | — |
| | 2026-27 | 150 | 150 | — |
| **Total** | | **$6,550** | **$3,637** | **$2,913** |

[a] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $887 million for the middle-mile network from American Rescue Plan (ARP) fiscal relief funds to General Fund in 2021-22.
[b] The remaining $2.363 billion in federal funds for the middle-mile network in 2021-22 is state ARP fiscal relief funds.
[c] The additional $550 million General Fund for the middle-mile network ($300 million in 2023-24 and $250 million in 2024-25) is consistent with the legislative goal to provide these amounts (subsequent to the submission of a statutory report) in Chapter 48 of 2022 (SB 189, Committee on Budget and Fiscal Review).
[d] All last-mile project amount and timing changes from the initial spending plan for 2023-24 through 2026-27 are proposed changes in the Governor's 2023-24 budget.
[e] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $522 million for last-mile projects from ARP fiscal relief funds to General Fund in 2021-22.
[f] The remaining $550 million in federal funds for last-mile projects in 2021-22 is the state's allocation from the ARP's Coronavirus Capital Projects Fund.
[g] All Broadband Loan Loss Reserve Fund amount and timing changes from the initial spending plan for 2021-22 through 2025-26 are proposed changes in the Governor's 2023-24 budget.

**Background.**

***The Administration and Legislature Reached a Three-Year, Multibillion Dollar Broadband Infrastructure Agreement in 2021***. In July 2021, the administration and the Legislature agreed to spend $6 billion from the General Fund and American Rescue Plan Act (ARPA) funds over three fiscal years (starting in 2021-22) on broadband infrastructure. More specifically, the funds were for the following:

- **Statewide Open-Access Middle-Mile Network.** Middle-mile broadband infrastructure often consists of fiber-optic cables laid over tens or hundreds of miles that, once connected to by an internet service provider (ISP), can help deliver local high-speed internet service. The state is building and leasing a middle-mile network across the state available to ISPs, public entities, and other organizations. This program is being implemented by the California Department of Technology.

- **Last-Mile Projects.** Last-mile broadband infrastructure often consists of antennae, cables, poles, wires, and other components that help connect middle-mile infrastructure to communities and individual households. The state will be providing grants to ISPs, public entities, and other organizations to fund last-mile projects. This program is being implemented by the California Public Utilities Commission. The agreement includes $2 billion ($550 million ARP fiscal relief funds and $1.45 billion General Fund) for last-mile projects.

- **Broadband Loan Loss Reserve Fund.** The Broadband Loan Loss Reserve Fund will be a program within the California Public Utilities Commission's (CPUC's) California Advanced Services Fund (CASF) that will provide local government entities and nonprofit organizations with grants to help them, for example, pay the costs of debt issuance and establish and fund reserves for broadband infrastructure projects. The 2021 spending plan appropriated $750 million General Fund for the Broadband Loan Loss Reserve Fund.

***Status of the Major Broadband Programs and Projects at CPUC.*** CPUC is implementing two components of the state broadband programs—the Last-Mile Projects and the Broadband Loan Loss Reserve Fund.

- ***Last-Mile Projects.*** The CPUC expects to open its first grant application round in June, receive all grant applications by August, review the applications from August to December, and award grants in January 2024. A second round also is expected to open in January 2024 with second round grant awards in December 2024. The CPUC estimates the total amount of grants available in the first round will be $1 billion (including all $550 million in ARPA fiscal relief funds). While CPUC expects the total amount of grants available in the second round will be $1 billion, the Governor's budget proposes to delay some of the last-mile project spending planned for 2023-24 to as late as 2025-26 and 2026-27. While the CPUC has not issued broadband infrastructure grants, the CPUC has focused on awarding Local Agency Technical Assistance (LATA) funding. SB 156 provided the CPUC with $50 million to fund local and tribal governments' broadband planning activities. Below is the status of LATA applications as of January 26, 2023:

| Applications Received | Applications Awarded | Total Funding Requested | Total Funding Awarded |
|---|---|---|---|
| 116 | 81 | $52,458,536 | $36,354,525 |
| Total LATA Funding | | $50,000,000 | $50,000,000 |
| Balance | | -$2,458,536 | $13,645,475 |

*Source: CPUC Local Agency Technical Assistance – Grant Applications Received as of Jan. 26, 2023*

Information from the CPUC shows that the CPUC has received more LATA funding than the total $50 million allocated to the LATA program. The demand for LATA funding may also be a factor in CPUC decisions to limit grants to certain local government entities. The CPUC has declined to approve grants from several large metropolitan planning organizations (MPOs), including the Southern California Associations of Governments and the Santa Barbara County Association of Governments. The CPUC declined these grants due to a strict interpretation of "local agencies" that excludes MPOs. The CPUC also declined these applications to prevent counties with MPOs from potentially receiving planning grants at the county level and the overlapping MPO level.

- ***Broadband Loan Loss Reserve Fund.*** The CPUC rulemaking procedure for the Broadband Loan Loss Reserve Fund currently is active, with a proposed decision by the end of June 2023. The CPUC expects to open its first Broadband Loan Loss Reserve Fund application round in 2023-24. The CPUC does not know the total amount of funding that will be available in the first round, but the Governor's proposed 2023-24 budget delays $175 million General Fund for the Broadband Loan Loss Reserve Fund planned for expenditure in prior years to 2023-24.

***Recent Major Funding Infusion for Federal Broadband Programs.*** Federal Infrastructure Investment and Jobs Act (IIJA) included $65 billion nationwide for broadband programs. Of the $65 billion appropriated for broadband programs, $42.45 billion is allocated for the Broadband Equity, Access, and Deployment (BEAD) program, which provides primarily last-mile broadband infrastructure project grants to states, territories, and other jurisdictions. Excluding 2 percent of program funding for administrative costs ($849 million), allocations for each state (excluding territories and other jurisdictions) will be calculated as follows:

- Initial Allocation of $100 Million to Each State ($5.3 Billion of Total Program Funds). Each state will receive an initial allocation of $100 million, of which $5 million will be provided at the program outset to support state planning efforts.

- Additional Allocation to States Based on Unserved Locations in High-Cost Areas ($4.245 Billion of Total Program Funds). Each state will receive an allocation based on the number of unserved locations in high-cost areas of their state as a percentage of all such locations nationwide.

- Allocation of Remaining Funds to States Based on Unserved Locations ($32.056 Billion of Total Program Funds). Each state will receive an allocation from remaining program funds based on the number of unserved locations in their state as a percentage of all such locations nationwide.

***IIJA Funding for California.*** NTIA awarded $5 million in initial planning funds from the state's initial allocation of $100 million to support state planning efforts, including a five-year action plan required by NTIA. NTIA expects to announce how much each state will be allocated from the BEAD program by the end of June. We have limited information about how the state will administer its BEAD program funding at this time, but we expect the administration will provide more information to the Legislature over the coming months before the allocation announcement from the federal government.

**Staff Comments.** There are three potential issues for legislative consideration regarding the implementation and proposed deferral of broadband infrastructure funding: ARPA liquidation, BEAD funding appropriation, and CPUC's broadband mapping.

**ARPA Fund Liquidation.** Under federal requirements, ARPA monies must be encumbered by December 31, 2024, and spent by expended by December 31, 2026. As mentioned above, $550 million for the last mile grants, administered by the CPUC, are ARPA funds. The commission reports these funds will be spent on smaller, less complex projects that are likely to be completed faster, to ensure the federal funds will be expended by the deadline. However, given that this program is still in early stages of implementation and have not yet awarded the grants, there is somewhat of a concern that local agencies will not be able to expend the federal funds by the end of 2026.

**BEAD Program.** According to the Administration, it intends to use the Section 28 letter process, which provides a notification to the Legislature, to allow CPUC to have the federal fund authority to expend these funds. To ensure Legislative oversight of these federal funds, the Administration should provide more information to the Legislature, and more specifically, a budget proposal that outlines how these funds will be used, when these federal funds become available to the state.

**Broadband Mapping.** Mapping broadband access is necessary to identify and target funds to unserved and underserved communities. Currently, the CPUC is the only state agency empowered to collect data from broadband providers to support these maps. However, the CPUC's efforts to produce maps to help target broadband funds have been fraught with delayed access to data, data omissions, errors, and concerns about the extent to which the maps address digital equity needs. In particular, CPUC's initial maps identified many commercial, high-income, and already-served areas as priority areas for the broadband infrastructure grants, while missing significant swaths of unserved and underserved communities. CPUC has acknowledged that these maps are incomplete, and are currently in the process of revising these maps. More specifically, CPUC is working to add socioeconomic data to identify disadvantaged communities. However, CPUC is still in the process of selecting specific criteria or data that will be used.

**Staff Recommendation.** Hold Open.

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, March 30, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Eunice Roh

**Item** **Department** **Page**

## VOTE-ONLY



## DISCUSSION ITEMS

*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# VOTE-ONLY

## 3900 STATE AIR RESOURCES BOARD

### Issue 1: CARB Scoping Plan Community Engagement (SB 1020)

**Governor's Proposal.** The Governor's Budget requests $711,000 ($210,000 ongoing) from the Air Pollution Control Fund in 2023-24 for one position and contract services for the Environmental Justice Program. These resources will be used to fulfill the requirements of Chapter 361, Statutes of 2022 (SB 1020, Laird) for CARB to enhance community engagement efforts in coordination with the AB 32 Environmental Justice Advisory Committee in areas designated as federal extreme nonattainment that have communities with minority populations, communities with low-income populations, or both. CARB is requesting one Air Pollution Specialist (APS) position to enhance community engagement pursuant to the requirements in SB 1020 and ensure Environmental Justice Policies and Actions are implemented agency-wide. Contract funding will be used to contract with 501(c)(3) community-based organizations or California Native American Tribes to develop CARB grants for the community engagement processes.

**Staff Recommendation.** Approve as budgeted.

### Issue 2: Embodied Carbon Emissions: Construction Materials (AB 2446)

**Governor's Proposal.** The Budget includes $5.7 million from the Cost of Implementation Account in 2023-24 and 2024-25 (decreasing to $4.5 million in 2025-26 and ongoing) for 15 permanent positions and contract services to develop and implement a framework to reduce embodied carbon emissions from building materials, as required by Chapter 352, Statutes of 2022 (AB 2446, Holden). These positions will establish a baseline carbon intensity based on data reported in 2026 by building materials manufacturers and developers of covered construction projects, and establish a framework for measuring and reducing the carbon intensity of construction materials. According to CARB, contract services is necessary to develop, host, and maintain the reporting system for builders and building materials manufacturers, fill technical gaps during regulation development, and support development and maintenance of the technical advisory committee. Additionally, CARB proposes trailer bill language that changes the deadlines in AB 2446 from July 1, 2025 to December 31, 2026 (for the development of the framework), 2028 (for the comprehensive strategy), and 2029 (for the feasibility and cost analysis of the interim targets).

**Staff Recommendation.** Approve as budgeted.

### Issue 3: Enhance CARB's Ozone Air Monitoring Network to Meet Mandated Regulatory Requirements

**Governor's Proposal.** The Governor's Budget includes $1.9 million from the Air Pollution Control Fund in 2023-24 and $1.1 million ongoing for 5 permanent positions to operate, audit, and maintain the monitoring stations and equipment for CARB's ozone monitoring program. This request includes $128,000 ongoing for operational costs and $787,000 in one-time funding for equipment and supplies. These resources are needed to expand the ozone monitoring program to comply with federal requirements. In 2021, the San Joaquin Valley Core Based Statistical Area reached the one million population milestone that triggers the mandated US EPA requirement for Photochemical Assessment Monitoring Stations (PAMS) monitoring. This mandate requires monitoring agencies to develop and implement PAMS as part of their existing State Implementation Plan (SIP) monitoring network in ozone non-attainment areas classified as serious, severe, or extreme. Federal funds are no longer available for the implementation or operation of this program. If the state does not implement this program, California could risk losing highway funds and jeopardize funding for CARB's other monitoring programs since federal funding is based on California's compliance with federal statutory requirements. This request is to establish a Photochemical Assessment Monitoring Stations (PAMS) program in San Joaquin Valley and add two new monitoring stations in Eastern Kern County and Western Nevada County, both of which are ozone non-attainment areas. Implementation of the PAMS program into CARB's air monitoring network requires the addition of 5 full time staff (1 Staff Air Pollution Specialist, 3 Air Pollution Specialists, and 1 Associate Government Program Analyst), equipment, and contracts to develop and operate monitoring sites to meet the federal requirements.

**Staff Recommendation.** Approve as budgeted.

## Issue 4: Fund Shift for the Transport Refrigeration Unit Program

**Governor's Proposal.** The Budget requests to shift the funding of 1.75 existing Transport Refrigeration Unit (TRU) Program positions from the Motor Vehicle Account (MVA) to Certification and Compliance Fund (CCF). In addition to the fund shift for existing TRU Program positions, CARB requests a one-time shift of $1.6 million from MVA to CCF for TRU operational costs (compliance labels, envelopes, and postage) in 2023-24. Beginning in 2024-25 and annually thereafter, CARB requests $859,000 from CCF for ongoing TRU operational costs (compliance labels, envelopes, and postage). This proposal will allow CARB to continue implementation of the TRU ATCM from a funding stream that is most appropriate for this activity (i.e., CCF), create a more fiscally sustainable funding solution for CARB's TRU Program, minimize ongoing expenditure impacts to MVA, and reimburse MVA for TRU Program operational costs paid for in 2022-23.

**Staff Recommendation.** Approve as budgeted.

## Issue 5: Heavy-Duty Vehicle Inspection and Maintenance Program per SB 210

**Governor's Proposal.** The Budget includes $14.1 million in 2023-24 to implement and enforce the Heavy-Duty Inspection and Maintenance (HD I/M) program, as required by Chapter 298, Statutes of 2019 (SB 210, Leyva). SB 210 directs CARB to create a comprehensive HD I/M regulation to address excessive emissions of smoke. In 2021, CARB approved the HD I/M regulation, establishing a new inspection program, which requires nearly 1.2 million non-gasoline combustion heavy-duty vehicles with a gross vehicle weight rating greater than 14,000 pounds operating in California (in-state and out-of-state vehicles) to comply with new periodic emissions testing requirements and demonstrate passing emissions test results through data submissions to CARB to legally operate in California. CARB has previously received funding for this program in 2020-21 and 2022-23 for initial regulatory pilot program efforts and initial IT database development and enforcement of the initial implementation phase. As the full program implementation begins this year, CARB requests positions and contract funding for the continued administration and operations of the program.

**Staff Recommendation.** Approve as budgeted.

**Issue 6: In-Use Locomotive Regulation Implementation and Enforcement**

**Governor's Proposal.** The Budget includes $1.65 million from the Air Pollution Control Fund in 2023-24, $1.69 million in 2024-25, $1.64 million in 2025-26 and ongoing for ten permanent positions and related operating expenses and equipment to implement and enforce the In-Use Locomotive Regulation. Additionally, CARB requests to shift funding for 6.6 existing positions from the Motor Vehicle Account to APCF in 2023-24. Beginning on July 1, 2024, the Locomotive Regulation will require all California locomotive operators to register locomotives, report 2023 California locomotive activity, deposit appropriate funds into their spending account and provide an administrative payment to CARB. Operators will be required to pay $175 per diesel or zero emission capable locomotive, which is expected to generate approximately $2.7 million on average annually beginning in 2024. Beginning in 2024-25 and ongoing, CARB requests to shift funding for 6.6 existing positions and 9.5 positions being requested in this proposal from APCF to the CCF. Beginning July 1, 2024, CCF would fully fund the program cost for Locomotive Regulation on an ongoing basis and only funding for 0.5 Air Resources Supervisor II would remain funded by APCF. A statewide locomotive surveillance system will be established with 10 cameras or other surveillance equipment throughout the state at a cost of $50,000. This system would help staff determine emission locations and amounts from locomotives operating in the state as well as identify information on locomotives passing surveillance stations in California.

**Staff Recommendation.** Approve as budgeted.

**Issue 7: Staff Augmentation for Project Management Office**

**Governor's Proposal.** The Budget includes $8.2 million from the Air Pollution Control Fund (APCF) in 2023-24 ($6.7 million in one-time contract funding and $1.5 million ongoing) for staff augmentation of the Project Management Office to transition from a contract-heavy to a state employee-centric unit. CARB programs have increasingly complex IT projects—to support these projects, the Office of Information Services has historically procured staff augmentation contracts for expert Project Managers and Business Analysts to support CARBS's highly technical and complex IT project portfolio. However, the current contracts are scheduled to end in 2023, and the department requests to transition to state staff. On average, contracting for a Project Manager (at 2018 contract rates) costs CARB more than $93,000 over hiring a state employee at 2022 rates. Contracting for a Business Analyst costs CARB over $50,000 more per year over hiring state employees. Approving the seven positions will yield annual cost savings of at least $492,000 and eventually yield over $5.3 million in net savings. In addition to the cost savings, other benefits of moving to a State- employee centric PMO include continuity of staff and operations. CARB has experienced high turnover amount contractor staff. With dedicated State employees, CARB has better management and oversight to retain, train, and invest in the employees.

**Staff Recommendation.** Approve as budgeted.

**Issue 8: Transportation Electrification: Electrical Distribution Grid Updates (AB 2700)**

**Governor's Proposal.** The Governor's Budget requests $211,000 ongoing from the Greenhouse Gas Reduction Fund for one permanent position to implement Chapter 354, Statutes of 2022 (AB 2700). AB 2700 requires CARB to collaborate with CEC to annually provide MHD fleet data for on-road and off-road vehicles, already being collected by CARB, so that CEC can share that data with electrical corporations and local publicly owned electric utilities to help inform electrical grid planning efforts. It also requires CARB to enter into a data sharing agreement with CEC. The requested position would coordinate with CARB program points of contact and CEC, use their expertise in MHD ZEVs and the associated CARB regulatory programs to develop a streamlined process for data collection, align data on existing regulations, and provide input for alignment on future regulations.

**Staff Recommendation.** Approve as budgeted.

## 8570 DEPARTMENT OF FOOD AND AGRICULTURE

### Issue 9: Augment Plant Pest Diagnostics Center Facilities Maintenance & Operational Costs

**Governor's Proposal.** The Budget includes $841,000 from the General Fund in 2023-24 and $858,000 in 2024-25 and ongoing to keep the Plant Pest Diagnostics Center (PPDC) laboratory facility operational to meet the state's diagnostic needs and maintain national and international standards. The PPDC provides the essential diagnostic support of identifying plants, plant pests and diseases, the basis upon which regulatory decisions are made to protect California's agriculture and the environment and the movement of agricultural products into and from California that can have a huge impact on agricultural trade and the economy. Since 2011, PPDC's GF budget authority has only covered salaries, benefits, and overhead. The PPDC has not received GF for its Operating Expenses and Equipment (OE&E) for many years. In the past, PPDC has managed to recover OE&E costs by redirecting some of the expenses to federal/industry funded programs when appropriate and feasible. There are three main drivers which resulted in PPDC's budget shortfalls. These include: (1) increasing operating expenses, such as building maintenance, increasing number of samples submitted, utility costs, janitorial services, and annual permitting costs; (2) decrease in samples that are reimbursed by the USDA; and (3) increase in samples that are not reimbursable. This funding will allow the PPDC to remain fully operational, and address numerous facility deficiencies, plan for maintenance costs for its aging equipment, and provide diagnostic services for both reimbursable and non-reimbursable samples for all stakeholders.

**Staff Recommendation.** Approve as budgeted.

### Issue 10: Emergency Management Program Resources

**Governor's Proposal.** The Governor's Budget requests $516,000 General Fund (GF) and $77,000 in distributed administration authority in 2023-24, $506,000 GF and $77,000 in distributed administration authority in 2024-25 and ongoing, and 2.5 permanent positions to build a dedicated Emergency Management Program within CDFA to meet current and continued threats to food and agriculture posed by diseases and natural disasters due to climate change. CDFA's Emergency Management Program does not have adequate resources to prepare, respond, recover from, and mitigate emergencies and natural disasters related to food and agriculture in California. Currently, there is only one position dedicated to the program and there is a substantial resource gap in fulfilling the work required to address all phases of emergency management. CDFA requests 2.5 positions, including 1.0 Program Manager II and1.0 Emergency Services Coordinator, to support the Emergency Management Program functions in the Executive Office, and 0.5 AGPA to provide administrative support related to new positions, including financial services, human resources, and budgeting.

**Staff Recommendation.** Approve as budgeted.

**Issue 11: Emerging Threats Information Management System**

**Governor's Proposal.** The Budget includes $6,685,000 ($4,212,000 from the General Fund and $2,473,000 from the Department of Food and Agriculture Fund) and three positions in 2023-24, $12,138,000 ($7,647,000 from the General Fund and $4,491,000 from the Department of Food and Agriculture Fund) in 2024-25 and 2025-26, $6,672,000 ($4,204,000 from the General Fund and $2,468,000 from the Department of Food and Agriculture Fund) in 2026-27 and $5,073,000 ongoing ($3,196,000 from the General Fund and $1,877,000 from the Department of Food and Agriculture Fund) to implement a replacement of the existing legacy Emerging Threats (ET) Information Management System. The existing ET system has core data security and integrity issues—as a result, CDFA has received funding in the last couple of years to support planning activities to replace this system. This proposal requests funding to complete the Project Approval Lifecycle (PAL) process, data cleanup, license for a system integrator, and ongoing maintenance and operations costs of the system. All costs are split between GF and AF based on the funding split of the programs that will utilize this system.

**Staff Recommendation.** Approve as budgeted.

**Issue 12: Information Technology Enterprise Transition Support**

**Governor's Proposal.** The Budget includes $536,000 from the General Fund in 2023-24, 2024-25, and 2025-26 to fund CDFA's transition to an Information Technology (IT) Enterprise Solution. Currently, CDFA has over 430 IT systems, most of which are in-house custom-built applications to support critical business operations and functions of the department. Over the past two years, CDFA has worked to develop a plan to transition from these custom-built siloed solutions and transition towards common vendor-hosted, supported, and maintained enterprise solutions. This effort is to streamline the operations and maintenance of the department's IT systems and to meet the current State Administrative Manual requirements. This request will fund licensing costs to allow time for CDFA's industry-funded programs to increase fees, if needed, to pay for costs associated with ongoing licensing, and for a consultant to assist CDFA in migrating applications and to provide training to state staff.

**Staff Recommendation.** Approve as budgeted.

**Issue 13: OCal and Cannabis Appellations Baseline**

**Governor's Proposal.** The Budget includes $482,000 from the Cannabis Control Fund in 2023-24 and ongoing to provide additional authority needed for the OCal Cannabis Certification Program and Cannabis Appellations Program (CAP). OCal is a statewide comparable-to-organic certification nprogram that establishes and enforces cannabis certification standards. CAP is a statewide program through which outdoor cultivators may establish appellations of origin for cannabis. When the Department of Cannabis Control (DCC) split off from CDFA, only the direct program costs associated with these programs (OCal and CAP) were retained. The programs did not retain budget authority for outreach and education activities, technical review support, or indirect costs that are necessary for division management, executive management, legal services, public affairs, information technology, human resources, accounting, and other administrative costs. This request would fund these activities, and the department reports both programs (OCal and CAP) will generate revenue for the Cannabis Control Fund to offset the requested amount.

**Staff Recommendation.** Approve as budgeted.

## Issue 14: Shipping Point Inspection Enhanced Oversight and Training

**Governor's Proposal.** The Governor's Budget requests 4 permanent positions in 2023-24 and ongoing to support mission critical enhancement of the Shipping Point Inspection (SPI) Program. The requested positions will allow CDFA to develop a more robust inspection program for commodity inspection and increase the technical capabilities of the program. SPI performs inspections and audits for California growers, handlers and importers that desire a United States Department of Agriculture (USDA) inspection or grade certification. These services are performed through a Cooperative Agreement with USDA to provide licensed services within California related to the inspection of fresh produce and providing food safety audits. SPI has continuously appropriated authority and does not require a Budget Act appropriation. Thus, this request is for position authority only. Additionally, CDFA requests 0.5 positions and $77,000 in distributed administration funding in 2023-24 and ongoing to perform a variety of support functions related to the new positions, including financial services, human resources, and budgeting.

**Staff Recommendation.** Approve as budgeted.

## Issue 15: Stage Gate 2 Planning – CDFA Licensing and Payment Portal

**Governor's Proposal.** The Budget includes $1.5 million from the General Fund in 2023-24 to perform Statewide Information Management Manual (SIMM) 19B – Stage Gate 2 Alternative Analysis (S2AA) planning for the CDFA Licensing and Payment Portal (LPP) Project. CDFA administers and manages 170 licenses that allow individuals and businesses to conduct agricultural operations. Currently, there is no one stop shop that provides users with information on all of these licenses—instead, it is spread throughout the CDFA website. The LPP Project aims to streamline the licensing processes into a single licensing and payment portal. In 2021-22, CDFA received $2 million one-time General Fund to assess the scope, feasibility, and level of effort required to create and implement such portal. This request continues this project, and will help CDFA with performing the analysis, research, documentation, and planning to comply with the SIMM 19B S2AA requirements. By completing a S2AA in accordance with SIMM 19B requirements, CDFA will determine alternative solutions to best meet the business goals and objectives described above, propose an appropriate acquisition strategy/plan for procuring services, and detail the scope, impacts, risks, and benefits to implementing the solution. In the coming years, CDFA intends to submit future budget proposals to fund the procurement activities, the IT solution, and ongoing operations and maintenance costs.

**Staff Recommendation.** Approve as budgeted.

## Issue 16: Weights and Measures Oversight and Services

**Governor's Proposal.** The Governor's Budget requests $811,000 from the Department of Food and Agriculture Fund in 2023-24, $714,000 in 2024-25 and ongoing, and four permanent positions to continue its mandated instruction and oversight of county sealers who inspect commercial weighing and measuring devices in their jurisdiction. CDFA's Division of Measurement Standards (DMS) provides technical training, oversight, and coordination to county sealers and their staff, who at the local level, register, test, and seal commercial weighing and measuring devices. DMS receives fees collected by the counties for its oversight activities and laboratory services. In recent years, due to the state's goals to transition its transportation sector to zero-emission vehicles (ZEVs), there has been an increased demand for new commercial device types for the fueling and charging of ZEVs. These commercial ZEV fueling systems require the use of specialized test equipment and new test procedures by the county sealers and their staff—and as a result, requires CDFA to provide county such additional training and oversight. According to CDFA, these positions are needed to fill that testing and verification capability gaps to support the buildout of commercial ZEV fueling infrastructure. The requested funding will be supported by the aforementioned administrative fee, and the fee will not increase as a result of this proposal. Additionally, CDFA requests 0.5 position and $77,000 in distributed administration authority in 2023-24 and ongoing to perform a variety of support functions related to the new positions, including financial services, human resources, and budgeting.

**Staff Recommendation.** Approve as budgeted.

# DISCUSSION ITEMS

## 3900 STATE AIR RESOURCES BOARD

**Issue 17: Cap-and-Trade Spending Plan**

**Governor's Proposal.**

***Governor Proposes $861 Million in Discretionary Spending.*** The Governor's budget assumes cap-and-trade revenues of $2.8 billion in 2023-24, as shown in the figure below. This includes $2.5 billion from projected budget-year auction proceeds and $298 million from other GGRF revenues (such as interest earnings, additional current-year revenues from the November 2022 auction, and utilizing the existing GGRF fund balance). Under the Governor's proposal, about $1.6 billion would go to continuously appropriated programs, $351 million would go toward other existing commitments, and $861 million would be used for proposed discretionary spending (all to backfill proposed General Fund cuts, as described below). We note that the $376 million for other statutory obligations includes $25 million to "make up" the full $130 million intended for drinking water programs, since under the Governor's estimates, the required 5 percent of continuously appropriated revenues would not fully fund that intended amount.

## 2023-24 Governor's Budget Cap-and-Trade Spending Plan

*(In Millions)*

| | |
|---|---|
| **Continuous Appropriations** | |
| High-Speed Rail Project | $526 |
| Affordable Housing and Sustainable Communities Program | 421 |
| Transit and Intercity Rail Capital Program | 210 |
| Healthy and Resilient Forests | 200 |
| Low Carbon Transit Operations Program | 105 |
| Safe and Affordable Drinking Water Program | 105 |
| **Subtotal** | **($1,567)** |
| **Other Existing Commitments** | |
| Baseline Operations | $150 |
| Manufacturing Tax Credit | 97 |
| State Responsibility Area Fee Backfill | 79 |
| Safe and Affordable Drinking Water Program Backfill | 25 |
| **Subtotal** | **($351)** |
| **Discretionary** | |
| General Fund Backfill—Zero Emission Vehicle Package (CEC) | $368 |
| General Fund Backfill—Zero Emission Vehicle Package (CARB) | 243 |
| General Fund Backfill—AB 617 Community Air Protection | 200 |
| General Fund Backfill—AB 617 Local Air District Implementation | 50 |
| **Subtotal** | **($861)** |
| **Total** | **$2,779**[a] |

[a]Includes $2.5 billion in auction proceeds and $300 million from: interest earnings, fund balance utilization, and additional November 2022 auction proceeds.

CEC = California Energy Commission; CARB = California Air Resources Board; and AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia).

***Proposal Mostly Backfills Zero-Emission Vehicle (ZEV) Programs Proposed for Reductions.*** As shown in the figure above, the Governor would commit $611 million of GGRF discretionary funds to backfill proposed General Fund reductions to recent ZEV funding commitments. In addition, the Governor would direct $250 million in 2023-24 discretionary GGRF revenues to backfill a proposed General Fund reduction to the AB 617 Community Air Protection program. This program—established by Chapter 136 of 2017 (AB 617, C. Garcia)—has historically been supported using discretionary GGRF revenues, however, the 2022-23 budget package planned to provide it with General Fund in the budget year.

***Proposes Trigger Restoration Approach for GGRF.*** The Governor also proposes a trigger restoration approach for GGRF revenues that the state might receive above current estimates during the 2023-24 fiscal year. Specifically, proposed budget control section language would require the administration to allocate additional GGRF revenues to backfill other proposed reductions to ZEV programs. The language identifies specific activities for which these revenues could be used—fueling infrastructure grants, transit and school buses, ports, community-based efforts, emerging opportunities, and charter boat compliance—but would allow the Director of the Department of Finance (DOF) the discretion to determine which of these ZEV programs to augment and at what levels, up to the total amount of General Fund that was reduced.

***Commits Out-Year GGRF Revenues.*** In addition to using the full $861 million of discretionary GGRF revenues to backfill proposed ZEV and AB 617 program General Fund reductions in 2023-24, the Governor also proposes using $414 million annually in future GGRF discretionary funds to backfill proposed cuts to intended General Fund for ZEV programs in 2024-25 and 2025-26.

**Background.** According to the LAO:

***Cap-and-Trade Auction Revenue.*** Revenues from quarterly cap-and-trade auctions are deposited in the Greenhouse Gas Reduction Fund (GGRF) and the funds generally are allocated to climate-related programs. Under current law, a total of 65 percent of auction revenue is continuously appropriated to the following programs: the high-speed rail project (25 percent), Affordable Housing and Sustainable Communities Program (20 percent), Transit and Intercity Rail Capital Program (10 percent), low carbon transit operations (5 percent), and Safe and Affordable Drinking Water Program (5 percent, up to $130 million). In addition, beginning in 2022-23, $200 million is continuously appropriated for forest health and wildfire prevention activities. This funding is taken "off the top" before calculating the other continuous appropriation amounts. The remaining revenue (about 30 percent) is available for appropriation by the Legislature through the annual budget for other ongoing funding commitments (such as state administrative costs and statutory transfers), as well as discretionary spending programs.

***February 2023 Auction Update.*** Based on preliminary results, the state will receive an estimated $983 million in revenue from the February 15, 2023 auction. This is roughly equivalent to the amount the state received from the November 2022 auction ($961 million). The price of allowances increased slightly (from $26.80 to $27.85 for 2023 vintage allowances, and from $26.00 to $27.01 for 2026 vintage allowances). All state-owned allowances offered for sale at the February auction were purchased.

***February 2023 Auction Revenues About $350 Million Higher Than 2022-23 Budget Act Assumptions.*** The preliminary auction results exceeded the expectations of the *2022-23 Budget Act* for this auction—$630 million, which reflected the administration's projections—by about $350 million. This is in line with historic trends, in which the administration's estimates have been sizably lower than actual revenues. The February auction revenues provide about $210 million more for continuously appropriated expenditures, with about $140 million potentially available for additional discretionary expenditures.

***Future Auction Revenue Continues to Be Subject to Uncertainty.*** General uncertainty about future auction revenue continues. As the program nears its current statutory expiration date of 2030, various factors could affect cap-and-trade auction revenues. We discuss such issues in our *December 2021 Cap-and-Trade Auction Update and GGRF Projections* post.

**LAO Assessment.**

***Governor's Revenue Assumptions Are Conservative.*** We find the Governor's 2022-23 and 2023-24 GGRF revenue assumptions to be conservative. The administration assumes all allowances will sell at the floor price, which is not a typical scenario as allowances have sold above the floor price over the last couple of years. Under our base revenue scenario (which represents stable allowance prices), we estimate total revenues over the two-year period would be $2 billion higher than assumed under the Governor's budget (including $700 million additional revenues in 2022-23 and about $1.3 billion more in 2023-24). As noted above, substantial uncertainty remains regarding how auction revenues will materialize, so it is possible that revenues could come in below our estimates. We will provide the Legislature with updated revenue forecasts in the coming months as more information becomes available, including the results of future quarterly auctions.

***Several Hundred Million Dollars More Could Be Available for Discretionary Spending.*** After accounting for the continuous appropriations and off-the-top allocations, our estimates project the state will have a total of about $800 million available in additional discretionary GGRF revenues from the current and budget years compared to the administration.

- ***2022-23.*** We project current-year discretionary revenues will be about $380 million above the amount allocated in the *2022-23 Budget Act*. The Governor's spending plan for the budget year incorporates the additional $100 million from the November auction, but we think an additional roughly $280 million in discretionary revenue might be available from the February auction and upcoming May auction (about $140 million from each) that is not yet included in the Governor's spending plan.
- ***2023-24.*** After taking continuous appropriations into account, compared to the Governor's estimates, we project the state will have about $520 million of additional funding available for discretionary expenditures in the budget year. (We note that under our estimates, the drinking water program would be fully funded with $130 million through the 5 percent continuous appropriation, negating the need to spend discretionary revenues to make the program "whole.")

***Fund Balance Uncertainty.*** The Governor's budget information displayed a very high anticipated fund balance for GGRF remaining after accounting for proposed 2023-24 spending—$1.3 billion. DOF indicates that this amount likely is significantly overstated due to circumstances that prevented DOF from fully reconciling GGRF funds in time for the January 10 budget deadline. DOF indicates that it plans to provide an updated fund balance estimate as part of the May Revision.

**LAO Comments.**

***Do Continuous Appropriations Continue to Reflect Legislative Priorities?*** The Legislature might want to consider the degree to which both continuous appropriations and past discretionary spending programs continue to be consistent with its current priorities, particularly in the context of the constrained General Fund condition and proposed spending reductions to other programs. Most of the continuous appropriations were established as part of the 2014-15 budget and legislative priorities may have changed over the last several years.

***While Governor Prioritizes ZEVs, Legislature May Prefer Different Allocation of Discretionary Funds.*** The Governor's proposal allocates funding to backfill proposed General Fund reductions in two categories of spending: the AB 617 program and various programs intended to support ZEVs. The Legislature could consider a different mix of programs to fund, as GGRF revenues have typically supported a greater diversity of programs. This could include backfilling General Fund reductions for different programs than those the Governor identifies or augmenting funding for other priorities.

***Administration's Approach Would Significantly Limit Legislative Authority Over Midyear GGRF Revenues.*** As described above, we estimate that several hundred million dollars in additional discretionary revenues will be available in 2023-24, as compared to what the Governor's budget assumes. Under the Governor's proposal, DOF would have authority to automatically allocate these revenues to ZEV programs (up to the amount of the General Fund reduced). The Legislature will want to consider (1) whether restoring funding for ZEV programs is its greatest priority for higher-than-anticipated GGRF revenues, and (2) whether it wants to grant this unprecedented level of midyear spending decisions to the administration. (As discussed in our recent report, we recommend the Legislature reject or modify this proposed trigger approach to preserve legislative authority and flexibility.)

***Is the Legislature Comfortable Committing Out-Year GGRF?*** As described above, the Governor proposes to commit out-year discretionary GGRF revenues for specific purposes—specifically, for ZEV programs—as part of this year's budget package, which is unusual. While this approach would help preserve some intended spending while helping to address projected out-year General Fund shortfalls, the Legislature will want to consider whether it is comfortable making this commitment now. Such an approach would leave a lower amount of GGRF revenues available for discretionary spending—and to address potential emerging and evolving priorities—in future years. This decision could be particularly important if the budget problem continues, as future GGRF revenues could be used to help preserve support for important legislative priorities—which might extend beyond ZEV programs—should the Legislature be faced with making additional reductions.

***How Much Funding Remains in the GGRF Fund Balance?*** As described above, the administration is still refining its estimates for what balance would remain in the GGRF at the end of 2023-24 under the Governor's proposal. This information would help the Legislature better understand the potential availability of resources that could be used for additional discretionary spending. Rather than waiting for the May Revision, the Legislature may want to ask DOF to provide a more accurate estimate as soon as possible to aid in its budget deliberations.

**Staff Comments.** As noted in a previous agenda, the Governor's proposal to allow DOF to allocate potential midyear increases in GGRF revenues limits Legislative oversight and discretion over the GGRF. If GGRF revenues are higher than expected in the upcoming year, the Legislature should retain the opportunity to review what the highest priorities are for GGRF in the following budget year and appropriate accordingly. For this budget year, LAO estimates that about $800 million in additional GGRF discretionary funds will be available. Given the limited General Fund in this budget, the Legislature will want to assess and prioritize these funds in context of the proposed reductions as well as the availability of federal funding for several areas.

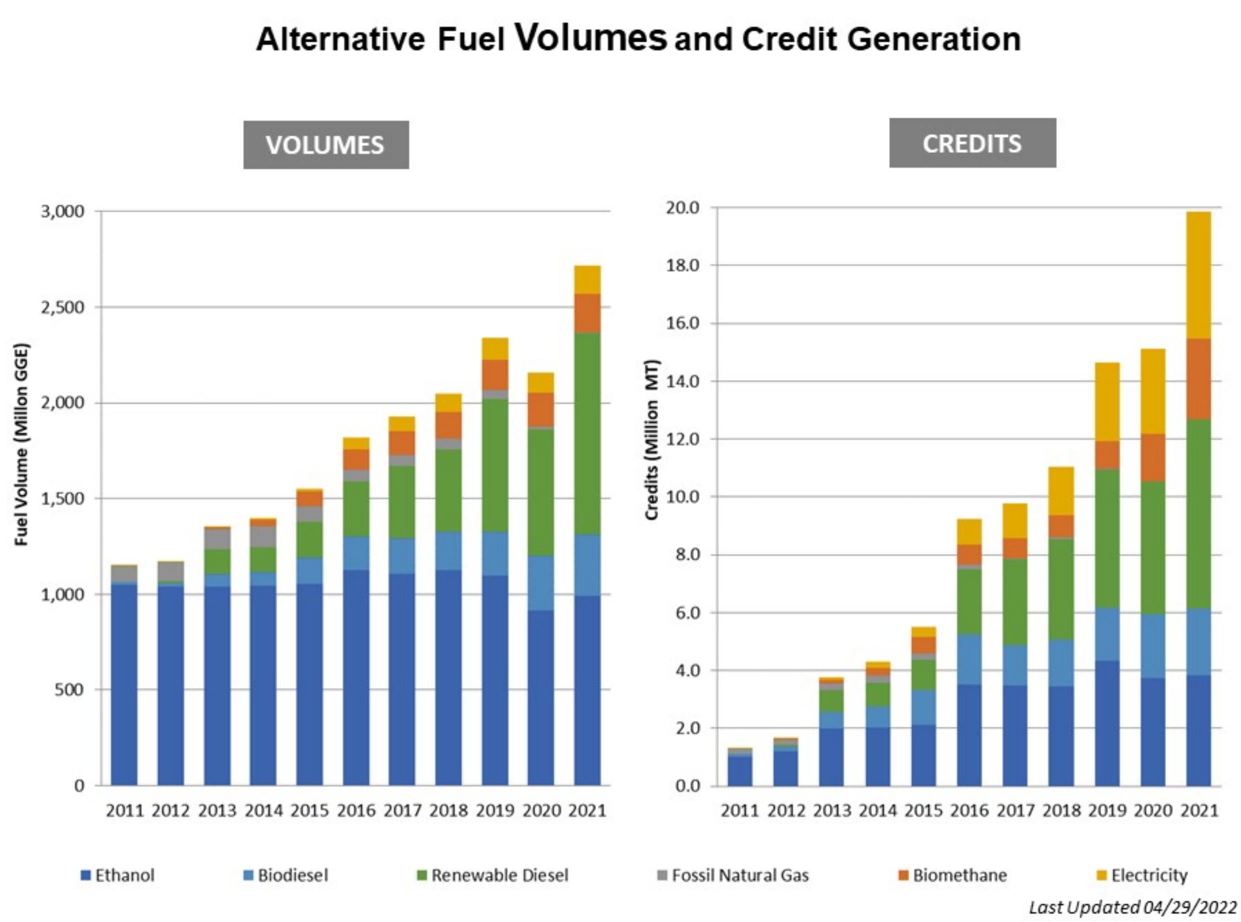
**Staff Recommendation.** Hold Open.

## Issue 18: Low Carbon Fuel Standard Administration

**Governor's Proposal.** The Budget includes three permanent positions and $451,000 in 2023-24 and ongoing from the Cost of Implementation Account (COIA) to address the growing workload of the Low Carbon Fuel Standard (LCFS) program.

**Background.** The LCFS sets an annual, declining carbon intensity performance standard for the California transportation fuel pool (gasoline, diesel, and the fuels that replace them). Fuels with a carbon intensity below the standard generate credits, while fuels with a carbon intensity above the standard generate deficits. Entities with deficits must acquire credits to balance their deficits to achieve annual compliance. By creating a market for low carbon fuels, the LCFS encourages investments and increases the availability of low carbon alternative fuels in California. Alternative fuels supported by the LCFS displaced about 3.0 billion gallons of petroleum of petroleum fuel in 2021. The credits and deficits are traded in a market-based system that is managed by CARB.

In 2021, the majority of the credits fell into five fuel types: renewable diesel (33 percent), electricity (22 percent), ethanol (19 percent), biomethane (14 percent), and biodiesel (11 percent).




The LCFS has undergone several updates. CARB re-adopted the LCFS in 2015, and updated the LCFS Regulation in 2018 and 2019, adding new opportunities to the program, which reflected the expansion and diversification of the alternative fuel market, and in doing so, added implementation complexity. The staffing levels for the program have not grown commensurate with these program changes or the increase in the number and complexity of the fuel pathway applications. For example, in 2011, the program administered under 2 million credits. In 2020, it administered over 15 million credits. As a result, the Program is experiencing slowing processing rates.

While staff have implemented many efficiencies, such as a tracking system for pathways being reviewed and relying on third-party verification, staff are at capacity and pathway review times have lengthened. Because fuel pathway holders can generate credits soon after their applications are certified, investors must anticipate when they could start to generate credits, seeing a return on investment. If the process continues to lengthen, investors may become wary of when they will see a return and be hesitant to invest in projects that rely on the LCFS incentive. The three positions (1.0 Staff Air Pollution Specialist and 2.0 Air Resource Technicians) requested by this proposal will be deployed to provide additional support to administration of the program and fuel pathway application processing.

**Staff Comments.** LCFS is one of several programs CARB implements to address GHG emissions. In assessing this proposal, the Legislature may want to provide some oversight of the program, in particular with regards to the interactions it has with other climate change programs, such as cap-and-trade, numerous ZEV programs, and other clean energy programs. Since LCFS' inception, the state pursued a diverse array of strategies and programs to reduce GHG emissions. This proposal provides a natural opportunity for the Legislature to discuss how LCFS fits within the state's larger climate change mitigation strategy as well as the effectiveness and cost-efficiency of the program compared to other programs.

**Staff Recommendation.** Hold Open.

### Issue 19: Zero-Emission Portfolio for Implementation of the Proposed Advanced Clean Fleets Regulation

**Governor's Proposal.** The Governor's Budget requests $7.6 million in 2023-24 from the Air Pollution Control Fund for 32.5 three-year limited-term position to comply with the proposed Advanced Clean Fleets Regulation. This request includes $2 million in one-time funding to modify two separate reporting systems to handle reporting for the new regulations to verify and track compliance as the requirements are phased in. In 2024-25 and 2025-26, CARB is requesting $400,000 in funding for maintenance and ongoing fees to run the two systems.

**Background.** The proposed Advanced Clean Fleets (ACF) regulation aims to accelerate adoption of medium- and heavy-duty ZEVs with a gross vehicle weight rating (GVWR) greater than 8,500 lbs., and certain light-duty package delivery vehicles with a GVWR equal to or less than 8,500 lbs., as one part of California's comprehensive strategy to reduce emissions from transportation. This fleet-focused strategy ensures that fleets begin to purchase and deploy medium- and heavy-duty ZEVs offered for sale by truck manufacturers in market segments that are suitable for electrification. Additionally, the proposed regulation sets a clear end date for combustion-powered new vehicle sales in California.

The requested positions and funding are needed to implement and support enforcement of the proposed ACF regulation. The ACF regulation will require the reporting of hundreds of thousands of medium- and heavy-duty vehicles and some light-duty delivery vehicles operated in California in the fourth quarter of 2023 and each compliance year thereafter. The ACF regulation has differing compliance schedules, requirements, and exemptions for different fleets including drayage, state and local government fleets, and high priority and federal fleets. Outreach and education to the affected entities will play an important role in implementation. The reporting system must be updated to incorporate exemptions, extensions, validation, and compliance calculations for the ACF regulation. Reported data will be evaluated and analyzed, as well as processed and provided when requested.

The position request includes 1.25 Air Resources Supervisor II (ARS II), 1.25 Office Technicians (OT), 4 Air Resources Supervisor I (ARS I), 3 Air Resources Engineers (ARE), 9 Air Pollution Specialists (APS), 3 Air Resources Technician I (ART I), and 11 Air Resources Technician II (ART II) for a total of 32.5 new three-year limited term positions to carry out duties associated with the implementation of the proposed ACF regulation. In addition to staffing needs, the proposed ACF regulation would require modifying two separate reporting systems to handle reporting for the new regulations to verify and track compliance as the requirements are phased in. Staff is estimating $2 million in 2023-24 to upgrade 2 existing reporting systems and to convert them to CARB's Information Technology environment. For 2024-25 and 2025-26, CARB is requesting $400,000 for maintenance and ongoing fees to operate the 2 systems.

**Staff Comments.** The ACF regulation is currently under development and has not yet been adopted. According to CARB, the regulation will be up for final consideration in April 2023. The Board is still considering some policy questions, such as whether manufacturers should sell only zero emission medium duty and heavy duty vehicles starting in 2036 or 2040. (This request assumes a 2040 deadline.) Prior to acting on this proposal, the Legislature may want to monitor what is ultimately included in the final regulation and whether or not any of these changes will affect this budget request. Given that this is a new program, CARB requests three-year limited-term positions for the initial implementation and expects to request ongoing positions and funding in the future. The department estimated the resources needed to implement the ACF regulation on their experience implementing the Truck and Bus regulation from 2010 to present.

**Staff Recommendation.** Hold Open.

## Issue 20: Electric Vehicle Supply Equipment Payment Standards Trailer Bill Language

**Governor's Proposal.** The Governor's Budget includes trailer bill language would require an electric vehicle charging station that is newly installed or made publicly available to offer specified payment methods, including a contactless payment method that accepts major credit or debit cards, an automated toll-free telephone number or a short message system that provides the electric vehicle charging customer with the option to initiate a charging session and submit payment, and Plug and Charge payment capabilities meeting the International Organization for Standardization (ISO) 15118 standard (for direct current fast charging stations). The bill would authorize the state board, by regulation that is effective no earlier than January 1, 2028, to add or subtract from the payment methods required by the bill, as appropriate in light of changing technologies.

**Background.** Chapter 418, Statutes of 2013 (SB 454, Corbett) established open access principles for electric vehicle supply equipment (EVSE – i.e., charging stations). In response, the California Air Resources Board (CARB) adopted the EVSE Standards in 2019. These standards are applicable to electric vehicle service providers (EVSPs) and require publicly available EV charging stations that require payment to accept chip credit and debit cards and offer a phone number to process payments. These requirements went into effect on January 1, 2022 for direct current fast charging (DCFC) stations and will go into effect—unless this trailer bill language supersedes it—on July 1, 2023 for level 2 chargers (or at the time of replacement, but no later than July 1, 2033).

The federal Infrastructure Investment and Jobs Act (IIJA) establishes a new program for EV infrastructure, called the National Electric Vehicle Infrastructure (NEVI) program. California is estimated to receive $384 million in NEVI Formula Program funds over the next five years for the purposes of expanding in-state EVSE networks. On February 15, 2023, the Joint Office of Energy and Transportation, which administers the NEVI program, published final minimum standards for federally funded EVSE. Minimum requirements for EVSE payment options are among the several included in the Standards. This proposal modifies statutory requirements to align CARB's EVSE Standard with recently published federal EVSE Standards.

**Staff Comments.** The proposed changes align state standards with the recently released requirements for federally funded EV charging infrastructure. Such alignment streamlines the process for EV service providers and EVSE manufacturers to build federally funded charging infrastructure in the state. In addition, several stakeholders have reported requiring chip readers—to meet the existing state requirements—result in an increase in costs (to install, maintain, and repair). However, there has been some concerns with removing chip readers—particularly, when it comes to ensuring all drivers with varying levels of income and access to traditional banking having access to publicly available EV charging stations. Given that technologies and preferences are likely going to continue to change, it seems reasonable to authorize CARB to amend (in a few years) the required payment methods as issues come up.

**Staff Recommendation.** Hold Open.

## 8570 DEPARTMENT OF FOOD AND AGRICULTURE

### Issue 21: Implementation and Reductions in the Sustainable Agriculture Package

**Governor's Proposal.** The Governor proposes reductions in the sustainable agriculture package, as shown in below. Specifically, the largest reduction proposed—$25 million—is the elimination of the Climate Catalyst Program's funding for agriculture-related loans. Some other notable reductions include: (1) $22 million from the Conservation Agriculture Planning Grants Program, (2) $15 million from the Healthy Soils Program, (3) $15 million from the Pollinator Habitat Program, and (4) $15 million from the Farm to Community Food Hubs Program.

## Governor's Proposed Sustainable Agriculture Budget Reductions

*2021-22 Through 2023-24 (In Millions)*

| Program | Department | Total Augmentations | Proposed Reductions | New Proposed Amounts |
|---|---|---|---|---|
| **Sustainable Agriculture Programs Proposed for Solutions** | | | | |
| Healthy Soils Program | CDFA | $170[a] | -$15 | $155 |
| Conservation Agriculture Planning Grants | CDFA | 39 | -22 | 18 |
| Pollinator Habitat Program | CDFA | 30 | -15 | 16 |
| Climate Catalyst Fund Program—agriculture | IBank | 25 | -25 | — |
| Healthy Refrigeration Grant Program | CDFA | 20 | -9 | 11 |
| Farm to Community Food Hubs Program | CDFA | 15 | -15 | 0 |
| Urban Agriculture Program | CDFA | 12 | -6 | 6 |
| Research in GHG reduction | CDFA | 10 | -5 | 5 |
| Invasive Species Council | CDFA | 10 | -5 | 5 |
| Farmer training and manager apprenticeships | CDFA | 10 | -5 | 5 |
| Sustainable Cannabis Pilot Program | CDFA | 9 | 8.5 | 0.5 |
| **Total** | | **($350)** | **(-$128)** | **($222)** |

**Background.** According to the LAO:

***Recent Budgets Committed $1.2 Billion for Sustainable Agriculture Activities, Mostly From General Fund.*** As shown below, recent budgets have committed a total of $1.2 billion on a limited-term basis over three years—$684 million in 2021-22, $487 billion in 2022-23, and $13 million intended for 2023-24—to support sustainable agriculture activities. About 80 percent of the $1.2 billion total—$915 million—is from the General Fund. The remaining amounts are from GGRF ($225 million) and the Air Pollution Control Fund ($43 million). While most of this funding was included as part of a 2021-22 budget package focused on sustainable agriculture, some of the funding shown was originally included in an extreme heat package or as standalone proposals.

Figure 20

**Recent and Planned Sustainable Agriculture Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | Totals |
|---|---|---|---|---|---|
| Agricultural diesel engine replacement (FARMER) | CARB | $213[a,b] | $150 | — | $363 |
| San Joaquin Valley agricultural burning alternatives | CARB | 180 | — | — | 180 |
| Healthy Soils Program | CDFA | 75[a] | 85 | $10 | 170 |
| Livestock methane reduction and AAMP | CDFA | 32 | 68[a] | — | 100 |
| Farm to School Incubator Program | CDFA | 30 | 60 | — | 90 |
| Conservation Agriculture Planning Grants | CDFA | 17 | 22 | — | 39 |
| Pollinator Habitat Program | CDFA | 15 | 15 | — | 30 |
| Fresno-Merced Future of Food | CDFA | 30 | — | — | 30 |
| Climate Catalyst Fund Program—agriculture | IBank | — | 25 | — | 25 |
| California Nutrition Incentive Program | CDFA | 10 | 10 | — | 20 |
| Healthy Refrigeration Grant Program | CDFA | 10 | 10 | — | 20 |
| Farm to Community Food Hubs Program | CDFA | 15 | — | — | 15 |
| Urban Agriculture Program | CDFA | 12 | — | — | 12 |
| Underserved farmer technical assistance | CDFA | 5 | 5 | — | 10 |
| Methane reduction: cattle feed | CDFA | — | 10[a] | — | 10 |
| Research in GHG reduction | CDFA | 5 | 5 | — | 10 |
| Invasive Species Council | CDFA | 5 | 5 | — | 10 |
| Farmer training and manager apprenticeships | CDFA | 5 | 5 | — | 10 |
| Safer, sustainable pest management | CDFA | 10 | 8 | — | 18 |
| Sustainable Cannabis Pilot Program | CDFA | 9 | — | — | 9 |
| Various other programs[c] | CDFA, DPR | 6 | 4 | 3 | 12 |
| **Totals** | | **$684** | **$487** | **$13** | **$1,183** |

[a] Includes funding from the Greenhouse Gas Reduction Fund.

[b] Includes funding from Air Pollution Control Fund.

[c] Includes the following programs: (1) impact assessment and alignment of reporting, (2) integrated pest management technical assistance (previously in the extreme heat package), (3) canine blood bank, and (4) Senior Farmers Market Nutrition Program.

FARMER = Funding Agricultural Replacement Measures for Emission Reductions; CARB = California Air Resources Board, CDFA = Department of Food and Agriculture; AAMP = Alternative Manure Management Program; IBank = California Infrastructure and Economic Development Bank; GHG = greenhouse gas; and DRP = Department of Pesticide Regulation.

***Sustainable Agriculture Funding Supports a Variety of Programs.*** The committed $1.2 billion is designated for more than two dozen programs administered by various departments. Almost half of the funds are for two programs administered by CARB: (1) the Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program, which supports agricultural equipment upgrades and replacements that reduce GHG and air pollutant emissions ($363 million) and (2) financial incentives for farmers to implement alternative practices to agricultural burning in the San Joaquin Valley ($180 million). The remaining funds—$640 million—support a wide range of programs, mostly administered by CDFA. For example, $170 million is committed to CDFA's Healthy Soils Program, which provides grants to increase statewide implementation of various practices that improve soil health, sequester carbon, and reduce GHG emissions.

***Sustainable Agriculture Activities Historically Not Significant Recipients of General Fund.*** The state has traditionally not provided significant General Fund support for most of these activities. Some of the programs shown in the table above are new and their creation was made possible by the robust condition of the General Fund. Examples of new programs include (1) the Fresno-Merced Future of Food Innovation Initiative; (2) the Conservation Agriculture Planning Grants Program; (3) the Pollinator Habitat Program; (4) the Urban Agriculture Program; (5) the Farm to Community Food Hubs Program;

and (6) the Climate Catalyst Fund, which provides low-interest loans to projects that advance the state's climate mitigation and adaptation goals in the agricultural sector. (We also discuss this program in the "Wildfire and Forest Resilience" section of this report because separate funding focusing on the wood products sector was included in that package.)

Some other programs shown in the table above have received funding from the state in the past, but typically from sources other than the General Fund. For example, CARB's FARMER Program has been supported by GGRF and the Air Pollution Control Fund (which receives revenue from fees and penalties paid by various emitters of air pollution), and the Healthy Soils program has historically been supported by GGRF. As noted in the figure, these two programs received support from those special funds in 2021-22, but in subsequent years funding shifted to the General Fund.

**Staff Recommendation.** Hold Open.

## Issue 22: Oversight Costs for AB 1499 (2017)

**Governor's Proposal.** The Governor's Budget includes trailer bill language to allow the Department to use revenue collected pursuant to Chapter 798, Statutes of 2017 (AB 1499, Gray) to fund existing Fairs and Exposition Branch positions and operating expenses.

**Background.** California has one of the nation's largest fair systems (Network). The Network consists of 79 fairs that operate under a variety of governance structures, such as state institutions (District Agricultural Associations [DAAs]), counties, and non-profits; collectively they are statutorily known as "state-designated fairs." They provide agricultural education, emergency response and preparedness, environmental leadership, and generate millions of dollars in state and local revenues. CDFA is responsible for providing oversight activities carried out by each California fair. CDFA fulfills its oversight responsibilities through the Fairs and Expositions (F&E) Branch and services provided by CDFA's Human Resources Branch, Legal Office, Audit Office, Office of Civil Rights (OCR), and Executive Office.

AB 1499 requires the California Department of Tax and Fee Administration to transfer annually into CDFA's F&E Fund, a portion of the sales tax corresponding to the sales tax revenue generated at fairgrounds during the prior year. The annual amount to be deposited into the fund can be expected to be anywhere between $18 and $20 million. AB 1499 authorized the funding to be allocated to fairs pursuant to BPC section 19620.2, which includes capital outlay projects related to health and safety, deferred maintenance, projects related to emergencies, projects related to securing fairgrounds, and general operational support of fairs. However, current law does not authorize CDFA to use revenue generated by AB 1499 on its own administrative costs. CDFA's F&E Branch is currently funded by the General Fund and Prop. 68, but has relied on funding reserves in recent years.

The F&E Fund that is used for CDFA's administrative costs will be nearly exhausted by the end of FY 2022-23. Without an additional source of funding, CDFA will no longer be able to provide oversight to the Network beginning in FY 2023-24. CDFA is currently exploring the potential to transition the fairs in the Network to a new governmental structure. However, no change is expected to take place for at least five years, and current models suggest F&E's role of providing some level of oversight would need to continue indefinitely.

**Staff Comments.** In recent years, COVID-19 has significantly disrupted state fair operations. As a result, the revenues authorized by AB 1499 have been much lower than estimated by CDFA. For example, AB

1499 generated about $8 million in 2020-21 and $3 million in 2021-22. This revenue is intended to fund projects addressing public health, safety, and emergency services; deferred maintenance; and general operational support at the fairs. However, under the Governor's proposal, a significant portion of the currently limited AB 1499 revenues would have to be dedicated to CDFA's oversight costs. The CDFA F&E Branch currently has 10 positions and budget authority of about $2 million annually to provide oversight of the Network.

**Staff Recommendation.** Hold Open.

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, April 13, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Joanne Roy

**Item** **Department** **Page**

## VOTE ONLY

# DISCUSSION

*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# VOTE-ONLY

## 0555 CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY (CALEPA)

**Issue 1: California Unified Program, Accidental Release Prevention (CalARP), and Hazardous Materials Business Plan (HMBP) Program Support (Budget Change Proposal (BCP) and Trailer Bill Language (TBL))**

**Governor's Proposal.** The Governor's budget requests $719,000 from the Unified Program Account and four permanent positions in 2023-24 to support growing legal need in the Unified Hazardous Waste and Hazardous Materials Regulatory Program (Unified Program) and to support inspection and enforcement authority of the Hazardous Materials Business Plan (HMBP) and Accidental Release Prevention (CalARP) programs.

These programs have greater legal and regulatory needs than the CalEPA legal and regulatory teams have historically had the resources to provide, and those needs have grown as the result of a transfer of related programmatic responsibilities to CalEPA from the Governor's Office of Emergency Services (Cal OES) in July 2021.

Additionally, CalEPA requests TBL to give the Secretary new enforcement authority for the HMBP and CalARP programs. CUPAs implement and enforce at the local level, but if they fail to adequately execute their duties, the Secretary must have some ability to task an authorized state agency to take the appropriate enforcement action.

The TBL authorizes the Secretary's designee, and expressly authorizes CUPAs, to inspect facilities for enforcement purposes.

**Staff Comments.** The TBL proposes to add the clause, "Notwithstanding any other law," to Health and Safety Code (HSC) Section 25502(a)(1). However, there are no specific provisions that it is meant to reference. Because the clause is too broad, as well as unnecessary, staff recommends deleting "Notwithstanding any other law" from the proposed amendments to HSC Section 25502(a)(1).

**Staff Recommendation. Approve as budgeted except delete the clause, "Notwithstanding any other law" from the proposed TBL.**

## 3100 CALIFORNIA SCIENCE CENTER

**Issue 2: Minimum Wage Increase and Wage Compression Impact (Budget Change Proposal (BCP) and Trailer Bill Language (TBL))**

**Governor's Proposal.** The Governor's budget requests an ongoing baseline budget adjustment of $723,000 beginning in 2023-24 to address the state's minimum wage increase ($407,000) and wage compression ($316,000) impact to its direct charge contract with the Foundation. As authorized by the Food and Agriculture Code Section 4101.4, the direct charge contract is for specialized functions that are not generally available in state civil service. These contracted services include exhibit maintenance, educational and guest services, and horticultural and animal care.

This proposal includes TBL to provide the Science Center the opportunity to request augmentation of its operating budget to mitigate the impact of any future state's minimum wage increases.

**Staff Recommendation. Approve as budgeted.**

## 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

### Issue 3: Water Supply Strategy Implementation (BCP and TBL)

**Governor's Proposal.** The Governor's budget requests:

- 19 permanent positions and $4.73 million ($4.23 million and 19 positions and $500,000 in one-time contract funding from the Waste Discharge Permit Fund), in fiscal year 2023-24.

- Starting 2024-25, an additional nine permanent positions and $2.333 million ($1.425 million and seven positions and $500,000 in one-time contract funding from the Waste Discharge Permit Fund, and $408,000 and two positions from the Safe Drinking Water Account). This will provide total resources for 2024-25 in the amount of 28 positions and $6.563 million ($5.655 million and 26 positions and $500,000 one-time contract funding from the Waste Discharge Permit Fund, and two positions and $408,000 from the Safe Drinking Water Account.

- Starting 2025-26, an ongoing spending authority of $6.063 million ($5.655 million Waste Discharge Permit Fund and $408,000 Safe Drinking Water Account) to continue the support of 28 permanent positions.

This request is intended to allow the Water Boards to address critical statewide water supply needs through planning and permitting for new water supplies. Resources will be used to:

1) Permit new recycled water projects, including potable reuse;
2) Develop plans and permits to increase the supply and number of brackish groundwater and seawater desalination facilities; and,
3) Identify incentives to increase stormwater capture and use.

This proposal includes TBL to modify Water Code sections 13260 and 13523 to address a gap in regulatory authority and the structural deficit of one of the Water Boards' main operating funds by extending the fee authority to enable the Water Boards to assess fees for recycled water permits, allowing the Water Boards to effectively carry out recycled water permitting responsibilities.

Addressing these staffing resource and funding needs is intended to support planning and permitting for new water supplies and storage to mitigate aridification in California in accordance with California's Water Supply Strategy, Adapting to a Hotter, Drier Future.

**Staff Recommendation. Approve as budgeted.**

## 3480 DEPARTMENT OF CONSERVATION

**Issue 4: SB 1295 Clean-Up (CalGEM) (TBL)**

**Governor's Proposal.** The Governor's budget requests TBL that includes technical amendments to SB 1295 (Limon), Chapter 844, Statutes of 2022, that will allow CalGEM to factor assessments added by SB 1295 into their fee schedule over the next two years. The assessments included in SB 1295 were connected to General Fund approved in the 2022 Budget Act agreement for oil well plugging and abandoning, and these technical amendments will allow CalGEM to incorporate the additional SB 1295 assessments into future budget authority.

More specifically, in order to assess the funding authorized in SB 1295, CalGEM must first build the appropriation authority into the Budget Act. When SB 1295 was enacted, the Budget Act was already completed for 2022-23 and it was too late to incorporate these costs in to the assessments. Due to that timing issue and the future period in which CalGEM submits fee schedules to industry, the fiscal years cited in SB 1295 have been pushed forward to 2024-25 and 2025-26.

**Staff Comment.** The proposed TBL amending Public Resources Code Section 3258(a)(2)(A) adds the word "leveraging," which is a term of art and does not accurately reflect the intent. The $7.5 million appropriated is supposed to come from the Oil, Gas, and Geothermal Administrative Fund to match the monies spent from the General Fund appropriation in 2022-23.

Staff recommends the following amendment to PRC Section 3258(a)(2)(A):

> For the 2024-25 fiscal year, seven million five hundred thousand dollars ($7,500,000), ***as a match to*** the dedicated General Fund appropriation for the 2022-23 fiscal year for the purposes of plugging and abandoning wells, decommissioning facilities, and site remediation pursuant to this article.

**Staff Recommendation. Approve as proposed except replace "leveraging" with "as a match to" in PRC Section (a)(2)(A), as noted in the staff comment above.**

## 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

**Issue 5: Water Recycling Project Fees (TBL)**

**Governor's Proposal.** The Governor's budget proposes TBL to require persons who are subject to the prescribed water reclamation requirements for water that is used or proposed to be used as recycled water and persons who have been issued a master recycling permit to pay the annual fee established by SWRCB.

This proposal is meant to address a gap in regulatory authority and the structural deficit of one of the Water Boards' main operating funds by extending the fee authority to enable the Water Boards' to assess fees for recycled water permits, allowing the Water Boards to effectively carry out recycled water permitting responsibilities.

**Background.** The Porter-Cologne Water Quality Control Act, with certain exceptions, requires a waste discharged to file a report of waste discharge with a Regional Water Quality Control Board (RWQCB) and to pay an annual fee established by SWRCB. Each RWQCB is authorized to prescribe water reclamation requirements for water that is used or proposed to be used as recycled water and to place those requirements upon the person recycling water, the user, or both. In lieu of issuing waste discharge requirements or water recycling requirements for a user of recycled water, each RWQCB is authorized to issue a master recycling permit to a supplier or distributor, or both, of recycled water.

**Staff Recommendation. Approve as budgeted.**

# 3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CALRECYCLE)

## Issue 6: Pharmaceutical and Sharps Waste Stewardship Program (TBL)

**Governor's Proposal.** The Governor's budget requests TBL that would give CalRecycle the authority to bill a stewardship organization based on projections with a reconciliation prior to the next billing cycle.

The proposed trailer bill language is intended to allow CalRecycle to ensure funds are available in the Pharmaceutical and Sharps Stewardship Fund (Fund) to cover the costs of all organizations that do work on the Pharma/Sharps program.

**Background.** Statute specifies that the fee must be adequate to cover all costs of administering and enforcing the program, the costs cannot exceed the state's actual and reasonable regulatory costs to implement and enforce the chapter. In addition, the statue states that on or before the end of 2022-23 fiscal year and once every three months thereafter, a program operator shall pay an administrative fee.

Based on the current established process for billing on existing extended producer responsibility programs and consistent with current statute, the Fund becomes reimbursement based, since billing are in arrears every 90 days on actual costs incurred. This is problematic due to the nature of direct appropriations to the Fund in which personnel services costs are attached — because CalRecycle must take steps to ensure there are adequate funds in the Pharmaceutical and Sharps Stewardship Fund.

Current statutory language for billing in arrears requires CalRecycle to always anticipate the costs of others doing work on the program and draw an inter-fund loan from the E-Waste Account to cover the costs until reimbursement occurs. Reimbursement occurs after all entities have paid on time; then, CalRecycle tracks the costs that were covered by the E-Waste Account for multiple state agencies to ensure the Account is paid back by the Pharmaceutical and Sharps Stewardship Fund.

It would likely be more efficient for all entities to allow billing in advance, ensure the health of the E-Waste Account along with the Pharmaceutical and Sharps Stewardship Fund, and make certain that staff costs due to administration of the Program are covered each month rather than via quarterly reimbursement in arrears.

**Staff Recommendation. Approve as budgeted.**

# DISCUSSION

## 3860 DEPARTMENT OF WATER RESOURCES (DWR)

**Issue 7: Flood Management Proposals:**
**(a) Delta Levee System Integrity and Habitat Restoration Program**
**(b) Systemwide Flood Risk Reduction Paradise Cut and Yolo Bypass Projects**
**(c) Yolo Bypass-Cache Slough Master Plan and Comprehensive Study**
**(d) Urban Flood Risk Reduction**
**(e) 2027 Central Valley Flood Protection Plan**
**(f) Central Valley Flood Protection Board: Local Maintenance Agency Assistance Program**
**(g) Flood Maintenance Operations Support**

**Governor's Proposals.** According to LAO, the Governor's budget proposes $119 million General Fund in 2023-24 and $35 million General Fund in 2024-25 for various flood projects in the Central Valley. The funding would support five projects and two studies conducted in collaboration with USACE. It also would support two projects as part of the Urban Flood Risk Reduction (UFRR) Program. (UFRR projects are consistent with USACE feasibility studies, but can be conducted on a faster time line by the state. Additionally, USACE typically requires the state to contribute a share of the costs of undertaking federal projects in California, and UFRR expenditures can be credited toward these requirements on future USACE projects.) Finally, funding would support two additional state projects and one study.

**Governor's 2023-24 Flood Project and Study Proposals**

General Fund, Unless Otherwise Noted (In Millions)

| Activity | Proposed Funding 2023-24 | Proposed Funding 2024-25 | Estimated Total Project Cost | Estimated Future State Funding Needed | Estimated Completion Date |
|---|---|---|---|---|---|
| **Flood Management Projects** | **$114** | **$35** | **$4,647** | **$577** | |
| Mossdale Tract Multibenefit Project[a] | $40 | $35 | $100 | — | 2025 |
| West Sacramento Project[b] | 25 | — | 1,130 | $70 | 2030 |
| American River Common Features Project[b] | 20 | — | 1,230 | 61 | 2026 |
| Yolo Bypass Fix-in-Place Projects | 15 | — | 40 | 45 | 2027/Ongoing |
| Paradise Cut Bypass Expansion and Ecosystem Enhancement Project | 10 | — | 300 | 180 | 2030 |
| Lower Cache Creek Project[b] | 1 | — | 323 | 77 | 2036 |
| Lower San Joaquin Project[b] | 1 | — | 1,240 | 135 | 2032 |
| Marysville Ring Levee Project[b] | 1 | — | 193[c] | 10 | 2030 |
| Smith Canal Gate Project[a] | 1 | — | 91[d] | — | 2023 |
| **Flood Management Studies[e]** | **$5** | **—** | **$22** | **$8** | |
| Yolo Bypass-Cache Slough Master Plan and Comprehensive Study | $3 | — | $9 | $6 | 2027 |
| Yolo Bypass comprehensive study[b] | 1 | — | 8 | 1 | 2027 |
| Reclamation District-17 feasibility study[b] | 1 | — | 5 | 1 | 2027 |
| **Various Delta Levee Projects** | **$41** | **—** | **—** | **—** | |
| Delta levee special projects and state operations support | $41[f] | — | — | Unknown | Ongoing |
| **Totals** | **$159** | **$35** | **$4,669** | **$585** | |

[a] Urban Flood Risk Reduction project. Project consistent with U.S. Army Corps of Engineers (USACE) feasibility study. Expenditures can serve as state cost share for a future USACE project.
[b] USACE project. Figure reflects state share of cost.
[c] Preliminary estimate that could change based on the USACE Post Authorization Change Report, which will be completed by 2027.
[d] Construction is still ongoing and could result in additional cost increases.
[e] Figure reflects costs to complete each study; subsequent projects will result in additional and more significant costs to complete.
[f] Includes $27 million from Proposition 1 (2014) bond funds.

*Source: LAO*

More specifically, the Governor's budget requests the following:

**(a)** ***Delta Levee System Integrity and Habitat Restoration Program.*** $13.2 million General Fund one-time ($11.2 million for state operations and $2 million Local Assistance (two-year encumbrance and three-year liquidation period); and $27.4 million in Proposition 1 funding for local assistance. Funding will provide continued support to the Delta Levees Maintenance Subventions Program and the Delta Levees Special Flood Control Projects Program that includes multi-benefit (i.e., levee and habitat improvement) project work. To allow for the accelerated delivery of LA funds, this proposal requests provisional language in the budget act to include: Any guidelines adopted to implement projects or activities are not subject to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code. DWR's Delta Levee System Integrity and Delta Habitat Restoration Branch (Program) expects to commit all previously appropriated funding for projects by Spring 2023 and spend the next several years implementing the projects. Additionally, all state operations funds for administering the Program will be expended by June 2023.

**(b)** ***Systemwide Flood Risk Reduction Paradise Cut and Yolo Bypass Projects.*** $25 million in 2023-24 in Capital Outlay (CO) from General Fund. This request will support work and contracts needed to carry out the Paradise Cut Multi-Benefit Project and Yolo Bypass Fix-In-Place Projects. These projects improve climate resilience by reducing the risk of flooding while contributing to ecosystem restoration and other societal benefits such as agricultural sustainability.

**(c)** ***Yolo Bypass-Cache Slough Master Plan and Comprehensive Study.*** $3.35 million General Fund one-time for the state cost-share of the US Army Corps of Engineers (USACE) Yolo Bypass Comprehensive Study and continued development of the Yolo Bypass-Cache Slough Master Plan. The Master Plan will serve as the work plan, including all necessary projects and activities, for the Yolo Bypass-Cache Slough (YBCS) Partnership to achieve its goals for flood protection and public safety, ecosystem restoration, water supply and quality reliability, agricultural sustainability, and recreation. The USACE-led Comprehensive Study will evaluate the flood management projects in the Master Plan. Assuming the Comprehensive Study determines the projects generate significant net benefits and advance federal interests, then federal funding could be made available to match state and local funding for project implementation.

**(d)** ***2027 Central Valley Flood Protection Plan.*** $36.91 million General Fund State Operations in the following fiscal years: 1) $4.41 million ($3.998 million DWR and $0.412 million CVFPB) in 2023-24; $11 million in 2024-25; $11.5 million in 2025-26; $10 million in 2026-27. This funding supports the development of the 2027 Update to the Central Valley Protection Plan (CVFPP) and Conservation Strategy (CS) as required by Water Code Sections 9600-9616. Water Code Section 9616 requires DWR to complete numerous specific activities to update the CVFPP and CS, including but not limited to the following:

- Main Document - Develop programmatic vision for the flood system within the broader water management context of the Central Valley (Water Code Sections 9603, 9614, and 9616).
- Flood System Status Report - Update the description of every component of the flood system and the physical condition of each of those components (Water Code Section

9614).

- Technical Analysis Update - Update projections of Climate Change impacts to the flood system, plus associated adaptation strategies (Water Code Sections 9614).
- Conservation Strategy Update - Update strategy for the flood system's contributions to Central Valley species recovery (Water Code Sections 9614 and 9616).
- Investment Strategy Update - Develop strategic plan and justification for 30-year projected investment needs for flood system improvements and maintenance (Water Code Sections 9614 and 9616).
- Public Engagement - Conduct robust public engagement, stakeholder development, and partner agency alignment (Water Code Section 9614).
- CEQA/Tribal - Compliance with requirements per CEQA and Tribal policy.

**(e)** ***Central Valley Flood Protection Board (CVFPB): Local Maintenance Agency Assistance Program.*** $623,000 General Fund ongoing for three new full-time, engineering permanent positions to carry out the new Deferred Encroachment Compliance Program (DECP). The DECP has a primary goal of retaining or regaining compliance with the United States Army Corp of Engineer's (USACE) PL 84-99 Rehabilitation Program for the Central Valley levees that the Board, and ultimately the State of California, are responsible to operate and maintain. These three new positions will exercise the Board's enforcement and permitting authority to resolve hazardous encroachments, develop and implement a programmatic permitting process for Local Maintaining Agency (LMA) maintenance activities (Governor's Water Resilience Portfolio Action 25.2), assist LMAs in preparation of Letters of Intent and System-wide Improvement Framework plans for regaining PL 84-99 eligibility, manage and update LMA assurance agreements, and facilitate consolidation of LMAs or formation of State maintenance areas when necessary.

**(f)** ***Urban Flood Risk Reduction.*** $135.5 million General Fund, including $90 million to support state cost-share of critical USACE projects and Urban Flood Risk Reduction (UFRR) projects and $10 million for State Operations to support and manage USACE and UFRR projects during 2023-24, and $35 million General Fund in 2024-25. DWR requests a five-year extended encumbrance and two-year liquidation period for the $125 million project funds, and a one-year encumbrance and two-year liquidation period for $10 million for the state operations support efforts.

**(g)** ***Flood Maintenance and Operations Support.*** $655,000 General Fund ongoing and position authority of two new full-time permanent positions to address increased workload and to continue providing critical flood maintenance and operations support. Position authority and funding are requested to meet the increasing workload and support

**Background.** According to LAO:

***California Faces Significant and Increasing Flood Risk.*** Estimates from a 2013 comprehensive statewide report, *California's Flood Future,* suggest 7.3 million people (one-in-five Californians), structures valued at $575 billion, and crops valued at $7.5 billion are located in areas that have at least a 1-in-500 probability of flooding in any given year. According to a recent study by scientists at the University of California, Los Angeles, climate change has already doubled the likelihood of an extreme storm bringing catastrophic flooding in California, and this risk will continue to increase. Moreover, recent data reported in the *2022 Central Valley Flood Protection Plan* (CVFPP) suggest that more than 1.3 million people and structures valued at more than $223 billion in the Central Valley region are at risk from flooding. These data suggest that without adequate investments in flood systems, annual deaths could more than double in the Sacramento River Basin and quadruple in the San Joaquin River Basin over a 50-year period (2022 through 2072). The plan also estimates that failing to adequately prepare could cause annual economic damages to double in the Sacramento River Basin and more than quadruple in the San Joaquin River Basin.

***State Has Special Responsibility for Flood Management in the Central Valley.*** California gave assurances to the federal government that it would oversee and maintain the State Plan of Flood Control (SPFC) along the main stem and certain tributaries of the Sacramento and San Joaquin Rivers, including parts of the Sacramento-San Joaquin Delta. The SPFC includes 1,600 miles of levees, four dams, and seven flood bypasses. DWR is the state's lead agency in flood-related activities, while the Central Valley Flood Protection Board (an independent body housed administratively within DWR) has responsibility for overseeing the SPFC on behalf of the state. For most segments of SPFC levees, the state has developed formal agreements with local government entities (primarily local reclamation and levee districts) to handle regular operations and maintenance responsibilities. A court decision in 2003 found that the state was ultimately financially responsible for the failure of SPFC facilities, even when they had been maintained by local entities. State statute requires DWR to prepare, and the Central Valley Flood Protection Board to adopt, an update to the CVFPP every five years. The first version was adopted in 2012. The CVFPP guides flood management activities and funding for the SPFC and Central Valley region.

***Many Levees Are at Risk of Failing.*** In addition to providing flood protection, levees located in the Delta region also are essential components of the state and federal water systems that convey water from the northern part of the state to Central and Southern California. As such, levee failures could put public health and safety as well as water supplies at risk. Given such importance, the current condition of statewide levees is concerning. Nearly 90 percent of Central Valley levee systems currently fail to meet federal performance standards, increasing the risk that they might fail. Reclamation districts' recent five-year plans (which assess current conditions and lay out plans for rehabilitation) have identified 500 miles on 75 Delta islands in need of improvement, with an estimated associated cost of $1.4 billion.

***State Also Helps Ensure Delta Levees Remain Functional.*** Within the 1,100 miles of levees in the Delta, only 380 miles are part of the SPFC. The majority—730 miles—are instead privately or locally owned. Because of their importance, however, the state provides some funding to local agencies to support both SPFC and non-SPFC Delta levees, generally through DWR's Delta Levee System Integrity Program. This program, historically funded with Proposition 1E (2006) and Proposition 84 (2006) bond funds, includes two subprograms through which it allocates funds:

- ***Maintenance Subventions Program.*** This program provides an annual grant to local agencies, reimbursing them for up to 75 percent of their costs to maintain levees. DWR anticipates that claims will be higher this year due to recent storms.
- ***Special Flood Control Projects Program.*** This program provides grants to local agencies for projects that protect water conveyance systems (including roads and utilities) and water quality from flood hazards.

***Recent State Budgets Have Committed Significant Funding for Flood Management.*** Over the past couple of decades, voter-approved general obligation bond funding has been the primary funding source for flood projects—including levee repair and maintenance—and related state operations support. However, after several years of significant expenditures, the state has now expended most of the flood-related bond funding that voters have authorized. Recent budget surpluses helped facilitate an unusually high level of General Fund support to help supplement the expiring bond funds. Specifically, recent budgets committed approximately $600 million General Fund from 2021-22 through 2024-25 to support numerous flood capital outlay projects, flood management activities, and dam safety projects.

(An additional $140 million in bond funding was committed for these purposes over this same period.) This funding has provided support to numerous flood projects. For example, nearly all of the roughly $300 million in combined General Fund and bond funds appropriated in 2021-22 has been committed to 14 different Central Valley flood or Delta levee projects in various stages of planning, development, or construction.

***Federal Government Also Builds Capital Projects to Reduce Flood Risk and Helps Support Flood Emergency Response and Recovery.*** The federal government supports flood projects in California in two main ways.

- ***U.S. Army Corps of Engineers (USACE)***. USACE authorizes and undertakes capital flood protection projects when authorized by Congress, generally in partnership with state and local agencies. USACE inspects federally constructed levees for compliance with federal standards, provides planning and assistance during flood events, provides funding to repair flood-damaged levees, and establishes flood storage and release standards for certain reservoirs.
- ***Federal Emergency Management Agency (FEMA).*** FEMA operates the National Flood Insurance Program, which includes developing flood hazard maps that define flood risk, establishing floodplain management standards, and offering federally backed insurance policies. It also provides coordination, assistance, and funding for federally declared flood disasters.

***Federal Funds Will Help Pay For Damage From Recent Storms.*** State and local agencies can apply for FEMA reimbursement for eligible emergency-related costs (such as debris removal) and repair or replacement of facilities damaged by the storms. Generally, FEMA reimburses at least 75 percent of eligible costs until funding is exhausted. The extent of the December 2022 and January 2023 storm damage is still being assessed and the timing for when public agencies will receive reimbursement is still unknown.

**LAO Comments.** ***Higher Bar for Approving New Proposals Given General Fund Condition.*** The Governor's new flood-related proposals would commit the state to significant discretionary General Fund expenditures in 2023-24. Importantly, the state currently is experiencing a budget problem, where General Fund revenues already are insufficient to fund existing commitments. In this context, every dollar of new spending in the budget year comes at the expense of a previously identified priority and requires finding a commensurate level of solution somewhere within the budget. The Governor "makes room" for proposed new spending on flood projects by making reductions to funds committed for other programs, including many in the climate and natural resources areas. LAO thinks the Legislature will want to apply a higher bar to its review of new spending proposals such as these than it might in a year in which the General Fund had more capacity to support new commitments, as it will need to weigh the importance and value of the proposed new activities against the activities to which it has already committed. Essentially, it will want to consider whether it wants to make reductions—either those proposed by the Governor or equivalent alternatives—to free up resources for these flood projects.

***Flood and Levee Proposals Might Meet That Higher Bar.*** In LAO's view, several reasons make the case for the Governor's flood-related proposals potentially meeting this high threshold for justifying new spending. These proposals would (1) respond to various critical flood protection and risk management needs, (2) help the state draw down federal funding, and (3) allow key projects that are already in progress to continue. Additionally, although many of the proposals do support continuing projects, nearly all of the current requests are one time in nature. This structure provides the state with the flexibility to consider associated future spending within the context of a given year's budget and available revenues.

***Central Valley Flood and Delta Levee Projects Are Important Part of State's Flood Management System.*** The Governor's flood proposals focus on the Central Valley and the Delta. This makes sense because the state has particular responsibility for maintaining the SPFC and given that the reliability of Delta levees is essential for the continued operation of statewide water conveyance systems. Taking steps now to mitigate existing flood risk—as well as the increasing hazards expected to result from climate change—could prevent both significant and costly damage as well as threats to public safety in future years.

***Share of Flood Project Funding Would Help State Draw Down Federal Support.*** The Governor's proposed spending on flood management would not only help mitigate flood risk, but also would help the state generate significant federal support. Of the proposed $119 million for flood projects and studies, $50 million reflects the state's required cost share for USACE projects. In addition, the two projects that are part of the UFRR program could generate credits toward state spending requirements for future USACE projects. Nearly all of these projects are already in progress and the proposed funding would allow the next phase to be completed. Therefore, the proposed $10 million to support state staff associated with oversight and management of these and other USACE/UFRR projects also merits consideration.

***Funding for Delta Levees Would Prioritize the Most Critical Areas.*** LAO also finds merit in the Governor's proposed spending on Delta levee programs. The proposal would support multi-benefit projects to improve levees and restore habitat in the Delta, providing flood protection benefits to the SWP. In addition, the General Fund portion of the request would backfill expiring bond funding for state operations and satisfy regulatory requirements for previously funded projects. Finally, although the proposed project funding ($27.4 million Proposition 1 bond funds) would only partially address what reclamation districts have identified as a $1.4 billion need for Delta levees, DWR indicates it would prioritize the funds for the most urgent projects. Specifically, it would first allocate funding to those projects on Delta islands or tracts deemed as "very high priority" in risk assessments developed by the Delta Stewardship Council. (The council used new levee geometry, hydraulic data, and projected impacts on vulnerable populations to develop these assessments.)

***CVFPP Costs Appear Reasonable, in Line With Previous Iterations of the Plan.*** Average annual costs to prepare the CVFPP have been about $8.5 million since development of the first version, which was released in 2012. The current request, which would average $9.2 million annually for four years, is thus in line with historical costs. These costs may seem high for the development of a plan—especially one that is an update of several previous iterations. Generally this is because these updates involve detailed, comprehensive, and technical analyses, including modeling the potential impacts of climate change and related adaptation activities. Although the time and staffing resources to prepare the next plan seem reasonable, the Legislature might wish to ask if any of these activities or processes—such as modeling climate impacts—could be more streamlined or automated given that this plan has to be updated every five years.

*(Next page)*

**LAO Recommendation.** ***Consider Approving Funding for Flood Management Projects, State Operations, and Related Activities.*** Approving General Fund for these proposals requires identifying commensurate reductions from other existing spending commitments, which the Governor does through his package of budget solutions. However, this funding would support important activities that help protect public health and safety by lowering risks to flood prone areas and protecting key water conveyance infrastructure. To help avoid the potential losses to life and property that can result from serious flood events, the Legislature might want to consider approving the funding despite the associated budget trade-offs. The proposed funding would help draw down federal support for many of the projects and, because nearly all of it is one time in nature, the state could consider out-year spending within the context of future fiscal conditions.

**Staff Recommendation. Hold open.**

## Issue 8: Dam Safety and Flood Management Grant Program (TBL)

**Governor's Proposal.** The Governor's budget requests TBL to do the following:

1) Require DWR to, upon appropriation by the Legislature, develop and administer the Dam Safety and Climate Resilience Local Assistance Program (Program).
2) Specify that the Program would provide state funding for repairs, rehabilitation, enhancements, and other dam safety projects at existing state jurisdictional dams and associated facilities, subject to prescribed criteria.
3) Require DWR to develop and adopt program guidelines and project solicitation documents before disbursing any grant funds.
4) Require a grant cost share of at least 50 percent for projects funded pursuant to the Program, except as provided.

The 2022-23 Budget included $100 million for dam safety, to be allocated as $75 million in 2023-24 and $25 million in 2024-25.

**Background.** ***California Dams.*** Approximately 1,240 non-federal dams located in the state fall under the jurisdiction of DWR's Division of Safety of Dams (DSOD). Dams are owned by cities, counties, districts, state agencies, private companies, and small private owners with varying technical and financial resources. The Association of State Dam Safety Officials estimate the rehabilitation of the state's non-federal dams with condition assessments Less than Satisfactory to be $1.9 billion.

**DAMS WITH HIGH OR EXTREMELY HIGH DOWNSTREAM HAZARD POTENTIAL**

Dam rehabilitation projects are in various phases from planning, design, to construction.

| Hydrologic Region | Number of Dams less than Satisfactory | Dams with Seismic Deficiency | Dams with Spillway Hydraulics Deficiency | Dams with Other Deficiencies | Cumulative Population at Risk | Cumulative Project Costs as Estimated by Dam Owners |
|---|---|---|---|---|---|---|
| North Coast | 4 dams | | 1 dam | 3 dams | 1,000 to 10,000 | <$50,000 |
| Sacramento River | 14 dams | 2 dams | 7 dams | 5 dams | >100,000 | >$55 million |
| North Lahontan | 2 dams | | 2 dams | | 10 to 100 | |
| San Francisco Bay | 21 dams | 5 dams | 6 dams | 10 dams | >100,000 | >$1 billion |
| San Joaquin River | 9 dams | 1 dam | 4 dams | 4 dams | >10,000 | >$70 million |
| Central Coast | 4 dams | 1 dam | 2 dams | 1 dam | >10,000 | >100 million |
| Tulare Lake | NONE | | | | | |
| South Lahontan | 3 dams | 3 dams | | | <10,000 | >$100 million |
| South Coast | 18 dams | 6 dams | 6 dams | 6 dams | >100,000 | >$300 million |
| Colorado River | 1 dam | | 1 dam | | <1,000 | $5,000 |
| **Total** | **76 dams** | **18 dams** | **29 dams** | **29 dams** | **>250,000** | **>$1.6 billion*** |

*** Likely to exceed $2 billion**

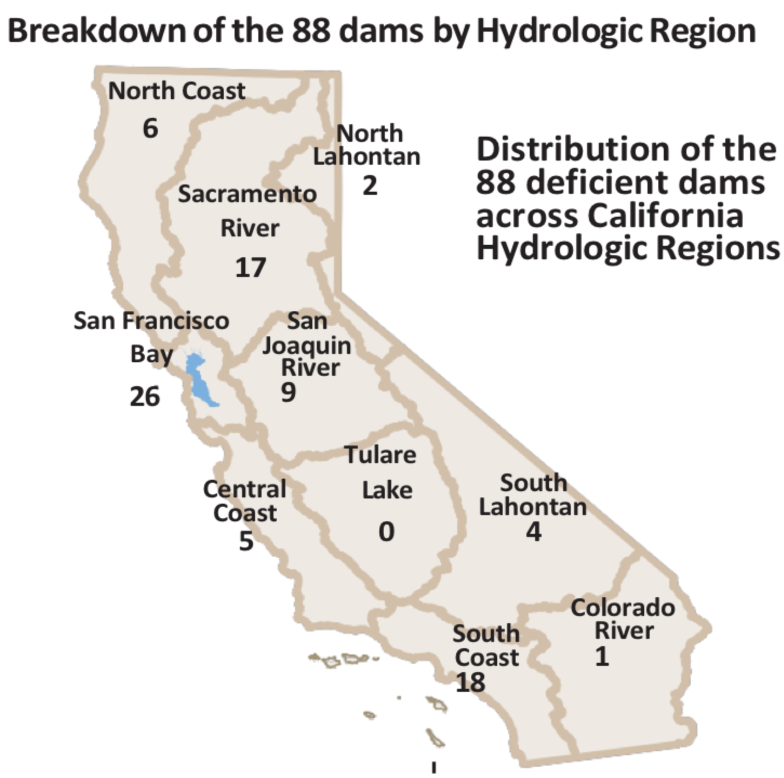
*Source: DWR Division of Safety of Dams*

***Downstream Hazard.*** The downstream hazard is based solely on potential downstream impacts to life and property should the dam fail when operating with a full reservoir. This hazard is not related to the condition of the dam or its appurtenant structures. The definitions for downstream hazard borrowed from the Federal Guidelines for Inundation Mapping of Flood Risks Associated with Dam Incidents and Failures (FEMA P-946, July 2013). FEMA categorizes the downstream hazard potential into three categories in increasing severity: Low, Significant, and High. DSOD adds a fourth category of "Extremely High."

| Downstream Hazard Potential Classification | Potential Downstream Impacts to Life and Property |
|---|---|
| Low | No probable loss of human life and low economic and environmental losses. Losses are expected to be principally limited to the owner's property. |
| Significant | No probable loss of human life but can cause economic loss, environmental damage, impacts to critical facilities, or other significant impacts. |
| High | Expected to cause loss of at least one human life. |
| *Extremely High* | Expected to cause considerable loss of human life or would result in an inundation area with a population of 1,000 or more. |

*Source: DWR, Division of Safety of Dams*

Currently, DSOD has classified 88 dams with a condition assessment of less than satisfactory with a hazard potential of significant or higher due to seismic, hydraulic, or other deficiencies.




*Source: DWR Division of Safety of Dams*

Of the 88 dams, 76 of them have a High or Extremely High downstream hazard potential classification. The downstream hazard potential is based solely on potential downstream impacts to life and property should the dam fail when operating under a full reservoir. High hazard dams have the potential to cause loss of at least one human life. Extremely High hazard dams have the potential for considerable loss of human life or would result in an inundation area with a population of 1,000 people or more.

**Staff Comments.** ***Jurisdictional dams.*** DWR regulates "jurisdictional dams." Given the relatively small amount of funding available for grants, it may be prudent to restrict the $100 million to jurisdictional dams.

***What is an "Enhancement."*** The TBL, proposed Water Code Section 6700(b)(2) provides funding for dam safety and *enhancement* projects. The term, "enhancement" is broad, and Section 6700(b) includes examples of eligible projects as well as the clause, "but is not limited to.". DWR states that an enhancement "would potentially be any element that betters the management of the protective-ness of the dam. This can be associated with (b)(4), which envisions better protection and management but not due to a physical betterment to the dam itself." DWR states that it is not easily narrowed. However, the clause, "including but not limited to" non-exhaustive. Concern has been raised that this language could allow grants for increasing capacity. It may be prudent to provide clearer language on what "enhancement" encompasses and the types of projects which may and may not be eligible.

***Administrative Procedures Act (APA) Exemption.*** The TBL exempts guidelines and project solicitation documents developed for this program from the APA. DWR states that the process to develop and adopt regulations would delay important work that would (1) provide greater public safety, (2) address issues at aging facilities and improve water supply reliability in the face of climate uncertainty, and (3) is already narrowed to the statutory purposes listed. DWR believes the language provides clear direction for this current level of funding. APA provides an avenue for accountability, transparency, and public participation in the rulemaking process. A question arises as to whether emergency regulations, as opposed to an exemption, may address the need for expediency as well as provide a process for accountability, transparency, and public participation.

***Downstream Hazard.*** Given the limited amount of funds, it may make sense to prioritize dams based on downstream hazard classifications. As noted above, there are four classifications — low, significant, high, and extremely high. A project that has an extremely high downstream hazard classification should take priority over one that is categorized as low.

**Staff Recommendation. Hold open.**

## Issue 9: Division of Safety of Dams Fees (TBL)

**Governor's Proposal.** The Governor's budget requests TBL to do the following:

1) Require the Attorney General, upon request of DWR, to bring an action in superior court seeking injunctive relief, penalties, fees, costs, or any other remedies available to the department, as specified.
2) Increase fees for the filing of an application, as specified, and include the repair, alteration, or removal of an existing dam or reservoir.
3) Authorize DWR to adjust the fee schedule by regulation to ensure the filing fees collected reasonably cover the department's costs of application work, which may include, design review and construction oversight.
4) Authorize DWR to refund filing fees paid by the owner if requested by an owner.
5) Authorize DWR to adopt, by regulation, a methodology for determining the criteria and process for filing fee refunds requested by an owner.
6) Require the estimated cost of a new dam or reservoir, or the enlargement, alteration, repair, or removal of an existing dam or reservoir to include the labor costs of the owner for preparing environmental review documentation.

**Background.** ***Divisions of Safety of Dams (DSOD).*** DSOD regulates dams to prevent failure, safeguard life, and protect property. The division provides oversight to the design, construction, and maintenance of over 1,200 jurisdictional sized dams in the state.

Jurisdictional dams are dams that are under the regulatory powers of the state. If a dam height is more than six feet and it impounds 50 acre-feet of water, it will be under DSOD's jurisdictional oversight, unless it is exempted. Some specific exemptions from DSOD jurisdiction include:

- Obstruction in a canal to raise, lower, or divert water there from
- Levees, railroad fill
- Road and highway fills
- Circular tanks
- Tanks elevated aloe the ground
- Barriers off-stream for agricultural use or use as sewage sludge drying facilities
- Obstructions in channels or watercourses which are 15 feet or less in height, with single purpose of spreading water within the bed of the stares or watercourse upstream for percolation underground
- Federal dams

DSOD works with dam owners to identify and correct potential problems before they become serious. If DSOD fins a potentially unsafe condition, the division works with the dam owner to address and remedy the condition in a timely manner. When necessary, DSOD may immediately employ any remedial means necessary to protect life and property, or it may impose a reservoir restriction limiting the water surface to a level that is judged safe. The division may also direct the dam owner to implement an emergency action plan.

***Condition Assessment.*** DSOD uses the US Army Corps of Engineer's National inventory of dams' conditions assessment rating definition in assigning assessments. A dam safety deficiency is defined as a load capacity limit or other issue that can result in a failure of the dam or appurtenant structure. It is a characteristic or condition that does not meet the applicable minimum regulatory criteria.

Normal operations are defined as loading on the dam resulting from day-to-day pool operations to achieve authorized purposes in accordance with minimum state or federal regulatory criteria.

Condition Assessment definitions, as accepted by the National dam Safety Review Board, are as follows:

| Ratings | Definitions from the National Inventory of Dams |
|---|---|
| Satisfactory | No existing or potential dam safety deficiencies are recognized. Acceptable performance is expected under all loading conditions (static, hydrologic, seismic) in accordance with the minimum applicable state or federal regulatory criteria or tolerable risk guidelines.<br><br>Typical Circumstances:<br>• No existing deficiencies or potentially unsafe conditions are recognized, with the exception of minor operational and maintenance items that require attention.<br>• Safe performance is expected under all loading conditions including the design earthquake and design flood.<br>• Permanent risk reduction measures (reservoir restrictions, spillway modifications, operating procedures, etc.) have been implemented to eliminate identified deficiencies. |
| Fair | No existing dam safety deficiencies are recognized for normal operating conditions. Rare or extreme hydrologic and/or seismic events may result in a dam safety deficiency. Risk may be in the range to take further action. Note: Rare or extreme event is defined by the regulatory agency based on their minimum applicable state or federal criteria.<br><br>Other Circumstances:<br>• Lack of maintenance requires attention to prevent developing safety concerns.<br>• Maintenance conditions may exist that require remedial action greater than routine work and/or secondary studies or investigations.<br>• Interim or permanent risk reduction measures may be under consideration. |
| Poor | A dam safety deficiency is recognized for normal operating conditions which may realistically occur. Remedial action is necessary. Poor may also be used when uncertainties exist as to critical analysis parameters which identify a potential dam safety deficiency. Investigations and studies are necessary.<br><br>Other Circumstances:<br>• Dam has multiple deficiencies or a significant deficiency that requires remedial work.<br>• Lack of maintenance (erosion, sinkholes, settlement, cracking, unwanted vegetation, animal burrows, inoperable outlet gates) has affected the integrity or the operation of the dam under normal operational conditions and requires remedial action to resolve.<br>• Critical design information is needed to evaluate the potential performance of the dam. For example, a field observation or a review of the dam's performance history has identified a question that can only be answered by review of the design and construction history for the dam. Uncertainty arises when there is no design and/or construction documentation available for review and additional analysis is needed to better understand the risk associated with operation under normal operational conditions.<br>• Interim or permanent risk reduction measures may be under consideration. |
| Unsatisfactory | A dam safety deficiency is recognized that requires immediate or emergency remedial action for problem resolution.<br><br>Typical Circumstances:<br>• A critical component of the dam has deteriorated to unacceptable condition or failed.<br>• A safety inspection indicates major structural distress (excessive uncontrolled seepage, cracks, slides, sinkholes, severe deterioration, etc.), advanced deterioration, or operational deficiencies which could lead to failure of the dam or its appurtenant structures under normal operating conditions.<br>• Reservoir restrictions or other interim risk reduction measures are required.<br>• A partial or complete reservoir drawdown may be mandated by the state or federal regulatory agency. |
| Not Rated | The dam has not been inspected, is not under state jurisdiction, or has been inspected but, for whatever reason, has not been rated. |

*Source: DWR, Division of Safety of Dams*

**Staff Comments.** Water Code Section 6304 is proposed to be amended as follows: "An application shall not be considered by the department until *at least 20 percent* of the filling fee is ~~received.~~ *received, unless otherwise approved by the department. The application shall not be approved by the department* *until the filing fee is received in full.*"  "Unless otherwise approved by the department" could be confusing on what is being approved. Is the language referring to unless the application itself is approved? Or is it referring to the ability of DWR to consider an application although 20 percent of the filing fee has been received. Assuming it is the latter, an amendment may be considered to read, "received, unless ***the department decides to consider*** otherwise ~~approved by the department~~."

**Staff Recommendation. Hold open.**

# 0540 California Natural Resources Agency: Ocean Protection Council (OPC)
# 3760 State Coastal Conservancy (SCC)

## Issue 10: Governor's Proposed Budget Solutions: Coastal Resilience

**Governor's Proposal.** According to the LAO, the Governor's budget requests $561 million in reductions for coastal resilience, which represent 43 percent of the funding that had been committed for this purpose. The Governor makes the smallest proportional reductions to SCC's nature-based sea-level rise adaptation activities (12 percent, or $50 million) and OPC's ocean protection activities (13 percent, or $15 million). Other programs would be reduced by more than 60 percent of their committed funding:

- ***Protecting the Coast From Climate Change.*** The Governor's budget reduces funding by $325 million (65 percent) over 2022-23 and 2023-24, maintaining $175 million of the original intended amount.
- ***Adapting Infrastructure to Sea-Level Rise.*** The proposed budget reduces funding by $106 million (74 percent) over 2023-24 and 2024-25, maintaining $38 million of the original intended amount.
- ***Implementing SB 1.*** The Governor's budget reduces funding by $65 million (63 percent) over 2023-24 and 2024-25, maintaining $38 million of the original intended amount.

**Governor's Proposed Coastal Resilience Budget Reductions**

2022-23 Through 2024-25 (In Millions)

| Program | Department | Total Augmentations | General Fund Reductions | New Proposed Amounts |
|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | |
| Protecting the coast from climate change | SCC | $500 | -$325 | $175 |
| Adapting to sea-level rise: nature-based activities | SCC | 420 | -50 | 370 |
| Adapting infrastructure to sea-level rise | SCC | 144 | -106 | 38 |
| Protecting the ocean from climate change | OPC | 117 | -15 | 102 |
| Implementing SB 1 | OPC | 102 | -65 | 38 |
| Subtotals | | ($1,283) | (-$561) | ($722) |
| **All Other Coastal Resilience Funding** | | $12 | — | 12 |
| **Totals** | | **$1,295** | **-$561** | **$734** |

SCC = State Coastal Conservancy; OPC = Ocean Protection Council; and SB 1 = Chapter 236 of 2021 (Senate Bill 1, Atkins).

*Source: LAO*

**Background.** According to LAO:

***Recent Budgets Committed $1.3 Billion Over Four Years for Coastal Resilience Activities.*** Recent budgets have committed $1.3 billion ($1.1 billion from the General Fund, $155 million from GGRF, and $17 million from Proposition 68 bond funds) to three departments—SCC, the Ocean Protection Council (OPC), and Parks—to support coastal resilience activities. Of the total, $624 million was appropriated in 2021-22 and 2022-23, while $652 million is planned for 2023-24 and $19 million for 2024-25. Recent budget and trailer bill language specified some of the specific purposes and allowable uses for the recent augmentations.

- ***Protecting the Coast From Climate Change.*** Nearly 40 percent—$500 million—of the total funding for coastal resilience is for SCC to support an array of possible projects geared toward protecting the coast and coastal watersheds from the effects of climate change. This could include sea-level rise adaptation projects. Trailer bill language includes numerous allowable uses, such as improving the resilience of critical infrastructure, restoring upland habitat, removing dams, developing coastal trails, or providing low-interest loans to local governments to acquire properties at risk from sea-level rise to prepare for impending impacts.

- ***Adapting to Sea-Level Rise Through Nature-Based Activities.*** Roughly one-third—$420 million—of the total funding is for SCC to support nature-based activities to protect communities and natural resources from sea-level rise. Budget bill language directs SCC to make $30 million available for the San Francisco Bay Area Conservancy. "Nature-based" in this context could mean, for example, restoring or building up wetlands or sand dunes to serve as wave buffers.

- ***Adapting Infrastructure to Sea-Level Rise.*** Another $144 million is for SCC to support sea-level rise adaptation projects through its Climate Ready Program. Budget and trailer bill language direct SCC to prioritize projects that adapt public infrastructure along the coast, including urban waterfronts, ports, and ecosystems.

- ***Protecting the Ocean From Climate Change.*** Nearly 10 percent—$117 million—of the total funding is for OPC to support ocean protection projects, including projects to protect and restore marine wildlife and ocean and coastal ecosystems.

- ***Implementing SB 1.*** Another $102 million is for OPC to implement SB 1 (Atkins), Chapter 236, Statutes of 2021. This legislation requires OPC to establish a collaborative that would provide information and support to local, regional, and state agencies in identifying, assessing, planning for, and mitigating the effects of sea-level rise. As intended by SB 1, this funding also provides financial support to local and regional governments for updating their local land use plans to account for sea-level rise.

- ***Adapting to Sea-Level Rise in State Parks.*** Parks received $12 million in 2021-22 to implement its sea-level rise adaptation strategy, including conducting planning and demonstration projects.

**Recent and Planned Coastal Resilience Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | 2024-25 | Totals |
|---|---|---|---|---|---|---|
| Protecting the coast from climate change | SCC | — | $350 | $150 | — | $500 |
| Adapting to sea-level rise: nature-based activities | SCC | — | 120[a] | 300 | — | 420 |
| Adapting infrastructure to sea-level rise | SCC | — | 38[b] | 97 | $9 | 144 |
| Protecting the ocean from climate change | OPC | $7[c] | 61[d] | 50 | — | 117 |
| Implementing SB 1 | OPC | — | 38[b] | 55 | 10 | 102 |
| Adapting to sea-level rise in state parks | Parks | 12 | — | — | — | 12 |
| **Totals** | | **$19** | **$606** | **$652** | **$19** | **$1,295** |

[a] Includes $80 million from the Greenhouse Gas Reduction Fund (GGRF).
[b] GGRF.
[c] Proposition 68 (2018) bond funds.
[d] Includes $11 million from Proposition 68 bond funds.

SCC = State Coastal Conservancy; OPC = Ocean Protection Council; SB 1 = Chapter 236 of 2021 (Senate Bill 1, Atkins); and Parks = Department of Parks and Recreation.

*Source: LAO*

SCC and OPC historically have not received large General Fund augmentations. Instead, bond funds, GGRF, other special funds, and federal funds have supported their activities and grant programs.

**LAO Assessment.** ***Addressing Pending Impacts of Sea-Level Rise Represents Important State Activity.*** While the most severe impacts of sea-level rise could be several years off, they are certain. This differs from some other climate challenges such as wildfire, for which the magnitude and location are unknown and dependent on ignitions, weather, and interventions to remove fuels. Given the degree of global warming that already is assured, climate scientists are confident that sea-level rise will result in increased flooding along the coast, erosion of beaches and cliffs, and raised coastal groundwater levels in the coming decades. Damage to public infrastructure poses a serious threat, as these assets are key components of state and local systems of public health, transportation, and commerce. (LAO's 2019 report, *Preparing for Rising Seas: How the State Can Help Support Local Coastal Adaptation Efforts*, provides more information about these threats and lays out options for how the state can support local communities in their responses.)

***Governor's Significant Reductions Could Affect Statewide Preparation Activities.*** Recent General Fund augmentations to plan for and address sea-level rise were particularly notable because General Fund spending in this area historically has been low. LAO notes that the Governor proposes reducing a disproportionately large amount of coastal resilience funding (43 percent) relative to other climate resilience packages (most others would maintain at least 85 percent of funding). Given the threats posed by rising seas, the reductions to coastal resilience funding that the Governor proposes could impede the state's ability to prepare for pending impacts. The Legislature might wish to consider maintaining a higher proportion of this funding, or consider delaying funding rather than reducing it, to try to continue some the progress it had hoped to make. Given the current state budget problem, however, if it were to do so, it likely would have to consider alternative budget solutions in other areas of the budget.

***Some Coastal Resilience Activities Are More Urgent Than Others.*** The recent and planned state funding augmentations for coastal resilience include a variety of allowable uses. While these are all intended to help achieve state goals, some are more directly targeted towards responding to the threat of sea-level rise and therefore focus on more urgent needs. For example, planning now for the inevitable impacts of sea-level rise is an essential step in increasing preparedness along the coast before tides are anticipated to get higher. In contrast, other activities, such as developing coastal trails, may also meet important state goals—such as increasing public access—but represent a less time-sensitive undertaking. In light of the state's worsening budget condition, the distinction between urgent and less urgent activities is a key factor for the Legislature to use in guiding its funding decisions.

***Proposed Reductions Do Not Allow SCC Sufficient Flexibility to Target Most Effective Projects.*** Recent budgets structured SCC funding to support sea-level rise adaptation projects within all three of its allocations. The Administration's proposal retains most of the funding for one of these allocations—nature-based sea-level rise adaptation activities—while reducing the large majority of funding for the other two—protecting the coast and adapting coastal infrastructure to sea-level rise. LAO is concerned that this approach will limit SCC's ability to fund the projects that may be most effective at and necessary for preparing for the impacts of sea-level rise. While nature-based projects are an important part of the state's coastal resilience strategy, in certain cases, a compelling reason may exist to pursue other types of near-term activities as well, such as land acquisition, managed retreat, or shoring up critical public infrastructure. The Governor's proposed reductions could limit SCC from adequately supporting these types of projects even when they might be needed more urgently than a nature-based activity. The Legislature could consider a more flexible approach, for example, by combining the three SCC programs, funding the combined program at whatever level the state can afford based on other legislative priorities, then directing SCC to use the funding to support the most critical sea-level rise-preparation projects, whether those use nature-based approaches or other methods to protect the coast, infrastructure, and vulnerable populations.

***Legislature May Want to Consider Less Drastic Reductions to OPC-Supported Sea-Level Rise Adaptation Planning.*** The Governor's proposal to significantly reduce SB 1 implementation funding could affect the state's ability to effectively prepare for the impacts of sea-level rise. Assessing local risks, understanding a community's particular vulnerabilities, and adjusting land use plans accordingly are all important activities that the Legislature might wish to support now, ahead of significant changes in sea levels. These planning efforts could enable local communities to more effectively direct potential project implementation funding in the future. Waiting to fund such activities could result in lost opportunities to prepare before it is too late to avoid significant impacts. As such, as the Legislature weighs potential modifications to the Governor's proposals, it could seek to identify the level of planning progress it feels is important to make in the next few years and maintain an associated amount of funding.

***Retaining Parks Funding Makes Sense.*** LAO finds merit in the Governor's proposal to avoid reducing Parks' funding for sea-level rise planning and demonstration projects. Particularly because state parks comprise more than one-quarter of California's coastline and are a state responsibility, prioritizing funding to prepare these public lands for forthcoming impacts seems sensible. In addition, planning and demonstration projects can help inform effective uses of future implementation spending.

***Federal Funding a Possibility, But Would Not Directly Backfill State Funds.*** Some federal funding for coastal projects is available through the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Army Corps of Engineers (USACE). SCC indicates NOAA's current grants support nature-based sea-level rise adaptation projects—the same types of projects for which the Governor already proposes maintaining funding. However, NOAA's current grants are competitive, meaning California will vie for funding (totaling about $700 million over five years) against other states. Moreover, USACE supports longer-term projects and requires state matching funds. In sum, while federal funds could help further the state's coastal resilience goals, they will not be available immediately nor will they necessarily support the types of projects included in the Governor's proposed reductions.

**LAO Recommendation.** ***Modify Governor's Proposals to Reflect Legislative Priorities.*** The Governor's proposal significantly reduces coastal resilience funding overall (from an already low base), including for planning, which is an important first step for local communities and the state to prepare for sea-level rise and to make more effective future spending decisions. Overall, this approach highlights the challenging trade-offs currently facing the Legislature. While LAO recommends the Legislature plan for a larger budget problem by identifying more spending reductions than the Governor, it might wish to consider maintaining a higher level of support for sea-level rise adaptation—though this would mean it likely would have to consider additional budget solutions in other areas. Based on LAO's initial assessment, LAO recommends the Legislature consider: (1) modifying the focus of SCC program funding to allow it to direct spending to the most urgent sea-level rise adaptation activities, including nature-based *and* other strategies, and (2) funding OPC's SB 1 planning efforts at a level that will allow it to meet the Legislature's near-term goals.

**Staff Recommendation. Hold open.**

## 0540 California Natural Resources Agency (CNRA)
## 0650 Office of Planning and Research (OPR)
## 3125 California Tahoe Conservancy
## 3340 California Conservation Corps (CCC)
## 3480 Department of Conservation (DOC)
## 3600 Department of Fish and Wildlife (CDFW)
## 3640 Wildlife Conservation Board (WCB)
## 3760 State Coastal Conservancy (SCC)
## 3825 San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy (RMC)
## 3830 San Joaquin River Conservancy
## 3835 Baldwin Hills Conservancy
## 3845 San Diego River Conservancy
## 3850 Coachella Valley Mountains Conservancy
## 3855 Sierra Nevada Conservancy
## 3875 Sacramento-San Joaquin Delta Conservancy

### Issue 11: Governor's Proposed Budget Solutions: Nature-Based Activities and Extreme Heat

**Governor's Proposal.** According to the LAO:

***Proposes Several Programs for Reductions.*** The Governor proposes some notable reductions in the areas of nature-based activities and extreme heat, as shown in Figure 17. Specifically, for nature-based activities, the largest reduction proposed—$100 million—is for funds slated for various conservancies across the state. Some other notable reductions include: (1) eliminating $40 million for WCB for San Joaquin Valley floodplain restoration, (2) reducing $35 million from funding for a WCB program to mitigate climate change impacts on wildlife, and (3) reducing $24 million from funding to establish a new program to support nature-based activities undertaken by the state's 14 local conservation corps.

For extreme heat, the Governor proposes reductions to three programs. The largest is $100 million from the Urban Greening Program, a longstanding program that funds plans and projects aimed at developing additional green spaces (such as by adding trees or drought-tolerant plants). Significant reductions are also proposed for the new Extreme Heat and Community Resilience Program ($75 million out of $175 million) and $30 million from the Urban Forestry Program, which is a longstanding program managed by CalFire that focuses on supporting tree planting in local communities.

**Governor's Proposed Nature-Based Activities and Extreme Heat-Related Reductions**
(In Millions)

| Program | Department | Total Augmentations | Proposed Reductions: 2020-21 Through 2022-23 | Proposed Reductions: 2023-24 | Proposed Reductions: Total | New Proposed Amounts |
|---|---|---|---|---|---|---|
| **Nature-Based Activities Programs Proposed for Solutions** | | | | | | |
| Conservancy funding | Various | $230 | — | -$100 | -$100 | $130 |
| San Joaquin Valley flood plain restoration | WCB | 40 | -$40 | — | -40 | — |
| Protect wildlife from changing conditions | WCB | 353 | — | -35 | -35 | 318 |
| Local and tribal NBS corps programs | CCC | 49 | -13 | -11 | -24 | 26 |
| San Francisco Bay wetlands support | SCC | 11 | -10 | — | -10 | 1 |
| Natural Community Conservation Program Planning and Land Acquisition | CDFW | 36 | -6 | — | -6 | 30 |
| Climate Smart Land Management Program | DOC | 20 | -4 | — | -4 | 16 |
| Subtotals | | ($739) | (-$73) | (-$146) | (-$219) | ($520) |
| **All Other Nature-Based Activities Funding** | | 826 | — | — | — | 826 |
| **Nature-Based Activities Totals** | | **$1,565** | **-$73** | **-$146** | **-$219** | **$1,346** |
| **Extreme Heat Programs Proposed for Solutions** | | | | | | |
| Urban Greening Program | CNRA | $250 | — | -$100 | -$100 | $150 |
| Extreme Heat and Community Resilience Program | OPR | 175 | -$25 | -50 | -75 | 100 |
| Urban Forestry Program | CalFire | 60 | -20 | -10 | -30 | 30 |
| Subtotals | | ($485) | (-$45) | (-$160) | (-$205) | ($280) |
| **All Other Extreme Heat Funding** | | 264 | — | — | — | 264 |
| **Extreme Heat Totals** | | **$749** | **-$45** | **-$160** | **-$205** | **$544** |

WCB = Wildlife Conservation Board; NBS = Nature-Based Solutions; CCC = California Conservation Corps; SCC = State Coastal Conservancy; CDFW = California Department of Fish and Wildlife; DOC = Department of Conservation; CNRA = California Natural Resources Agency; OPR = Governor's Office of Planning and Research; and CalFire = California Department of Forestry and Fire Protection.

*Source: LAO*

***Proposes to Retain Most of the Funding That Was Previously Committed.*** While the Governor reduces a larger share of funding for nature-based activities and extreme heat as compared to most of the other thematic areas, the proposal still would maintain most of it. Specifically, the Governor proposes to maintain 86 percent of the funding for nature-based activities. This includes retaining 94 percent of the funding already appropriated (in 2021-22 and 2022-23) and 65 percent of funding planned for 2023-24. The Governor also proposes to maintain 73 percent of the funding for extreme heat. This includes retaining 89 percent of the funding already appropriated (in 2020-21 through 2022-23) and half of the funding planned for 2023-24.

**Background.** ***Recent Budgets Committed $1.6 Billion for Nature-Based Activities.*** Recent budgets have committed a total of $1.6 billion on a one-time basis over three years—$106 million in 2021-22, $1 billion in 2022-23, and $421 million intended for 2023-24—from the General Fund for various departments to implement a variety of nature-based activities. While most of this funding was included as part of a 2022-23 budget package focused on nature-based activities, some was part of a 2021-22 package focused on climate resilience.

**Recent and Planned Nature-Based Activities Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions

General Fund (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | Totals |
|---|---|---|---|---|---|
| **Land Acquisition and Management Programs** | | **—** | **$325** | **$170** | **$495** |
| Various WCB programs | WCB | — | $150 | $95 | $245 |
| Habitat restoration | DWR | — | 125 | 75 | 200 |
| Opportunity coastal acquisition | SCC | — | 50 | — | 50 |
| **Wildlife Protection Programs** | | **$46** | **$257** | **$100** | **$403** |
| Protect wildlife from changing conditions | WCB | $31 | $222 | $100 | $353 |
| Climate change impacts on wildlife | CDFW | 15 | 35 | — | 50 |
| **Regionally Focused Programs** | | **$60** | **$214** | **$109** | **$383** |
| Conservancy funding | Various | $60 | $70 | $100 | $230 |
| Wildlife corridors (including Liberty Canyon) | CDFW, SMMC | — | 52 | — | 52 |
| San Joaquin Valley flood plain restoration | WCB | — | 40 | — | 40 |
| Natural Community Conservation Program Planning and Land Acquisition | CDFW | — | 36 | — | 36 |
| Climate Smart Land Management Program | DOC | — | 14 | 6 | 20 |
| Resource conservation strategies | WCB | — | 2 | 3 | 5 |
| **Youth and Tribal Programs** | | **—** | **$109** | **$42** | **$152** |
| Local and tribal NBS corps programs | CCC | — | $38 | $11 | $49 |
| Tribal program | CNRA | — | 70 | 30 | 100 |
| Tribal staffing | CNRA | — | 1 | 1 | 3[a] |
| **Wetland Focused Programs** | | **—** | **$111** | **—** | **$111** |
| Wetlands Restoration Program | CDFW | — | $54 | — | $54 |
| NBS Wetlands Restoration Program | DC | — | 36 | — | 36 |
| San Francisco Bay wetlands support | SCC | — | 11 | — | 11 |
| Redondo Beach wetlands restoration | CNRA | — | 10 | — | 10 |
| **Other Programs** | | **—** | **$20** | **—** | **$21** |
| Cal CIS | CNRA | — | $18 | — | $18 |
| Partnerships and improvements | CNRA | — | 2 | — | 2 |
| California nature support | CNRA | — | 0.3 | $0.3 | 0.5 |
| **Totals** | | **$106** | **$1,036** | **$421** | **$1,565** |

[a] NBS package also provided $1 million in 2024-25.

WCB = Wildlife Conservation Board; DWR = Department of Water Resources; SCC = State Coastal Conservancy; CDFW = California Department of Fish and Wildlife; SMMC = Santa Monica Mountains Conservancy; DOC = Department of Conservation; NBS = nature-based solutions; CCC = California Conservation Corps; CNRA = California Natural Resources Agency; DC = Delta Conservancy; and Cal CIS = California Climate Information System.

*Source: LAO*

***Nature-Based Activities Funding Supports a Variety of Programs.*** About one-third of the funding over the three years—$495 million—is to support programs focused on acquiring and managing land for conservation and habitat restoration-related purposes. Just over one-quarter of the funding—$403 million—is to support wildlife protection programs. Just under one-quarter of the funding—$383 million—is for regionally focused programs, such as those targeting specific areas of the state. The remaining funding—totaling $284 million—is for youth and tribal programs, wetland-focused programs, and other types of activities. Many of the funded programs are intended to help the state achieve various goals and plans established by the Administration over the past few years, such as the goal to conserve 30 percent of the state's land and coastal waters by 2030 ("30x30") as established by the Governor's Executive Order N-82-20 and the Natural and Working Lands Climate Smart Strategies.

***Nature-Based Activities Represent Area of Expanded Focus.*** This funding represents a significant increase in General Fund support for nature-based programs. Some of the specific programs support activities that the state has historically undertaken—often using general obligation bond funds or GGRF—such as habitat and wetland restoration. However, some programs are new, such as the Local and Tribal Nature-Based Solutions (NBS) Corps programs and the Climate Smart Land Management Program.

***Recent Budgets Committed $749 Million for Extreme Heat.*** Recent budgets have committed a total of $749 million over four years—$10 million in 2020-21, $70 million in 2021-22, $348 million in 2022-23, and $322 million in 2023-24—for various departments to address the risks posed by extreme heat. Almost all of this funding comes from the General Fund, but a small portion—$15 million for the Farmworker Low-Income Weatherization Program—comes from GGRF. Notably, while most of this funding was part of a 2022-23 budget package focused on addressing extreme heat, some was also included as part of a 2021-22 package focused on climate resilience.

**Recent and Planned Extreme Heat-Related Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2020-21 and 2021-22 | 2022-23 | 2023-24 | Totals |
|---|---|---|---|---|---|
| **Greening Programs** | | **$80** | **$237** | **$143** | **$460** |
| Urban Greening Program | CNRA | $50 | $100 | $100 | $250 |
| Urban Forestry Program | CalFire | 30 | 20 | 10 | 60 |
| Green Schoolyards Program | CalFire | — | 117[a] | 33 | 150 |
| **Community Resilience** | | **—** | **$50** | **$125** | **$175** |
| Extreme Heat and Community Resilience Program | OPR | — | $50 | $125 | $175 |
| **Weatherization Programs** | | **—** | **$40** | **$25** | **$65** |
| Low-Income Weatherization Program | CSD | — | $25 | $25 | $50 |
| Farmworker Low-Income Weatherization Program | CSD | — | 15[b] | — | 15 |
| **Education and Outreach Programs** | | **—** | **$20** | **$28** | **$48** |
| Protections for vulnerable populations | CDPH, DIR, CDSS | — | $14 | $14 | $28 |
| Community-based public awareness campaign | OPR | — | 6 | 14 | 20 |
| **Agricultural Programs** | | **—** | **$1** | **$1** | **$2** |
| Animal Mortality Management Program | CDFA | — | $1 | $1 | $1 |
| Origin Inspection Program | CDFA | — | 0.3 | 0.3 | 0.5 |
| **Totals** | | **$80** | **$348** | **$322** | **$749** |

[a] Includes $100 million for the Urban Forestry Program for schools and childcare facilities provided through a budget control section.
[b] Funded from the Greenhouse Gas Reduction Fund.

CNRA = California Natural Resources Agency; CalFire = California Department of Forestry and Fire Protection; OPR = Governor's Office of Planning and Research; CSD = Department of Community Services and Development; CDPH = California Department of Public Health; DIR = Department of Industrial Relations; CDSS = California Department of Social Services; and CDFA = California Department of Food and Agriculture.

*Source: LAO*

***Extreme Heat Funding Supports Variety of Programs.*** About 60 percent of the funding over the four years—$460 million—is to support programs to expand green spaces in urban areas, schools, and childcare centers. Just under one-quarter of the funding—$175 million—is for a program intended to help communities prepare for the impacts of extreme heat. The remaining funding—totaling $115 million—is for programs to support weatherizing housing occupied by individuals with lower incomes, conduct education and outreach on extreme heat for certain vulnerable populations, and mitigate the impacts of extreme heat in pest and livestock management.

***Extreme Heat Represents New Area of State Focus.*** Historically, the state has not provided significant funding explicitly to mitigate the impacts of extreme heat. The package includes existing, expanded, and new activities. Some of the recently funded programs—such as the Urban Greening Program, Urban

Forestry Program, and Low-Income Weatherization Program—represent existing activities that have received support from the state in the past, however, these programs have not historically focused narrowly on the goal of addressing extreme heat. Rather, they have had other core goals—such as enhancing landscapes or improving energy efficiency—but they can also help with heat mitigation. Previous funding typically was not provided from the General Fund, but rather from alternative sources such as general obligation bonds or GGRF. Some of the funding is to augment existing programs and activities to add a focus on extreme heat. For example, funding is included for the Department of Industrial Relations to expand its existing outreach, education, and strategic enforcement efforts to improve worker protections from heat-related illnesses. Finally, some of the augmentations are supporting the creation of new programs. For example, the Extreme Heat and Community Resilience Program is a new program at the Governor's Office of Planning and Research (OPR) aimed at helping communities prepare for the impacts of extreme heat.

**LAO Assessment.** None of the Governor's proposed solutions are without trade-offs. However, on balance, LAO thinks the Governor's proposals generally are reasonable in light of the state's anticipated budget challenges. Below, LAO discusses several of these proposals, as well as other potential reductions we think could warrant consideration.

***Reductions to Conservancies Make Sense Given Other Recent Funding.*** Because of their access to significant other funding, LAO thinks the Governor's proposal to reduce $100 million for nature-based activities by various state conservancies merits legislative consideration. In addition to the $130 million that conservancies would retain for nature-based activities from this package, they also received substantial funding as part of the wildfire and forest resilience package ($378 million) which the Governor does not propose reducing. Thus, even with the proposed reductions, conservancies still would receive significant funding to support key priority activities in their regions. This represents a substantial increase in conservancy funding compared to historical levels, as well as a shift toward greater use of General Fund support than has been the case in the past. (Conservancies have traditionally relied heavily on general obligation bond funding.)

***Given Significant Funding Proposed Across Multiple Programs, Could Consider Additional Reductions to WCB Habitat Restoration Program.*** LAO also thinks it is reasonable for the Legislature to adopt the Governor's proposed reductions to WCB's efforts to protect wildlife from changing conditions. Notably, the Governor only proposes to reduce this program by $35 million, leaving over $300 million for these activities. Additionally, these activities are similar to several others that are proposed for funding in both the nature-based activities and water and drought packages, and thus the Legislature may even want to consider adopting additional reductions to these programs beyond those proposed by the Governor.

***Reduction of Funding for Local Corps Reasonable Given Access to Other Funding.*** The recent budget package established two new activities for the California Conservation Corps: (1) $36 million to support nature-based work at the 14 existing local conservation corps and (2) $13 million to establish a new Tribal NBS Corps and provide related administrative support. The Governor proposes reducing the first by $24 million (retaining $12 million) and leaving the second unaffected. Reducing the dedicated funding for local conservation corps may result in them completing fewer nature-based projects than they might otherwise. However, local corps still have access to their typical funding sources, such as grants (including from other state programs) and payments for their work, that can allow them to continue to complete activities, including some similar types of projects. Accordingly, LAO thinks the Governor's proposed reduction merits legislative consideration.

***Scaling Back Climate Smart Land Management and Extreme Heat and Community Resilience Programs Could Provide Time to Evaluate Results of Initial Funding***. LAO also finds merit in the

Governor's proposal to reduce funding for DOC's Climate Smart Land Management Program by $4 million (from $20 million to $16 million) and OPR's Extreme Heat and Community Resilience Program by $75 million (from $175 million to $100 million) and thinks the Legislature could consider making even deeper reductions to these programs. These are both new initiatives first funded in the current year. As new programs, the Legislature does not yet have information on their effectiveness or demand for funding. The Legislature could consider reducing more funding than the Governor proposes and treating the remaining amount as a more limited pilot effort. It could then evaluate the outcomes of that funding before deciding whether it is worthy of future support. For example, for Climate Smart Land Management, the Governor proposes to reduce $4 million from the amount provided in 2022-23, but the Legislature could also opt to not provide the $6 million intended for 2023-24, for a total reduction of $10 million. Similarly, for the Extreme Heat and Community Resilience Program, the Governor proposes to reduce $25 million from the amount provided in 2022-23 and $50 million from the amount intended for 2023-24, but the Legislature could choose to eliminate the remaining $75 million intended for 2023-24, for a total reduction of $150 million.

***Proposed Urban Greening and Forestry Reductions Still Would Leave Substantial Funding for Similar Purposes***. LAO also finds a compelling rationale for the Governor's proposal to reduce funding for Urban Greening and Urban Forestry. While funding would decline for Urban Greening from $250 million to $150 million and for Urban Forestry from $60 million to $30 million, there would still be a significant amount—$180 million—available for these programs. Additionally, these two programs are similar to the Green Schoolyards program, which the Governor proposes to fully maintain at $150 million. Accordingly, under the Governor's proposed approach, the state still would maintain $330 million for greening-related programs. Notably, these types of programs are also candidates for some other potential funding sources, such as federal funds, which could help mitigate some of the impacts should their state funding be reduced.

***Legislature Could Consider Making Reductions to Some Other Programs.*** To the extent the Legislature needs to identify additional solutions, either because the budget condition worsens in the coming months or because it would like alternatives to some of the Governor's proposals, it has various options to consider. In particular, the Legislature could make more significant reductions than the Governor proposes to funding for programs or projects in 2023-24 or subsequent years. For both nature-based activities and extreme heat activities, the Governor only proposes to reduce half or less of the funding intended for 2023-24. Since this funding has not yet been appropriated, it has not yet been committed to specific projects, and as such, making reductions would generally be less disruptive. Some examples of specific programs that LAO thinks are reasonable for the Legislature to consider reducing, in addition to those discussed above, include:

- ***WCB's Various Programs, DWR's Habitat Restoration, and CDFW's Program to Mitigate Climate Change Impacts on Wildlife.*** These programs support activities with similar objectives, even if their specific areas of focus differ somewhat. The Legislature could reduce funding levels for some of these programs, including the amounts that would be appropriated in 2023-24. While this would mean fewer projects completed, other complementary efforts still would be underway.

- ***State Coastal Conservancy's (SCC's) Coastal Acquisitions.*** SCC has not yet identified specific properties for which it would use this funding. This uncertainty makes it difficult to conclude that this funding meets an urgent need and that its planned usage should be a high priority for the state's limited resources. Given the lack of clarity around the demand for, timing of, and specific use of this funding, LAO finds it to be a good candidate for reducing.

- ***CNRA's Tribal NBS Program.*** This is a new program aimed at helping facilitate access, co-management, and ancestral land return. None of the $70 million provided in 2022-23 has yet been allocated and the $30 million intended for 2023-24 has not yet been appropriated. While providing funding to support tribes has merit in light of historical injustices, the specific activities that will be supported with this funding still are unclear because CNRA still is in the process of consulting with tribes to develop the program. The Legislature could provide a lesser amount of funding to get the program started. It could then consider restoring some of the funding at a later date should the final structure and details of the program be consistent with legislative priorities. Alternatively, if the Legislature considers this effort a high near-term priority, it could consider retaining or delaying—rather than reducing—the funding, and providing additional statutory direction on the use of the funds.

- ***OPR's Community-Based Public Awareness Campaign.*** This is a new program to conduct a public awareness campaign about the risks of extreme heat, focused on vulnerable communities. While a greater state focus on mitigating the effects of extreme heat is warranted given the health risks it poses, particularly to vulnerable groups, this particular program is new and thus its effectiveness is uncertain. Moreover, starting in 2022-23, OPR also received a separate $65 million ongoing annual General Fund augmentation to establish and operate an Office of Community Partnerships and Strategic Communications. In addition to running the above program, this office has base funding for general communications about important state issues. The Legislature could retain the $6 million that was provided for the public awareness campaign in 2022-23, but eliminate the $14 million planned for 2023-24. This would enable the Legislature to treat the 2022-23 funding as a pilot and evaluate its effectiveness—andrelationship to other OPR activities—prior to determining whether additional funding is merited.

***Potential for Other Funding Sources to Replace or Help Offset Loss of General Fund.*** As the Legislature considers its preferred mix of solutions, it will be important to consider other sources of potential funding that may be available to support similar activities. Some additional sources could include:

- ***Federal Funds.*** Recent federal infrastructure bills have included funding to support some similar activities. Specifically, the Inflation Reduction Act provided $1.5 billion for the United States Forest Service's Urban and Community Forestry Program and $3 billion to the U.S. Environmental Protection Agency to mitigate extreme heat and other climate-related risks. Additionally, IIJA provided $3.5 billion for a weatherization assistance program. The details around this funding, including how much California will receive, still are emerging. However, to the extent federal funding aligns with the same types of activities as state funding, state reductions could be partially mitigated by similar federally funded activities. Additional details on available federal funding should be available in the coming months.

- ***Proposition 98 General Fund.*** CalFire's program to green schoolyards could potentially be funded through Proposition 98. A key trade-off associated with using school funds to support this program is that less would be available to support other Proposition 98 priorities. However, shifting funding for this program to Proposition 98 would reduce pressure on non-Proposition 98 General Fund resources, so it is worthy of consideration.

- ***GGRF.*** Some activities—such as wetlands restoration, urban greening, and low-income weatherization—have been funded by GGRF in the past. A key trade-off associated with using GGRF for these activities is that it would mean less of those funds available to support other programs. (The Administration is already proposing to use GGRF to offset some other General Fund augmentations, mostly for ZEV-related programs.)

- ***Potential Future Bond.*** As noted previously, some of the types of activities and programs funded in the nature-based activities and extreme heat areas are consistent with those that have been funded in past general obligation bonds. Accordingly, if the Legislature decides to pursue asking voters to approve a resources-related bond in the future, it could consider including some or all of these activities if they are high legislative priorities.

**Staff Recommendation. Hold open.**

# 0650 OFFICE OF PLANNING AND RESEARCH (OPR)
# 0650 OPR: STRATEGIC GROWTH COUNCIL (SGC)
# 3900 CALIFORNIA AIR RESOURCES BOARD (CARB)

## Issue 12: Governor's Proposed Budget Solutions: Community Resilience

**Governor's Proposal.** According to LAO:

***Proposes Funding Changes for Four Programs, $280 Million Total Net Reduction.*** The Governor selects the four largest community-based climate programs for achieving General Fund savings and leaves the remaining 13 programs unaffected. The proposals would reduce General Fund support for three of the programs by a combined $530 million (although proposes to shift $250 million from GGRF to mostly backfill one program) and delay a share of funding for one program by one year without a net change in overall resources. When accounting for the proposed GGRF fund shift, the Governor's budget would result in a total net programmatic reduction of $280 million, leaving a three-year total of $1.9 billion (87 percent) to support the community resilience programs. The specific proposals are as follows:

- ***AB 617 Program Reduction and Fund Shift.*** The Governor proposes to eliminate the full $300 million in planned General Fund spending for this program in 2023-24, but then uses $250 million from GGRF to mostly make up for this loss, resulting in a $50 million net reduction. The Administration states it is uncertain exactly how it would implement this reduction (such as whether it would result in fewer grantees or decreased grant amounts for the same number of grantees).

- ***Transformative Climate Communities (TCC) Reduction.*** The Governor proposes reducing $65 million from the 2022-23 appropriation and $40 million from planned 2023-24 funding for a net reduction of $105 million. This would leave the program with $100 million annually in both the current and budget years. The Administration estimates this reduction would result in a total of between five and ten fewer communities receiving TCC funds, as well as reduced implementation grant amounts for continuing grantees. The Administration notes that applicants could apply instead to a similar new federal program.

- ***Community Resilience Centers Delay.*** The Governor delays $85 million of the $160 million in planned spending for this program from 2023-24 to 2024-25. This would achieve General Fund savings in the budget year but shift those costs to the next year. The program still would retain $75 million to spend in 2023-24 and would not experience a net funding reduction across the two fiscal years. The Administration estimates the proposed delay would not have programmatic impacts, but rather would allow potential grantees more time to develop competitive proposals before applying for funds.

- ***Regional Climate Resilience Program Reduction.*** The Governor proposes reducing $25 million from the 2022-23 appropriation and $100 million from planned 2023-24 funding, for a total net reduction of $125 million. This would retain half of the three-year planned total amount. The Administration estimates this reduction would result in approximately 60 fewer projects funded.

**Governor's Proposed Community Resilience Budget Solutions**

2021-22 Through 2023-24 (In Millions)

| Program | Department | Total Augmentations | General Fund Reductions | Backfill With Fund Shift | New Proposed Amounts |
|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | |
| AB 617 program | CARB | $930 | -$300 | $250[a] | $880 |
| Transformative Climate Communities Program | SGC | 420 | -105 | — | 315 |
| Community Resilience Centers | SGC | 270 | —[b] | — | 270 |
| Regional Climate Resilience Program | OPR | 250 | -125 | — | 125 |
| Subtotals | | ($1,870) | (-$530) | ($250) | ($1,590) |
| **All Other Community Resilience Programs** | | $302 | — | — | $302 |
| **Totals** | | **$2,172** | **-$530** | **$250** | **$1,892** |

[a] Would shift fund source to the Greenhouse Gas Reduction Fund.

[b] Governor proposes delaying $85 million in General Fund spending from 2023-24 to 2024-25.

AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia); CARB = Air Resources Board; SGC = Strategic Growth Council; and OPR = Governor's Office of Planning and Research.

*Source: LAO*

**Background.** ***Recent Budgets Included Significant New Funding for Community-Based Climate Activities.*** Recent budgets have included $2.2 billion for programs primarily focused on helping communities address the causes and impacts of climate change. This total consists of $1.5 billion appropriated through the last two budgets and $715 million intended for 2023-24. About two-thirds of the funding across the three years is from the General Fund ($1.4 billion), with the remainder ($760 million) from GGRF. The largest share of funding ($930 million) is for the AB 617 program, which funds efforts to reduce pollution and improve air quality in highly impacted communities. This is an existing program established in 2017—through AB 617 (C.Garcia), Chapter 136, Statutes of 2017 — that has historically been supported using GGRF. The same is true for TCC program, which began in 2018 and funds community-led development and infrastructure projects. The three years of augmentations represent the first time the TCC program is funded with General Fund instead of GGRF.

**Recent and Planned Community Resilience Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | Totals |
|---|---|---|---|---|---|
| AB 617 program | CARB | $320[a] | $310[b] | $300 | $930 |
| Transformative Climate Communities Program | SGC | 115 | 165 | 140 | 420 |
| Community Resilience Centers | SGC | — | 110 | 160 | 270 |
| Regional Climate Resilience Program | OPR | 25 | 125 | 100 | 250 |
| Methane monitoring satellites | CARB | — | 105[a] | — | 105 |
| Community air monitoring | CARB | — | 30[a] | — | 30 |
| Climate Adaptation and Resilience Planning Grants | OPR | 10 | 10 | 5 | 25 |
| Environmental Justice Initiative | CalEPA | 10 | 10 | 5 | 25 |
| Fifth Climate Assessment | Various | 22 | — | — | 22 |
| Regional Climate Collaboratives | SGC | 10 | 10 | — | 20 |
| School ventilation upgrades (CalSHAPE) | CEC | — | 20[a] | — | 20 |
| CA Volunteers: Climate Action Corps | OPR | 5 | 5 | 5 | 15 |
| Fluorinated Gas Reduction Incentive Program | CARB | — | 15 | — | 15 |
| High-GWP Refrigerants | CARB | — | 10[a] | — | 10 |
| Vulnerable Communities Platform and CalAdapt Mapping | OPR | 5 | — | — | 5 |
| Wood stove replacements | CARB | — | 5[a] | — | 5 |
| Regional planning for lithium extraction | CEC | — | 5 | — | 5 |
| **Totals** | | **$522** | **$935** | **$715** | **$ 2,172** |

[a] Funded from the Greenhouse Gas Reduction Fund (GGRF).

[b] Includes $270 million from GGRF.

AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia); CARB = California Air Resources Board; SGC = Strategic Growth Council; OPR = Governor's Office of Planning and Research; CalEPA = California Environmental Protection Agency; CalSHAPE = California Schools Healthy Air, Plumbing, and Efficiency Program; CEC = California Energy Commission; and GWP = Global Warming Potential.

*Source: LAO*

In contrast to AB 617 and TCC, most of the other programs displayed in the figure above represent new activities that the state is initiating for the first time with this funding. This includes the Community Resilience Centers Program (which will support new construction and upgrades of neighborhood-level resilience centers to provide shelter and resources during climate and other emergencies) and the Regional Climate Resilience Program (which will provide grants for local entities to plan and implement regional projects that respond to their greatest climate risks).

**LAO Assessment.** ***Governor's Focus on Larger Programs Is Appropriate.*** LAO finds that the Governor's approach of focusing budget solutions on large community resilience programs and leaving the smaller programs unaffected has merit. With one exception—methane monitoring satellites, which is discussed next—all of the unaffected programs received less than $30 million total. Additionally, nearly all of this funding was provided in the current or prior years and administering agencies likely already are in the process of expending the funds. Therefore, rescinding the funding at this point could be disruptive. Even if some share might still be available, given the comparatively smaller amounts of funding associated with these programs, the potential amount of budget solutions they could yield likely are not worth the potential disruption. As such, maintaining the modest funding for these smaller programs and allowing departments to carry out their intended activities makes sense.

***Methane Monitoring Satellite Program Would Be a Good Candidate for Reductions.*** The fact that the Governor proposes no reductions for the methane monitoring satellite program is a notable inconsistency in approach. Like the other four programs proposed for modification, this initiative has a relatively large associated cost—$105 million—and therefore has the potential to meaningfully contribute to needed budget solutions. (Although this program was funded with GGRF, the Legislature could reduce the amount and free up those monies to swap with General Fund from a different program, thereby yielding General Fund budget solutions.) This program was funded for the first time in 2022-23 to (1) help pay for the costs to launch eight satellites, (2) cover the costs of collecting the methane data for the lifetime of the satellites (5 to 15 years), and (3) support seven positions at CARB for three years. LAO believes several arguments exist for reducing funding for this program. First, CARB indicates that only a small amount of the funds (less than $1 million) has been spent thus far. The board does not expect to release a request for proposals until late spring or early summer 2023, so no funding would be awarded in the current year. Second, methane leaks from oil and gas facilities and landfills—the two main methane sources intended to be monitored by this program—make up a relatively small share of overall statewide GHG emissions (less than five percent in most years), so the state could instead prioritize maintaining funding for other programs that might have a greater impact on reducing statewide GHG goals. Third, the state already has various efforts in place to monitor methane, including regular in-person inspections. Finally, CARB is expecting to obtain methane data from two satellites being launched by the private sector in 2023, so some similar data already will be available.

***Governor's TCC Proposal Justified, Given Availability of Federal Funds.*** While the Governor's proposal to reduce the TCC program by $105 million would result in fewer communities receiving state grants, LAO believes it is justified for two reasons. First, even with the proposed reductions, significant funding would remain for the program—$100 million each in 2022-23 and 2023-24. This would allow the program to continue at roughly the same level as in 2021-22. The Strategic Growth Council (SGC) indicates it would use this funding to award three new large implementation grants (at $28 million each), three new mid-size project development grants (at $5 million each), and three new smaller planning grants (at $300,000 each) each year. Second, the U.S. Environmental Protection Agency recently established the Environmental and Climate Justice Block Grants Program, which is modeled directly after California's TCC program. This $3 billion federal program will provide three-year implementation grants on a competitive basis to applying states, tribes, municipalities, and community-based organizations. California communities have no guarantees about how much they will receive from this program or whether it will directly backfill the locations and amounts that state funds would have supported. However, the federal program presents an opportunity to potentially support the goal of expanding the TCC program even if the state reduces its funding. SGC indicates it will use existing staff to provide technical assistance and support communities interested in applying for the federal program.

***Uncertainty About New Climate Resilience Center Program Makes It a Good Candidate for Reduction.*** Instead of the Governor's proposal to delay $85 million for climate resilience centers from 2023-24 to 2024-25, the Legislature may want to consider reducing funding for this program. This is a brand-new program initiated in the current year, and as such, no data are yet available regarding program demand or effectiveness. SGC still is in the process of designing the program and does not plan to make initial awards from its 2022-23 allocation until Fall 2023. Moreover, SGC indicates that most communities do not yet have scoped-out, designed, and permitted centers ready to receive funding, so its initial funding awards will only be for planning activities. Given how early this program is in its implementation, spending the allocated funds for actual projects likely will take several years, and the state cannot yet be sure how many centers it will fund, where they will be located, how frequently they will be used, or how effective they will be at protecting communities from climate change impacts. This uncertainty around funding demand and implementation timing, combined with the need for budget solutions, suggest this program is a good candidate for reductions. The Legislature could convert the Governor's proposed $85 million funding delay into a reduction, as well as consider reducing an even larger share of the $160 million intended to be provided in 2023-24. If it makes reductions to the 2023-24 intended amounts, the Legislature could leave the $115 million from the 2022-23 appropriation in place (as the Governor does) and treat this as a more modest pilot effort, collecting information about program demand and implementation to help target and inform potential future investments.

***Proposal to Cut Regional Climate Resilience Program in Half Raises Some Concerns.*** While the Regional Climate Resilience Program is new and early in its implementation, LAO thinks the Legislature may want to exercise caution in considering the Governor's proposed reductions. This is the community resilience program for which the Governor proposes the largest reduction, both in dollars ($125 million) and proportion (50 percent). However, the Legislature established this program to fill an important gap in statewide climate preparedness efforts. While numerous other programs provide grants for individual cities or nongovernmental entities to conduct distinct projects, this program is somewhat unique in its intent to support *regionally based* project planning and implementation efforts. Many of the impacts of climate change cross jurisdictional boundaries and necessitate coordinated, collaborative efforts that are hard to organize and fund. (LAO discusses this challenge as it relates to sea-level rise in its December 2019 report, *Preparing for Rising Seas: How the State Can Help Support Local Coastal Adaptation Efforts*.) Although large amounts of funding for this program still remain unspent and thus could be reduced without near-term disruptions, the absence of support for regional-based climate change readiness activities could contribute to greater *long-term* disruptions from climate change impacts.

***Expanding Climate Action Corps Program While Reducing Existing Commitments Not Justified.*** Given this program only began in 2021-22, sufficient data are not yet available on the effectiveness of the current pilot program to justify the Governor's proposal to double its existing funding or make it ongoing, particularly at the expense of other existing commitments. Given the budget problem, providing $4.7 million in additional General Fund for this program would necessitate an equal amount of reductions from other existing spending commitments. Moreover, $3 million in federal Americorps funds is available and currently supplementing state funds for this program, so this activity could continue—albeit at a lower level—even without any General Fund support.

**LAO Recommendations.** ***Modify Governor's Proposals to Reflect Legislative Priorities.*** Overall, LAO finds most of the proposed budget solutions the Governor proposes for community resilience programs to be reasonable and worthy of consideration. Based on LAO's initial assessment, some particular modifications the Legislature could consider include: (1) reducing funding for methane monitoring satellites, (2) reducing rather than delaying $85 million for the Climate Resilience Center Program, and (3) maintaining some additional funding for the Regional Climate Resilience Program.

***Reject Proposal to Expand Climate Action Corps Program.*** Because no evidence is available to suggest this program is particularly effective at reducing the causes and impacts of climate change, and because it would necessitate a like amount of reductions from existing programs, LAO recommends the Legislature reject the Governor's proposal to allocate an additional $4.7 million General Fund to double funding for this program. LAO also recommends the Legislature reject the proposal to make the program ongoing, given the lack of data on its effectiveness and the state budget condition and outlook. The Legislature could request additional information on program outcomes to inform future budget decisions about whether to extend this program beyond its current 2025-26 sunset date.

**LAO Recommendations.** ***Modify Governor's Proposals Consistent With Legislative Priorities, Identify Additional Potential Solutions.*** LAO recommends the Legislature develop its own package of budget solutions based on its priorities. Based on LAO's review, LAO thinks it is reasonable for the Legislature to consider adopting the Governor's proposed reductions for nature-based activities and extreme heat since they align with many of the principles we identify in this report.

LAO also recommends the Legislature consider adopting additional solutions, either in place of or in addition to those proposed by the Governor. As it does so, LAO recommends the Legislature focus mostly on reducing planned funding for 2023-24 in order to minimize potential disruptions. Some specific areas that LAO thinks merit consideration for potential reduction include: WCB, DWR, and

CDFW programs with similar objectives; SCC's coastal acquisitions; and OPR's community-based public awareness campaign. The Legislature could also consider reducing or delaying funding for CNRA's Tribal NBS Program until more details have been developed regarding how funds will be used.

As the Legislature makes its choices regarding which programs to target for solutions, LAO recommends that it consider other potential sources of available funding, such as Proposition 98, GGRF, and federal funds. While many of these sources of funds come with trade-offs, they could enable the Legislature to maintain funding for more high-priority programs while also reducing pressure on the General Fund.

**Staff Recommendation. Hold open.**

# 3480 DEPARTMENT OF CONSERVATION (DOC)
# 3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)
# 3600 DEPARTMENT OF FISH AND WILDLIFE (CDFW)

## Issue 13: Governor's Proposed Budget Solutions: Other Non-Package Programs Proposed for Solutions

**Governor's Proposal.** According to LAO, the Governor proposes cuts to three programs funded outside of budget packages: (1) eliminating the $25 million for DOC's Sustainable Agricultural Lands Conservation program, (2) reducing CDFW's vegetation mapping program by $20 million (retaining $25 million), and (3) reducing CalFire's deferred maintenance funding by $13 million (retaining $37 million). (For information on the proposed reductions to the Sustainable Agriculture Package, please refer to the Subcommittee 2 hearing agenda for March 30, 2023.)

**Governor's Proposed Other Budget Reductions**

2021-22 Through 2023-24 (In Millions)

| Program | Department | Total Augmentations | Proposed Reductions | New Proposed Amounts |
|---|---|---|---|---|
| **Other Non-Package Programs Proposed for Solutions** | | | | |
| Sustainable Agricultural Lands Conservation | DOC | $25 | -$25 | — |
| Complete fine-scale vegetation mapping | CDFW | 45 | -20 | $25 |
| Deferred maintenance | CalFire | 50 | -13 | 37 |
| **Other Totals** | | **$120** | **-$58** | **$62** |

*Source: LAO*

**Background.** ***Recent Budgets Provided One-Time Funding for Various Other Activities Outside of Packages.*** While most of the major one-time augmentations in the resources, environment, and climate area were presented as part of packages, some were adopted as separate actions and largely are not proposed for reductions. These non-package augmentations that the Governor proposes to reduce are: the Sustainable Agricultural Lands Conservation program through DOC ($25 million), vegetation mapping undertaken by CDFW ($45 million), and deferred maintenance at CalFire facilities ($50 million).

**LAO Assessment.** ***Proposed Solutions Generally Appear Reasonable.*** All of the Governor's proposed solutions come with trade-offs. However, after weighing these trade-offs, LAO thinks the Governor's proposals generally are reasonable in light of the state's anticipated budget challenges. In particular, while many of these programs aim to achieve worthy environmental goals, they generally focus on less pressing climate change-induced challenges than some of the other thematic areas, such as wildfire, sea-level rise, and drought. Accordingly, LAO thinks targeting uncommitted funding from these programs is a worthwhile approach to pursuing budget solutions. (LAO thinks it would be overly disruptive to take away funding that has already been committed to specific projects.)

***Other Proposed Reductions Also Reasonable.*** LAO finds merit in the Governor's other proposed reductions:

- ***Sustainable Agricultural Lands Conservation.*** This program funds conservation easements on and plans for agricultural lands to preserve them from being converted to more GHG-intensive residential uses. Eliminating the full $25 million in General Fund support for this program, as the Governor proposes, however, would not leave it without any funding. This is because the program receives annual funding allocations from GGRF as part of the continuously appropriated Affordable Housing and Sustainable Communities program through SGC. While the annual funding amounts vary depending on the level of cap-and-trade auction revenues, they typically total tens of millions of dollars. The program awarded $74 million in grants using GGRF in December 2022 and has allocated nearly $300 million since it began. This funding could allow it to continue existing activities even without the intended General Fund augmentation.

- ***Vegetation Mapping.*** Reducing the $20 million intended for this effort in 2023-24 would prevent CDFW from being able to complete fine-scale statewide mapping of vegetation and habitats. However, the $25 million provided in 2021-22 and 2022-23 will allow the department to complete about two-thirds of this mapping effort and provide the state with a good deal of helpful information to support its conservation decisions. The state could fund the final stage of this project in a future year.
- ***CalFire Deferred Maintenance.*** The Governor proposes to reduce by $13 million the $50 million provided in 2021-22 for CalFire to undertake deferred maintenance projects. This would still leave the department with sufficient funding—$37 million—to address a significant portion of the roughly $160 million backlog that has accumulated over many years. While addressing deferred maintenance is an important activity, the Governor's proposed reduction is worthy of consideration given the funds that would remain and the condition of the General Fund.

**LAO Recommendations.** ***Modify Governor's Proposals Consistent With Legislative Priorities, Identify Additional Potential Solutions.*** LAO recommends the Legislature develop its own package of budget solutions based on its priorities and the guiding principles that LAO has identified previously. Based on LAO's review, LAO recommends the Legislature consider adopting the Governor's proposed reductions for these other non-package proposals since they align with many of the principles LAO identifies in its report.

**Staff Recommendation. Hold open.**

*Senate Budget and Fiscal Review—Nancy Skinner, Chair*
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, April 20, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Eunice Roh

**Item** **Department** **Page**

## VOTE-ONLY



## DISCUSSION

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# VOTE-ONLY

## 3355 Office of Energy Infrastructure Safety

### Issue 1: Information Technology Transition Services and Support

**Governor's Proposal.** The Governor's budget requests $717,000 in 2023-24 ($552,000 from Public Utilities Commission Reimbursement Account (PUCURA) and $165,000 from Safe Energy Infrastructure and Excavation Fund (SEIF)) and $250,000 ongoing ($192,000 from PUCURA and $58,000 from SEIEF). This includes $141,000 in personnel costs for 1.0 permanent position starting in fiscal year 2023-24, $576,000 in administrative operating expenses for an IT Tenant Transition Services Contract in fiscal year 2023-24, and $109,000 for ongoing operating expenses. Previously, the Office of Energy Infrastructure Safety (Energy Safety) was technologically supported by the California Natural Resources Agency (CNRA) IT and the Department of Water Resources (DWR) IT systems and support. This was mainly due to the fact that the department was new, and getting established. However, as the department has grown in recent years, Energy Safety now needs a standalone IT system and support. This proposal would support one-time transition costs and ongoing operating costs to manage their own IT system and services.

**Staff Recommendation.** Approve as budgeted.

## 3900 State Air Resources Board

### Issue 2: Policy and Technical Support for California Climate Investment Programs

**Governor's Proposal.** The Governor's Budget includes $629,000 ongoing from the Greenhouse Gas Reduction Fund (GGRF) for three permanent positions to undertake statutorily required duties providing policy and technical support to agencies administering ten new California Climate Investments programs established through the 2022 Budget Act along with other duties regarding the oversight and administration of California Climate Investments. The 2022-23 Budget established ten new California Climate Investments Programs: Community Air Monitoring, Community Emission Reduction Incentives, Lower Emission Boats, Methane Monitoring, Methane Data and Technical Assistance, Methane Reduction—Cattle Feed, Methane Reductions—landfills/wastewater infrastructure, Organic Waste, CalSHAPE, and Sea Level Rise. For each new program, CARB works closely with administering agencies and provides detailed guidance to ensure the statutory requirements around the use of GGRF dollars are met. CARB develops and implements new programs with the administering agencies as well as provide ongoing policy and technical support. For each of the ten new programs and project types, CARB is requesting 3.0 Air Pollution Specialists, who would each be assigned three to four programs each.

**Staff Recommendation.** Approve as budgeted.

### Issue 3: Expanding Mobile Air Monitoring in Communities

**Governor's Proposal.** The Governor's Budget requests budget bill language to revert $3 million from a 2022-23 appropriation and to use the reverted funds for a four-year limited-term appropriation of $750,000 per year to support 4.0 limited-term positions to provide technical air monitoring and community engagement services to support the contracted deployment of new, mobile Community Air Monitoring data collection and visualization approaches. This request will fund 2.0 limited-term Staff Air Pollution Specialist (SAPS) and 2.0 Associate Governmental Program Analysts (AGPA) to administer and support technical and community engagement deliverables for the duration of the mobile air monitoring contract (2 years) plus two additional years (4 years total).

**Staff Recommendation.** Approve as budgeted.

# DISCUSSION

## 3355 Office of Energy Infrastructure Safety
## 8660 Public Utilities Commission

**Issue 4: Electricity: Expedited Utility Distribution Infrastructure Undergrounding Program (SB 884)**

**Governor's Proposal.** The Governor's Budget includes two proposals to implement Chapter 819, Statutes of 2022 (SB 884, McGuire), one for the Office of Energy Infrastructure Safety (OEIS) and another for the Public Utilities Commission (CPUC).

- **OEIS**: The Governor's Budget requests 18 permanent positions and $4,021,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) in 2023-24 and ongoing to review and evaluate distribution infrastructure undergrounding plans submitted by large electrical utilities, as required by SB 884.

- **CPUC**: The Governor's Budget requests 6 permanent positions and $2,068,000 in 2023-24 and 2024-25, $1,618,000 in 2025-26, and $1,435,000 ongoing from the PUCURA to develop, administer, and enforce new standards for an expedited electric utility distribution infrastructure undergrounding program, including providing maintenance and operating oversight, as required by SB 884.

**Background.** SB 884 requires the CPUC to establish an expedited electric utility distribution infrastructure undergrounding program for large electrical corporations. To implement SB 884, CPUC must first develop a transparent process for reviewing applications submitted under the new program and enforcing compliance. Once the review and enforcement processes are adopted, the CPUC will need to administer the program. For each application received from an electrical corporation, the CPUC will need to open a formal proceeding and issue a decision on whether or not to accept the plan within nine months of receiving the application. As part of this proceeding, electrical corporations are to submit a distribution infrastructure undergrounding plan to Energy Safety. Energy Safety is required to approve or deny the plan within nine (9) months. If OEIS approves an undergrounding plan, CPUC will need to monitor OEIS' ongoing evaluation of the plans and consider assessing penalties on the utilities for substantial noncompliance with their plans.

This request assumes the submission of one underground plan by the state's largest electrical utility. Pacific Gas and Electric (PG&E) has repeatedly expressed interest in such a program and has stated publicly it intends to underground 10,000 miles of electrical lines over the next ten years. In the event the other two eligible large electrical utilities submit undergrounding plans, this request also includes budget bill language authorizing the Department of Finance to approve up to five additional permanent positions and augment OEIS' budget by up to $1 million ongoing.

This request is consistent with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Hold Open.

## Issue 5: Ongoing Wildfire Safety Implementation

**Governor's Proposal.** The Governor's Budget includes two proposals to continue wildfire safety mitigation and enforcement work at the Office of Energy Infrastructure Safety (OEIS) and the Public Utilities Commission (PUC).

- **OEIS:** The Governor's Budget includes 58 positions and $12,269,000 in 2023-24 and ongoing ($11,435,000 Public Utilities Commission Utilities Reimbursement Account (PUCURA) and $834,000 Safe Energy Infrastructure and Excavation Fund (SEIEF)) to allow the department to meet its public safety mission and reduce the current reliance and associated risk with the use of contractors. This includes $9,489,000 in personnel costs for 58 new full-time permanent positions, and $100,000 for a Spanish translation contract among other operating expenses. In addition, this proposal includes trailer bill language that amends statute to improve operational efficiency and "clean up" language.

- **CPUC:** The Budget includes $6,342,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account for 29 positions to ensure continued legal, ratemaking, and administrative support of the various wildfire prevention, cost recovery, and enforcement mandates.

**Background.** The Office of Energy Infrastructure Safety (OEIS) is a relatively new department—in 2021, the Wildfire Safety Division from the Public Utilities Commission transitioned into a new department under the California Natural Resources Agency called OEIS. A year after, OEIS also absorbed the California Underground Facilities Safe Excavation Board from the Department of Forestry and Fire Protection. To stand-up the new small department, various contracts were and are currently executed for standard services such as procurement, human resources, information technology, operational support, as well as significant programmatic services and support.

However, to ensure the department can fulfill its public safety mission in the long-term, the department proposes to transition away from a reliance on contracted services and use permanent positions for its Administrative Services Division, Communications and External Affairs Division, Compliance Assurance Division, Data Analytics Division, Electric Safety Policy Division, Legal Division, Wildfire Safety Advisory Board Unit, and the Underground Infrastructure Directorate. Some of these positions are directly replacing contracted services, and others are new positions, necessary for the department to operate and meet statutory responsibilities. The department estimates shifting to permanent positions will reduce annual contracting costs by roughly $8 million, as seen below:

**Appendix A: BCP Positions to Replace Contracted Services**

| Unit | # of PYs | Total (PS + OE) | Contracted Services to be Replaced by BCP Positions *(Previous, current, and new contracts)* | Total Annual Contracting Cost |
|---|---|---|---|---|
| **Administrative Services Division** | **6** | **$855,000** | **1** | **$860,000** |
| • 1.0 Staff Services Manager I (Supervisor)<br>• 4.0 Associate Governmental Program Analyst | | | Project Management Services (Previous) | $773,000 |
| • 1.0 Staff Services Analyst (General) | | | Human Resources Services (Previous) | $87,000* |
| **Legal Division** | **0** | **N/A** | **None** | **N/A** |
| **Communications and External Affairs Division** | **0** | **N/A** | **None** | **N/A** |
| **Data Analytics Division** | **0** | **N/A** | **None** | **N/A** |
| **Electric Safety Policy** | **7** | **$1,477,000** | **1** | **$2,681,000** |
| • 4.0 Public Utilities Regulatory Analyst III<br>• 2.0 Public Utilities Regulatory Analyst V<br>• 1.0 Program and Project Supervisor | | | Safety Culture Assessment Services (Current) | $2,681,000 |
| **Wildfire Safety Advisory Board** | **0** | **N/A** | **None** | **N/A** |
| **Compliance Assurance Division** | **14** | **$2,923,000** | **1** | **$4,500,000** |
| • 1.0 Program and Project Supervisor<br>• 1.0 Senior Utilities Engineer (Supervisor)<br>• 2.0 Senior Utilities Engineer (Specialist)<br>• 2.0 Senior Environmental Scientist (Supervisor)<br>• 2.0 Senior Environmental Scientist (Specialist)<br>• 3.0 Utilities Engineer<br>• 3.0 Environmental Scientist | | | Inspections Services & Audit Services (Current) | $4,500,000 |
| **Underground Safety Directorate** | **0** | **N/A** | **None** | **N/A** |
| **TOTAL** | **27** | **$5,255,000** | | **$8,041,000** |

**This figure represents the proportional amount of the previous interagency agreement for human resources services with the California Public Utilities Commission for just three (3) services not offered through current DGS HR interagency agreement: health and safety, training management, and equal employment opportunity program services.*

Concurrently, CPUC has received funding in recent years to support their responsibilities with regards to wildfire safety. In 2020-21, CPUC requested 93 positions and $27.6 million to address the destabilizing effect of catastrophic wildfires on the state's electric utilities. Included in these 93 positions were 22 positions for the Wildfire Safety Division (WSD). Effective July 1, 2021, the functions of the WSD and the 22 WSD positions were transferred to the Office of Energy Infrastructure Safety (OEIS). Of the 71 positions remaining with the CPUC, the Legislature approved ongoing budget authority for 40 positions and three-year limited-term funding for 31 temporary positions. As these limited-term positions come to an end, this proposal requests 29 permanent positions. Specifically, the department requests:

- Ongoing Legal, Energy, and ALJ Division resources to address utility requests for recovery of costs associated with wildfire mitigation, including approvals of cost allocations proposals to implement WMPs and utility applications seeking cost recovery and subsequent financing orders to securitize costs due to catastrophic wildfires.

- Ongoing Executive Division resources to lead the organizational changes needed for the CPUC to become a nimbler agency, including supporting coordination between the CPUC and other state agencies.

- Resources to meet ongoing workload to develop and implement enhanced enforcement activities and to streamline and reform the CPUC's decision-making process.

**Staff Recommendation.** Hold Open.

## 8660 PUBLIC UTILITIES COMMISSION

**Issue 6: Public Utilities Commission: Customer Renewable Energy Subscription Programs and the Community Renewable Energy Program (AB 2316)**

**Governor's Proposal.** The Governor's Budget provides $1,413,000 in 2023-24, $1,313,000 in 2024-25, $1,113,000 in 2025-26 and 2026-27, and $1,103 in 2027-28 and ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to review, evaluate, and modify existing customer renewable energy subscription programs, as required by Chapter 350, Statutes of 2022 (AB 2316, Ward).

**Background.** AB 2316 requires the CPUC to review existing community renewable energy subscription programs and to evaluate whether those programs achieve the specified goals of this new legislation and to order any necessary modifications to the programs to bring them into conformity with legislative goals. In addition, it also asks the CPUC to consider whether it is beneficial to ratepayers to establish the CRE Program—a new community renewable energy program. This request includes five positions for program administration and oversight, legal analysis and guidance, and oversight of a new proceeding to implement AB 2316. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Hold Open.

**Issue 7: Water Compliance and Enforcement**

**Governor's Proposal.** The Governor's Budget requests $419,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a three-year limited-term basis for two positions dedicated to compliance and enforcement in the CPUC Water Division.

**Background.** Currently, the Water Division has no dedicated staff solely responsible for compliance and enforcement actions. According to the CPUC, a dedicated compliance and enforcement team will help the Division act on water quality concerns for the large number of small water utilities subject to CPUC jurisdiction that have potential health and safety implications. The two positions in this request will staff the Water Division Enforcement Team. The department expects having these dedicated positions will increase the number of staff-initiated citations and administrative enforcement orders.

**Staff Recommendation.** Approve as budgeted.

## 3900 STATE AIR RESOURCES BOARD

**Issue 8: Implementing Evaluations and Recommendations for Hydrogen to Support Decarbonizing the California Economy (SB 1075)**

**Governor's Proposal.** The Budget includes $3.1 million from the Cost of Implementation Account in 2023-24 ($849,000 ongoing) for four permanent positions and one-time contract services to develop and publish an evaluation and provide policy recommendations on the use of hydrogen, as required by Chapter 363, Statutes of 2022 (SB 1075, Skinner).

**Background.** SB 1075 requires CARB, in consultation with other state agencies and labor and workforce organizations, to prepare an evaluation with policy recommendations by June 1, 2024, regarding the deployment, development, and use of low-carbon hydrogen for achieving emission reductions that can contribute to achieving the state's climate, clean energy, and clean air objectives. CARB is requesting resources for contracts to provide specialized expertise to develop and conduct modeling needed to support the prescribed analyses and assessments. The new CARB staff would establish and manage these contracts, as well as evaluate and make policy recommendations for the deployment, development, and use of low-carbon hydrogen. Ongoing staff are needed to assess and consider other potential uses of low-carbon hydrogen in decarbonization strategies; coordinate across programs and agencies; maintain subject matter expertise; and monitor sectors such as heavy-duty transportation, industry, electricity, and energy storage.

**Staff Recommendation.** Hold Open.

## 3480 DEPARTMENT OF CONSERVATION
## 3900 STATE AIR RESOURCES BOARD
## 3940 STATE WATER RESOURCES BOARD

### Issue 9: Carbon Capture, Removal, Utilization and Storage Program (SB 905)

**Governor's Proposal.** The Governor's Budget requests funding for the Air Resources Board (CARB), Department of Conservation (DOC), and the State Water Resources Control Board (State Water Board) to implement Chapter 359, Statutes of 2022 (SB 905, Caballero). More specifically, the request includes:

- **CARB.** $5.5 million from the Cost of Implementation Account, Air Pollution Control Fund (COIA) and 18 permanent positions in 2023-24 and $4.5 million ongoing to implement the requirements established by SB 905. Included in the request is $1,700,000 in ongoing contract funds: $700,000 to establish an electronic unified permit submittal system for carbon sequestration project operators pursuing permits to operate in California, and $1 million in ongoing contract funds to perform evaluations of new and emerging carbon capture, removal, utilization and storage (CCUS) and carbon dioxide removal (CDR) technology.
- **DOC.** $3,682,000 from COIA and 4 permanent positions to create a Geologic Carbon Sequestration Group (Group).
- **State Water Board.** $280,000 ongoing from COIA for one permanent position to collaborate with CARB to develop and implement a unified permit application process for the construction and operation of CCUS projects and provide technical expertise to ensure these projects are protective of groundwater resources.

**Background.** SB 905 requires CARB to establish a Carbon Capture, Removal, Utilization and Storage Program to evaluate the efficacy, safety, and viability of various CCUS technologies and CDR technologies and facilitate the capture, remove and sequestration of carbon dioxide from those technologies, where appropriate. CARB requests to contract resources to conduct ongoing evaluations of these technologies and permanent positions to make findings from such studies publicly available via workshops and on CARB's website.

In addition, SB 905 requires CARB to adopt regulations for a unified permit submittal portal for the construction and operation of carbon dioxide capture, removal, or sequestration projects to expedite the issuance of permits or other authorizations for the construction and operation of those projects by the respective approving authorities. This request includes funds for the permit system as well as permanent positions to continually update and maintain regulations and the permit portal.

CARB is also required to meet several other requirements:

- Develop a centralized public database to track the deployment of CCUS and CDR technologies and the development of carbon dioxide capture, removal, and sequestration projects throughout the state;
- Develop monitoring and reporting schedules to state regulatory agencies for carbon dioxide capture, removal, or sequestration projects to ensure efficacy, safety, and viability of the projects;
- Consider the development, adoption, and update of protocols to support additional methods of utilization or storage of captured carbon dioxide;
- Adopt regulations for financial responsibility for carbon dioxide capture, removal, or sequestration projects

CARB requests permanent positions to address these statutory requirements. In the initial 2-3 years of the program, the 18 PYs will be dedicated to conducting the time-sensitive requirements of SB 905, which include conducting CCUS/CDR technology reviews, updating CCS protocols for technologies/project types, developing regulations for financial responsibility (due Jan 1, 2025) and permit portal (due Jan 1, 2025), establishing a centralized public project database, and conducting program/project reporting for reports due to the Legislature (due Jan 1, 2025, and every two years after). After the initial regulatory efforts are completed, the resources will transition into conducting a mix of ongoing technology reviews, updating regulations, implementing/supporting the permitting portal, reporting to the public/legislature pursuant to SB 905, and supporting reviewing permanence certifications under the CCS protocol(s).

SB 905 further mandates the establishment of a Carbon Sequestration Group in the California Geologic Survey (CGS) to assess the suitability of the state’s geologic carbon sequestration and removal potential by identifying high-quality carbon sequestration sites. The Group is mandated to identify hazards that may require the suspension of carbon dioxide injections. In addition, the Group will identify suitable and safe sites for early sequestration projects to support implementation of SB 905. DOC requests four positions to develop the evaluation framework, perform the assessment and evaluations, and collaborate with stakeholders and partner agencies.

SB 905 also directs CARB to prioritize the approaches that minimize environmental impacts, such as impacts to water quality. Proposed CCUS or CDR projects will require the State Water Board and applicable regional water quality control boards (collectively Water Boards) be involved in evaluating the risks that these projects may pose to water quality. More specifically, the State Water Board requests one position to collaborate with partner agencies to develop the permit portal, evaluate public health and water quality when reviewing projects, and increase publicly available information and data associated with CCUS and CDR related activities.

**Staff Recommendation.** Hold Open.

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, May 4, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultants: Eunice Roh and Joanne Roy

# DISCUSSION



*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# VOTE-ONLY

## 0540 California Natural Resources Agency (CNRA)
## 3125 California Tahoe Conservancy
## 3340 California Conservation Corps (CCC)
## 3480 Department of Conservation (DOC)
## 3540 Department of Forestry and Fire Protection (CalFire)
## 3560 State Lands Commission (SLC)
## 3600 California Department of Fish and Wildlife (CDFW)
## 3640 Wildlife Conservation Board (WCB)
## 3720 California Coastal Commission
## 3760 State Coastal Conservancy
## 3825 San Gabriel and Lower Los Angeles River and Mountains Conservancy (RMC)
## 3835 Baldwin Hills Conservancy
## 3845 San Diego River Conservancy
## 3850 Coachella Valley Mountains Conservancy
## 3855 Sierra Nevada Conservancy
## 3860 Department of Water Resources (DWR)
## 3875 Sacramento-San Joaquin Delta Conservancy

### Issue 1: CNRA Bond and Technical Proposals (Spring Finance Letter (SFL))

**Governor's Proposal.** A Spring Finance Letter (SFL) requests appropriations and reappropriations from various bonds, reversions, reversions with associated new appropriations, and other non-bond technical adjustments to continue implementation of existing authorized programs.

**Staff Recommendation. Approve as budgeted.**

## 0540 California Natural Resources Agency (CNRA)
## 3125 California Tahoe Conservancy

### Issue 2: Lake Tahoe Science and Lake Improvement Account Realignment (SFL)

**Governor's Proposal.** An SFL requests a total of $290,000 ongoing Lake Tahoe Science and Lake Improvement Account (Account) and 0.5 permanent position to support the Tahoe Science Advisory Council and aquatic invasive species control and public access projects at Lake Tahoe, consistent with legislative mandates. This includes $110,000 ongoing for CNRA and $180,000 ($150,000 state operations and $30,000 local assistance) and 0.5 position ongoing for the California Tahoe Conservancy (Conservancy).

CNRA requests additional resources to support the bi-state Tahoe Science Advisory Council (Council). Additional funding will allow the Council to collaborate with Lake Tahoe management agencies and communicate science findings.

The Conservancy requests a total of $180,000 ($150,000 state operations and $30,000 local assistance) and 0.5 permanent position. Additional operations funding and position authority will support staff in guiding and managing investments in aquatic invasive species control and public access projects. Additional local assistance funds will increase the Conservancy's ability to invest in on-the ground projects.

**Staff Recommendation. Approve as budgeted.**

## 3480 DEPARTMENT OF CONSERVATION (DOC)
## 3900 CALIFORNIA AIR RESOURCES BOARD (CARB)
## 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

### Issue 3: Withdrawal of SB 1137 Implementation: Health Protection Zones (SFL)

**Governor's Proposal.** An SFL requests withdrawal the Governor's January Budget proposal implementing SB 1137 (Gonzalez), Chapter 365, Statutes of 2022, given the Secretary of State certified that the referendum measure of SB 1137 has qualified for the November 2024 ballot, of the following:

- DOC: Decrease Item 3480-001-3046 by $9.723 million and 37 positions ongoing.
- CARB: Decrease Item 3900-001-3046 by $2.24 million and nine positions ongoing.
- SWRCB: Decrease Item 3940-001-3046 be decreased by $2.646 million and 13 positions ongoing.

**Staff Recommendation. Approve as budgeted.**

# 3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)

## Issue 4: Aviation Program Contracts (SFL)

**Governor's Proposal.** An SFL requests $1.88 million General Fund in 2023-24, $2.38 million in 2024-25, $2.93 million in 2025-26, $7.02 million in 2026-27, and $11.52 million in 2027-28 to support three firm years and two optional years of the increased contractual costs of a follow-on aviation parts and logistics contract.

The Governor's Budget proposed a total of $34.18 million one-time over five years to support two optional years of a fixed-wing pilot and mechanics contract as well as three firm years and two optional years for a follow-on aviation parts and logistics contract. The amounts requested for the aviation parts and logistics contract were the best estimates at the time. The proposal indicated that a spring request was anticipated to align costs after the procurement process was finalized in early 2023. This adjustment is the incremental increase necessary to align the Governor's Budget proposal with the final contract award amounts.

**Staff Recommendation. Approve as budgeted.**

## Issue 5: Bieber Forest Fire Station/Helitack Base: Relocate Facility (SFL)

**Governor's Proposal.** An SFL requests that Item 3540-301-0660 be added in the amount of $5.044 million one-time for the construction phase of the Bieber Forest Fire Station/Helitack Base: Relocate Facility project. Revised estimated construction costs for the project were developed during completion of the working drawings phase of the project which indicate an additional appropriation will be required to fund construction.

**Staff Recommendation. Approve as budgeted.**

## Issue 6: Office of the State Fire Marshal, Fire and Life Safety

**Governor's Proposal.** An SFL requests that Item 3540-001-0001 be increased by $262,000 General Fund and two positions, and reimbursements be increased by $2.887 million and 11 positions, Item 3540-001-0102 (State Fire Marshal Licensing and Certification Fund) be increased by $1,000, Item 3540-001-0198 (California Fire and Arson Training Fund) be increased by $1,000, Item 3540-001-0209 (California Hazardous Liquid Pipeline Safety Fund) be increased by $1,000, Item 3540-001-0928 (Forest Resources Improvement Fund) be increased by $1,000, and Item 3540-002-3228 (Greenhouse Gas Reduction Fund) be increased by $9,000.

This proposal includes a total of $3.162 million in 2023-24, $2.826 million ongoing, and 13 positions to support increased workload in the Office of the State Fire Marshal's Fire and Life safety Division related to plan reviews and construction inspections for state infrastructure projects as well as fire and life safety inspections in state owned, specified state occupied, and various other specified buildings statewide.

**Staff Recommendation. Approve as budgeted.**

## 3600 California Department of Fish and Wildlife (CDFW)

### Issue 7: Dedicated Fish and Game Preservation Fund Realignment (SFL)

**Governor's Proposal.** An SFL requests various adjustments to the Fish and Game Preservation Fund's (FGPF) dedicated accounts, Hatcheries and Inland Fisheries Fund (HIFF), and Department of Fish and Wildlife – California Environmental Quality Act Fund (CEQAF) resulting in an increase of $6.87 million and 23 permanent positions. These adjustments align the accounts' expenditure authority with revenues and help CDFW maintain stability, structural balance, and workload for the funds.

**Staff Recommendation. Approve as budgeted.**

## 3720 California Coastal Commission

### Issue 8: Essential Enforcement Program Support (SFL)

**Governor's Proposal.** An SFL requests $463,000 annually ongoing from the California Coastal Conservancy Fund, Violation Remediation Account (VRA) and two positions ongoing to provide the California Coastal Commission's enforcement unit with necessary resources to continue work on the resolution of Coastal Act violations, to bring administrative orders to hearing, and to reduce the backlog of enforcement cases statewide.

**Staff Recommendation. Approve as budgeted.**

## 3790 Department of Parks and Recreation (Parks)

**Issue 9: Humboldt Redwoods State Park: Founders Grove Parking Lot & Restroom Replacement (SFL)**

**Governor's Proposal.** An SFL requests that Item 3790-301-0952 be increased by $1.347 million one-time for the Humboldt Redwoods State Park: Founders Grove Parking Lot & Restroom Replacement project, as additional funds have been donated to support this project. This project includes construction of new restroom and parking lot facilities in an alternate location. The new site will include a new water source, water treatment system, and an accessible trail connection to Founders Grove.

**Staff Recommendation. Approve as budgeted.**

## 3860 Department of Water Resources (DWR)

**Issue 10: South Delta Permanent Operable Gates (SFL)**

**Governor's Proposal.** An SFL requests that Item 3860-301-6026 be added in the amount of $33.149 million one-time and Item 3860-301-6031 be added in the amount of $10.564 million one-time for the construction and installation of permanent barriers with operable gates in South Delta channels.

**Staff Recommendation. Approve as budgeted.**

**Issue 11: Salton Sea Accelerated Restoration (SFL)**

**Governor's Proposal.** An SFL requests that Item 3860-001-0890 be increased by $20 million one-time to support accelerated restoration efforts, including wetland habitat and vegetation enhancement projects, at the Salton Sea.

**Staff Recommendation. Approve as budgeted.**

# 0555 CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY (CALEPA)
# 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)
# 3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)
# 3970 CALIFORNIA RESOURCES RECYCLING & RECOVERY (CALRECYCLE)

**Issue 12: Technical Adjustments (SFL)**

**Governor's Proposal.** An SFL requests minor adjustments such as reappropriations and technical bond adjustments to continue implementation of existing authorized programs.

**Staff Recommendation. Approve as budgeted.**

# 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

**Issue 13: Division of Administrative Services Support (SFL)**

**Governor's Proposal.** An SFL requests 15 permanent positions and $2.3 million ongoing from various special funds (Waste Discharge Permit; Safe Drinking Water Account; Underground Storage Tank Clean Up; State Water Quality Control Fund; Federal Trust Fund; Water Rights Fund; Safe and Affordable Drinking Water Fund; and Cannabis Tax Fund). These resources will be used to address increased administrative workload due to rapid and evolving program growth, increased resource management and tracking workload, and reporting requirements for the Division of Administrative Services.

**Staff Recommendation. Approve as budgeted.**

**Issue 14: Lead and Copper Rule Revision Regulation Implementation and Database (SFL)**

**Governor's Proposal.** An SFL requests $16.22 million Federal Trust Fund in 2023-24 ($2.84 million in ongoing funding for 14 new positions and two existing positions previously funded by the Safe Drinking Water Account and $13.38 million in contract funding). An additional $18.33 million in contract funding over four years ($7.8 million in 2024-25, $7 million in 2025-26, $2 million in 2026-27, and $1.5 million in 2027-28) is requested to support the development of a database to intake lead and copper data in compliance with the federal revised Lead and Copper Rule Revision (LCRR). The 14 new positions will create an LCRR unit and provide five field section staff that will ensure successful implementation of the new regulation. Funding will come from the Drinking Water State Revolving Fund set-aside for state program management provided by the Federal Bipartisan Infrastructure Law.

**Staff Recommendation. Approve as budgeted.**

**Issue 15: Leviathan Creek Diversion Channel Relining (SFL)**

**Governor's Proposal.** An SFL requests $5.163 million General Fund one-time in 2023-24 for the repair of critical infrastructure at Leviathan Mine (the Leviathan Creek Channel Diversion), a federally listed

Superfund Site owned by the State of California. This proposal will support the relining of the Leviathan Creek Diversion Channel side walls to prevent further deterioration, which could lead to severe water quality impacts.

**Staff Recommendation. Approve as budgeted.**

## 3970 DEPT. OF RESOURCES RECYCLING & RECOVERY (CALRECYCLE)

### Issue 16: CalRecycle Integrated Information System (CRIIS) (SFL)

**Governor's Proposal.** An SFL requests $6.185 million Beverage Container Recycling Fund (BCRF) one-time for the implementation of the CalRecycle Integrated Information System (CRIIS) per California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stage 2 Market Research.

CRIIS is an extensive ongoing initiative to migrate the Beverage Container Recycling Program (BCRP) currently administered via a Commercial-Off-The-Shelf (COTS) application, called Division of Recycling Integrated Information System (DORIIS), into a modern, extensible cloud-based solution. The new solution will be developed with the goal of consolidating administration of all CalRecycle's material and waste management systems.

**Staff Recommendation. Approve as budgeted.**

### Issue 17: Lee Vining Burn Dump Site Remediation (SFL)

**Governor's Proposal.** An SFL requests an increase of $2.649 million Solid Waste Disposal Site Cleanup Trust Fund one-time to complete required site restoration work on the Lee Vining Burn Dump. Project completion will bring the site into regulatory compliance in the Mono Lake watershed area.

**Staff Recommendation. Approve as budgeted.**

# DISCUSSION

## VARIOUS DEPARTMENTS

### Issue 18: Senate Cap-and-Trade Plan

**Senate Proposal.** The Senate proposes a Cap-and-Trade Spending Plan for 2023-24, totaling $4.3 billion. This includes $2.7 billion for continuous appropriations and other existing commitments as well as $1.7 billion for discretionary spending. The Senate's Cap-and-Trade Spending Plan is based on the Legislative Analyst's Office (LAO) revenue estimates, which is higher than the Governor's revenue assumptions. This is because the administration assumes all allowances will sell at the floor price, which is not a typical scenario as allowances have sold above the floor price over the last couple of years.

As a result, the Senate Cap-and-Trade Plan assumes higher amounts for the continuous appropriations, as detailed below:

| Program | Department | Senate | Governor |
|---|---|---|---|
| **Continuous Appropriations** | | | |
| High Speed Rail Project | HSRA | 847 | 526 |
| Affordable Housing and Sustainable Communities Progra | HCD | 677 | 421 |
| Transit and Intercity Rail Capital Program | CalSTA | 339 | 210 |
| Healthy and Resilient Forests | CalFire | 200 | 200 |
| Low Carbon Transit Operations Program | Caltrans | 169 | 105 |
| Safe and Affordable Drinking Water Program | SWRCB | 130 | 105 |
| **Other Existing Commitments** | | | |
| Baseline Operations | CARB | 150 | 150 |
| Manufacturing Tax Credit | CDTFA | 97 | 97 |
| State Responsibility Area Fee Backfill | CalFire | 79 | 79 |
| Safe and Affordable Drinking Water Program Backfill | SWRCB | 0 | 25 |

For the discretionary portion of the Cap-and-Trade Spending Plan, the Senate proposes the following:

- Zero-Emission Vehicles - $975 million
- Agriculture - $190 million
- Energy - $195 million
- Coastal Resilience - $110 million
- Other - $190 million

The following chart provides additional detail about the Senate Cap-And-Trade Spending Plan in comparison with the Governor's proposal. The Senate plan should be considered in conjunction with the broader Senate Budget Plan, which restores funding for several components of the Zero-Emission Vehicles Package through the newly proposed Housing and Infrastructure Fund. The Senate Budget Plan can be reviewed on the Senate Budget and Fiscal Review Committee website.

| Program | Department | Senate | Governor |
|---|---|---|---|
| **Discretionary** | | | |
| Zero Emission Vehicles | | | |
| General Fund Backfill—Zero Emission Vehicle Package | CEC | 0 | 368 |
| General Fund Backfill—Zero Emission Vehicle Package | CARB | 0 | 243 |
| Heavy Duty Vehicles & Off Road Equipment Incentives | CARB | 400 | 0 |
| Clean Cars 4 All & Other Equity Programs | CARB | 275 | 0 |
| ZEV Transit Buses & Infrastructure | CARB & CEC | 100 | 0 |
| ZEV Fueling Infrastructure Grants | CEC | 100 | 0 |
| Equitable At-Home Charging | CEC | 100 | 0 |
| Agriculture | | | |
| FARMER | CARB | 150 | 0 |
| Agriculture Related Methane Reduction Programs | CDFA | 35 | 0 |
| Research in GHG Reductions | CDFA | 5 | 0 |
| Energy | | | |
| Equitable Building Decarbonization | CARB & CEC | 100 | 0 |
| Residential Solar and Storage | CPUC | 80 | 0 |
| Building Energy Benchmarking Program | CEC | 15 | 0 |
| Coastal Resilience | | | |
| Protecting the Coast from Climate Change | SCC | 60 | 0 |
| Implementing SB 1 (Atkins) | OPC | 40 | 0 |
| Intertidal Biodiversity DNA Barcode Library | OPC | 10 | 0 |
| Other | | | |
| Low-Income Weatherization Program | CSD | 60 | 0 |
| AB 617 | CARB | 50 | 250 |
| Farmworker Housing Energy Efficiency & Solar | CSD | 40 | 0 |
| Carbon Removal Program | CARB | 25 | 0 |
| Technical Assistance for Federal Tax Credits | CEC | 10 | 0 |
| Wood Stoves | CARB | 5 | 0 |
| | **Total** | 1660 | 861 |

More specifically, the programs funded in the Senate Cap-and-Trade Plan are as follows:

- ***Heavy Duty Vehicles & Off Road Equipment Incentives.*** $400 million across various incentive programs, such as Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) and the Clean Off-Road Equipment Voucher Incentive Project (CORE) programs.

- ***Clean Cars 4 All & Other Equity Programs.*** $275 million for Clean Cars 4 All, Clean Mobility Options, and other programs that support an equitable transition to zero-emission vehicles.

- ***ZEV Transit Buses & Infrastructure.*** $100 million for CARB and CEC to fund programs that support transit agencies to transition their fleets to zero-emission vehicles.

- ***ZEV Fueling Infrastructure Grants.*** $100 million for CEC to expand light-duty ZEV fueling infrastructure across the state.

- ***Equitable At-Home Charging.*** $100 million for CEC to fund incentives for at-home charging infrastructure for low-income households.

- ***FARMER.*** $150 million for the Funding Agricultural Diesel Replacement and Upgrades (FARMER) Program through local air districts to reduce emissions from agricultural harvesting equipment, heavy-duty trucks, agricultural pump engines, tractors and other equipment used in agricultural and forestry operations by replacing older, higher polluting equipment with cleaner technologies including zero-emissions options.

- ***Agriculture Related Methane Reduction Programs.*** $35 million for programs aimed at reducing agriculture-related methane.

- ***Research in GHG Reductions.*** $5 million for CDFA to assess various methane reduction approaches.

- ***Equitable Building Decarbonization.*** $100 million for the Equitable Building Decarbonization programs aimed at supporting low-energy building upgrades for low-to-moderate income families in under-resourced communities, incentives for low-carbon building technologies, and incentives for low global warming-potential refrigerants in homes at CARB and CEC.

- ***Residential Solar and Storage.*** $80 million for CPUC to provide incentives for the installation of solar and energy storage systems.

- ***Building Energy Benchmarking Program.*** $15 million for CEC to fund the Building Energy Benchmarking Program, which requires owners of large commercial and multifamily buildings to report energy use annually.

- ***Protecting the Cost from Climate Change.*** $60 million for SCC to fund projects geared toward protecting the coast and coastal watersheds from the effects of climate change.

- ***Implementing SB 1 (Atkins).*** $40 million for OPC to implement Chapter 236 of 2021 (SB 1, Atkins). This legislation requires OPC to establish a collaborative that would provide information and support to local, regional, and state agencies in identifying, assessing, planning for, and mitigating the effects of sea-level rise.

- ***Intertidal Biodiversity DNA Barcode Library.*** $10 million for OPC to create a program that establishes a baseline by identifying and determining thousands of organisms at a site, which is necessary to do before coastal adaptation construction begins. This program aims to reduce GHG emissions by advancing the ability to measure and harness carbon sequestration in coastal ecosystems.

- ***Low-Income Weatherization Program.*** $60 million for CSD to provide low-income households with solar photovoltaic (PV) systems and energy efficiency upgrades at no cost to residents.

- ***AB 617.*** Under the Senate Budget Plan, the planned $250 million for AB 617 in 2023-24 will be restored from the General Fund. This is in addition to that amount, to increase the total funding level to $300 million.

- ***Farmworker Housing Energy Efficiency & Solar.*** $40 million for CSD to fund projects to weatherize as well as install battery backups and solar panels to farmworkers' homes.

- ***Carbon Removal Program.*** $25 million for CARB to establish a long-term plan for carbon dioxide removal according to California's emission reduction targets.

- ***Technical Assistance for Federal Tax Credits.*** $10 million for CEC to establish a technical assistance and outreach program for Californians to apply for federal tax credits (i.e. the used EV credit, the Residential Clean Energy Credit, Energy Efficient Home Improvement Credit, Clean Vehicle Credit).

- ***Wood Stoves.*** $5 million for CARB to offer financial incentives for homeowners to replace old, inefficient, and highly polluting wood stoves, wood inserts, or fireplaces with cleaner burning and more efficient home heating devices.

**Background.**

***Cap-and-Trade Auction Revenue.*** Revenues from quarterly cap-and-trade auctions are deposited in the Greenhouse Gas Reduction Fund (GGRF) and the funds generally are allocated to climate-related programs. Under current law, a total of 65 percent of auction revenue is continuously appropriated to the following programs: the high-speed rail project (25 percent), Affordable Housing and Sustainable Communities Program (20 percent), Transit and Intercity Rail Capital Program (10 percent), low carbon transit operations (5 percent), and Safe and Affordable Drinking Water Program (5 percent, up to $130 million). In addition, beginning in 2022-23, $200 million is continuously appropriated for forest health and wildfire prevention activities. This funding is taken “off the top” before calculating the other continuous appropriation amounts. The remaining revenue (about 30 percent) is available for appropriation by the Legislature through the annual budget for other ongoing funding commitments (such as state administrative costs and statutory transfers), as well as discretionary spending programs.

**LAO Comments.**

***Several Hundred Million Dollars More Could Be Available for Discretionary Spending.*** After accounting for the continuous appropriations and off-the-top allocations, our estimates project the state will have a total of about $800 million available in additional discretionary GGRF revenues from the current and budget years compared to the administration.

- ***2022-23.*** We project current-year discretionary revenues will be about $380 million above the amount allocated in the *2022-23 Budget Act*. The Governor’s spending plan for the budget year incorporates the additional $100 million from the November auction, but we think an additional roughly $280 million in discretionary revenue might be available from the February auction and upcoming May auction (about $140 million from each) that is not yet included in the Governor’s spending plan.
- ***2023-24.*** After taking continuous appropriations into account, compared to the Governor’s estimates, we project the state will have about $520 million of additional funding available for discretionary expenditures in the budget year. (We note that under our estimates, the drinking water program would be fully funded with $130 million through the 5 percent continuous appropriation, negating the need to spend discretionary revenues to make the program “whole.”)

**Staff Recommendation.** Hold Open

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Tuesday, May 16, 2023**
**9:00 a.m.**
**1021 O Street - Room 2200**

Consultants: Eunice Roh and Joanne Roy

# AGENDA

## *Overview of the May Revision (2023)*

I. Presentations by:

Department of Finance

- Sergio Aguilar, Assistant Program Budget Manager
- Jeff Bell, Assistant Program Budget Manager
- Krystal Acierto, Principal Program Budget Analyst
- Christian Beltran, Principal Program Budget Analyst
- Stephen Benson, Principal Program Budget Analyst
- Andrew Hull, Principal Program Budget Analyst
- Michael McGinness, Principal Program Budget Analyst
- Eamon Nalband, Principal Program Budget Analyst

Legislative Analyst's Office

- Rachel Ehlers, Deputy Legislative Analyst

II. Public Comment

*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

**LAO High-Level Comments on Resources and Environmental Protection May Revision Proposals**

***LAO Estimates That Governor's Revenue Estimates Are Overly Optimistic.*** LAO's revenue estimates for the state's three largest taxes—personal income, corporation, and sales—are $11 billion lower than the Administration's during the budget window. Consequently, LAO would characterize the Administration's estimates as optimistic. Early in the coming week LAO will publish its *Initial Comments on the May Revision*, which will provide a more detailed assessment of the proposed budget structure and LAO's corresponding guidance to the Legislature.

***Taking Governor's Approach Could Make Future Decisions More Difficult.*** Adopting the Administration's revenue estimates likely would set up more difficult budget decisions next year. Specifically, if the higher revenues fail to materialize, the Legislature could find itself next year—or in the middle of the coming fiscal year—needing to identify deeper spending solutions, and having lost the opportunity to draw upon some less impactful options such as reducing one-time spending or borrowing from special funds. Under the Governor's approach, significant one-time funding included in recent budgets (which is less disruptive to reduce than ongoing spending) already would have been spent, and several special fund balances (such as from the Beverage Container Recycling Fund) already would have been loaned. This could leave the Legislature fewer options in the future apart from reducing ongoing base programs or raising new revenues.

***Recommend Rejecting Most New Spending Proposals.*** Due to anticipated revenue weakness, LAO's overarching guidance to the Legislature is to reject new proposals without prejudice, given the budget condition, unless they address immediate health and safety risks. This includes both proposals from January as well as May, and could necessitate the subcommittees revisiting some actions they already have taken. This approach would avoid making the budget problem worse and necessitating more tough decisions in the future. There are a few proposals from the Governor—including for flood and disaster preparation and response—that LAO thinks could meet this higher bar, however, and could merit approval in some form.

***Recommend Identifying Additional Solutions.*** Under LAO's revenue estimates, additional solutions would be required to balance the budget. Within LAO's February report, *The 2023-24 Budget: Crafting Climate, Resources, and Environmental Budget Solutions*, LAO identifies numerous options for making additional reductions within recent budget augmentations that still would avoid significant disruptions and retain funding for pressing needs and underserved populations. LAO believes that through careful prioritization, the state can continue to make significant progress on its climate and environmental goals even at moderately reduced spending levels—and thereby help reduce the risk of needing to make more impactful reductions in the future. LAO continues to recommend that the Legislature adopt a package of budget solutions that reflects its priorities. Because of the quantity and magnitude of recent programmatic expansions, the Legislature has numerous options for selecting a different and equally reasonable package of choices that achieves an even greater amount of budget solutions than the Governor.

***No Guarantees That Bond Will Be Approved and Programs Funded.*** Should it opt to pursue a climate bond—as suggested by the Governor—LAO recommends the Legislature be selective in prioritizing which programs to sustain with General Fund and which to shift. Given the uncertainty about whether a new climate bond ultimately will be approved by the Legislature and by voters, LAO recommends the Legislature identify its highest priority programs from the recent budget agreements and sustain funding for them from available General Fund—not shift them to a bond. It then could consider the trade-offs of pursuing a bond to support some of the remaining programs which the budget framework cannot accommodate.

***Consider Delaying Action on Proposals That Are Not Needed Now.*** The Governor's May Revision includes a number of significant proposals with longer-term policy implications. These include proposals related to four funds that are experiencing operating shortfalls—the Energy Resources Program Account (at CEC), Harbors and Watercraft Revolving Fund (at Parks), Hazardous Waste Control Account (at DTSC), and Department of Pesticide Regulation Fund (at DPR)—as well as trailer bill language that would enact permanent changes to permitting requirements for capturing flood flows. While some of these proposals may have merit—at least in concept—the final weeks before the budget must be enacted do not allow the Legislature sufficient time for thoughtful deliberation or to assess potential long-term implications. The Legislature may need to take some actions to address pressing issues in 2023-24—such as backfilling the hazardous waste account shortfall that has emerged—but to the degree the proposals target issues that could be addressed either later this summer or through next year's budget process, LAO recommends the Legislature wait and give itself more time for their consideration. It may also want to defer some of these decisions to the policy process.

The following is a brief overview of the Governor's Budget May Revision 2023-24:

## ENERGY, UTILITIES, & AIR QUALITY

### VARIOUS DEPARTMENTS

- **Zero Emission Vehicles Package.** The May Revision maintains $8.9 billion of last year's ZEV package, which is the same level of funding that was proposed in January. The May Revision shifts an additional $635 million General Fund ($500 million in 2023-24) over three years to the Greenhouse Gas Reduction Fund.

- **Energy Package.** The May Revision maintains $7 billion of last year's energy package, which is similar to the funding that was proposed in January, but includes an additional reduction to the California Arrearage Payment Program.

  - **California Arrearage Payment Program.** The May Revision reverts an additional $149.4 million in California Emergency Relief Funds to the General Fund in 2022-23, based on updated savings figures due to actual applications received and approved for funding. This Program addressed residential utility arrearages accrued during the COVID-19 Pandemic through December 31, 2022.

- **CERIP.** The May Revision includes the Clean Energy Reliability Investment Plan (CERIP), which consists of $1 billion over multiple years, pursuant to Chapter 239, Statutes of 2022 (SB 846 Dodd). This item will be discussed separately at a future hearing.

- **SB 2 First Extraordinary Session Implementation.** The May Revision includes funding and positions to implement SB 2 First Extraordinary Session, (Skinner), Chapter 1, Statutes of 2023-24, which authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the cost of doing business; require increased reporting; and establish a new division within CEC for oversight. Specifically:

- $5.9 million from the Energy Resources Programs Account and 14 positions on an ongoing basis for the CEC to collect new data, analyze and track trends in the petroleum supply chain and pricing, produce required reports, and establish a new oversight division. Additionally, the CEC will redirect 10 existing positions internally to support the new Division of Petroleum Market Oversight.

- $1 million one-time from the Cost of Implementation Account for the California Air Resources Board to support the development of the Transportation Fuels Transition Plan.

- $286,000 from the Occupational Safety and Health Fund and one position for the Department of Industrial Relations to support analysis on managing refinery turnaround and maintenance schedules.

- **SB 846 Diablo Canyon Loan.** The May Revision includes budget bill language that provides a General Fund loan up to $400 million to the Diablo Canyon Extension Fund for the purpose of being loaned to the company licensed to operate the Diablo Canyon Units 1 and 2 for extending operations of the Diablo Canyon powerplant facility, consistent with Chapter 239, Statutes of 2022 (SB 846 Dodd).

- **Summer 2023 Imported Energy Reimbursement Program.** In 2022, DWR's Electricity Supply Strategic Reliability Reserve Program (ESSRRP) was authorized to reimburse electrical corporations for the above-market costs of imported energy and imported capacity products procured from July to September 2022 to support summer electric service reliability. DWR requests this same authority for Summer 2023 as critical reliability measure for extreme events. To enable this, a transfer of up to $100 million is proposed from the California Energy Commission's Distributed Electricity Backup Assets program to DWR for these activities.

## CALIFORNIA ENERGY COMMISSION

- **ERPA.** The May Revision proposes to raise the statutory cap on the Energy Resources Program Account (ERPA) surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity ratepayers. This increase will generate approximately $3 million in additional revenues in 2023-24, and approximately $6 million annually thereafter to offset recent revenue decreases.

- **Load Management Standards.** The May Revision includes $373,000 and 2 positions in 2023-24 and ongoing to implement new energy load management standards adopted by the California Energy Commission.

- **Energy Program Reappropriations.** The Governor requests several reappropriations to address delays resulting from COVID-19 and project completion timelines.

- **Commissioner Pay Parity.** The May Revision includes trailer bill language to amend GC 11553.5 to provide a commensurate increase in CEC Commissioner salaries of 5 percent per year for the next three fiscal years. Currently, commissioner salaries are capped under state law.

## OFFICE OF ENERGY INFRASTRUCTURE SAFETY

- **Human Resources and Procurement Services.** The May Revision includes $1,205,000 ($928,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and $277,000 from the Safe Energy Infrastructure and Excavation Fund (SEIEF)) in 2023-24 and $420,000 ongoing ($323,000 from PUCURA and $97,000 from SEIEF) as well as eight permanent positions to transition its human resources and procurement services in-house.

## CALIFORNIA AIR RESOURCES BOARD

- **Technical Adjustment: Reappropriation for the Statewide Mobile Air Monitoring Initiative.** The Governor requests a technical adjustment to reappropriate $27 million Greenhouse Gas Reduction Funds (GGRF) appropriation for the Statewide Mobile Air Monitoring Initiative.

## CALIFORNIA PUBLIC UTILITIES COMMISSION

- **California LifeLine Program.** The May Revision provides an update to the Universal LifeLine Telephone Service Program (California LifeLine Program)—reducing the state operations cost estimate by $3,330,000 in 2023-24 and ongoing to reflect reductions in consulting costs and increasing the local assistance cost estimate by $65,478,000 in 2023-24 and ongoing to reflect publishing costs resulting from increased auto-renewals and new caseload projections.

- **Digital Divide Grant Program.** The May Revision provides $1 million in 2023-24 and $200,000 in 2024-25 and ongoing to implement the Digital Divide Grant Program per Public Utilities Code 280.5. This program will distribute competitive awards for the purpose of funding community technology programs in low-income school districts in rural and urban communities.

- **Modifications to User Fee Statutes.** The May Revision proposes trailer bill language to modify PUC 285, 432, and 433 to clarify that VoIP telecommunication carriers must continue to remit a CPUC user fee but removes the existing statutory prescription that these be based on intrastate revenues.

# RESOURCES

## VARIOUS DEPARTMENTS

- **Shift to Future Climate Bond.** The May Revision includes an additional $1.1 billion in General Fund reductions across several climate resilience programs. The May Revision proposes to backfill these reductions with funding in a future climate bond proposal, including the following:

    - $270 million Water Recycling
    - $169 million Salton Sea Restoration
    - $160 million Community Resilience Centers
    - $100 million Transformative Climate Communities
    - $100 million Regional Resilience Program
    - $100 million Urban Greening
    - $86.6 million Statewide Parks Program
    - $60 million Sustainable Groundwater Management Act Implementation
    - $50 million Dam Safety and Flood Management
    - $20 million Multi-Benefit Land Repurposing

    **LAO Comments on the Climate Bond.**

    ***LAO Bottom Line: Given the uncertainty about whether a new climate bond ultimately will be approved by the Legislature and by voters, LAO recommends the Legislature identify its highest priority programs from the recent budget agreements and sustain funding for them from available General Fund—not shift them to a bond. It then could consider the benefits and trade-offs of pursuing a bond to support some remaining programs that the budget framework may not be able to accommodate.***

    ***Proposal:*** The Governor's May Revision proposes to reduce General Fund spending by a total of $1.1 billion across ten programs and instead potentially fund these from a possible climate bond to be negotiated with the Legislature and put on the ballot for voter approval.

    ***Governor Does Not Have Formal, Fully Developed Bond Proposal.*** While a bond could have some benefits—as discussed below—the Governor's proposal is not yet well defined, and seems to be focused primarily on achieving budget solutions. The Governor has stated a desire to work with the Legislature on formulating the bond, and as such has not put forth details about the total bond amount, timing, or which other programs might be included. This offers opportunities for the Legislature to help craft the potential measure, including potentially incorporating components of current legislative proposals working their way through the policy process. However, this approach also makes it hard for the Legislature to weigh the overall merits and tradeoffs of the Governor's proposal—including potential out-year General Fund debt service implications—since it is not yet fully formed. Moreover, discussions about a potential bond likely would proceed beyond the budget negotiation time line, meaning the Legislature will have to decide which programs to fund—and not fund—with General Fund before final decisions about a bond are clear.

***No Guarantees That Bond Will Be Approved and Programs Funded.*** Because uncertainty exists around (1) whether the Legislature will successfully vote to place a bond on the ballot and (2) whether voters will approve the bond, similar uncertainty exists around whether any programs the Legislature might shift to a bond ultimately will receive funding as it originally intended. Even if the bond is successful, programs would not receive funding as soon as they would if they were allocated General Fund in the annual budget as originally intended. Given this uncertainty, the Legislature should probably be prepared to consider any amounts shifted to a bond as potential reductions.

***Recommend Targeting Highest-Priority Programs for Available General Fund.*** Given the uncertainty around whether programs shifted to a bond ultimately will receive funding, as well as the delays in when such funding might become available, LAO recommends the Legislature be deliberate about which programs it identifies for bonds as compared to General Fund. Specifically, LAO recommends the Legislature begin by identifying how much General Fund it can continue spending for climate programs in the budget window—based on its overall budget framework—and then target that funding for the programs that are its highest priorities to ensure they are maintained. (For context, the Governor proposes retaining roughly $27 billion in one-time General Fund spending for climate and natural resources programs across the five-year period between 2020-21 and 2025-26. Given LAO's lower revenue forecast, LAO recommends the Legislature identify additional solutions and spend less than the Governor.) The Legislature then can have a subsequent conversation about whether it wants to pursue a bond, and which remaining programs and activities it might want to add to that bond, based on the key considerations LAO discusses next.

***Key Considerations for a Climate Bond.*** If the Legislature wants to consider pursuing a climate bond, LAO recommends it take the following key questions into account:

- ***What Are the Benefits and Trade-Offs of a Bond?*** As it considers whether to pursue a bond to fund climate programs, the Legislature will want to consider the associated benefits and trade-offs. A bond would allow the state to finance and undertake additional projects, even in the context of the current budget deficit when available funding to pay the up-front costs is more limited. This approach would enable the state to undertake the projects soon but spread the costs over multiple years, having significantly less near-term impact on the state budget. However, bond financing requires the state to pay interest on the amount that it borrows, increasing the overall costs of the projects and committing the state to long-term debt service payments. Moreover, not all types of expenditures are appropriate to be funded with bonds—as LAO discusses below—so bonds offer less flexibility to support the range of activities the Legislature has sought to fund in recent years, as compared to the General Fund.

- ***How Urgently is a Bond Needed?*** The state has made large investments in climate programs in recent years (for which most funding was and is proposed to be sustained), and the federal government is also in the process of providing significant levels of additional support for many of these categories of expenditures. As such, the Legislature will want to consider the urgency of the need for additional large investments through a bond within the next few years. In weighing this consideration, it also will want to assess departments' administrative capacity and the levels of unmet need for additional funding. Specifically, the Legislature will want to consider whether it wants to put a bond before the voters in 2024, in 2026, or perhaps wait for a subsequent year.

- *How Should a Bond be Sized?* In determining the size of the bond for which it might seek voter approval, the Legislature will want to balance the need for funding for climate programs against the ongoing General Fund obligation to which the state commits when approving a general obligation bond. This is especially important given that both LAO and the Governor project state budget deficits for the next few years. At the present time, higher interest rates have raised the costs associated with borrowing.

- ***What Programs Should be Included?*** The Legislature will want to think carefully about which programs to include in a bond. Existing statute defines which types of activities are suitable for general obligation bonds—generally focused on constructing (or providing grants to construct) one-time capital projects with long lifespans matching or approximating the duration of the bond. While the programs the Governor proposes shifting to a bond generally meet these criteria, the Administration has not provided a compelling policy rationale for the programs it included in its proposal as compared to others it did not. Besides the ten programs the Governor selected, many additions or alternatives also could be funded through a bond, including (1) programs for which the Governor proposes maintaining General Fund, (2) programs for which the Governor proposes to reduce or eliminate funding, and (3) programs that were not part of the recent climate budget packages. Given all the trade-offs associated with a bond—including increased borrowing costs—the Legislature will want to be selective and prioritize programs it feels meet important unmet needs.

- ***What Are the Legislature's Other Priorities for Bonds?*** The Legislature currently is debating other bond proposals for potential inclusion on a future ballot, including for mental health services and for school facilities. The viability of a climate bond proposal for success within the Legislature and with voters, as well as the implications for the state's future debt service obligations, likely will be affected by decisions around these other proposals.

- **Climate Resilience Investments Maintained.** The May Revision maintains climate resilience investments over multiple years (when including the proposed climate bond above), as follows:

  - $2.7 billion (98 percent) Wildfire and forest resilience
  - $1.4 billion (89 percent) Nature-based solutions
  - $444 million (68 percent) Extreme heat
  - $1.6 billion (85 percent) Community resilience
  - $734 million (57 percent) Coastal resilience
  - $1 billion (89 percent) Climate smart agriculture
  - $443 million (93 percent) Circula economy
  - $8.5 billion (97 percent) Water (drought and flood)

- **Flood-Related Increases.** The May Revision proposes $290 million one-time General Fund for statewide flood response and support as follows:

  - $125 million as a flood contingency set-aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms, the resulting snowmelt, and other flooding risks.

  - $75 million to support local flood control projects such as the Pajaro River Flood Risk Management Project.

- $25 million to expand the scope of the California Small Agricultural Business Drought Relief Grant Program.

- $25 million set-aside in the current year in anticipation of potential disaster relief and response costs associated with recent storms and future flooding.

- $40 million for San Joaquin Floodplain Restoration, which restores the current year General Fund reduction proposed in the Governor's Budget.

- **Flood Trailer Bill Language.** The Administration proposes legislation to codify provisions from recent executive orders that allow for diversion of flood flows for groundwater recharge purposes, subject to restrictions to protect water quality, infrastructure, and wildlife habitats. The proposal would set conditions for diverting floodwaters without permits or affecting water rights. The proposed legislation would also extend specified streamlining efforts related to water conservation to the Colorado River basin.

**DEPARTMENT OF WATER RESOURCES**

- **Water-Related Reductions.** The May Revision proposes the following one-time General Fund water-related reductions due to the significant improvement in statewide water conditions based on recent winter storms:

  - $125 million that was proposed as a 2023 drought contingency set-aside in the Governor's Budget.

  - $24.5 million for Delta salinity barriers because the department no longer anticipates needing to install salinity barriers.

  - $25 million for the Agriculture and Delta Drought Response Program (LandFlex). The 2022 Budget Act included $50 million for the program and DWR awarded $25 million in the first round of grants.

**DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CalFire)**

- **Wildfire Suppression.** The May Revision proposes $117.3 million General Fund and 503.5 positions one-term and reimbursements be increased by $1.3 million one-time, among other increases, to support augmented fire protection resources during 2023-24. This funding is intended to provide a flexible resource pool of 432 additional seasonal fire fighters, six additional fire fighter hand crews, support for Military Department hand crews, and contract county proportional funding.

**DEPARTMENT OF PARKS AND RECREATION (PARKS)**

- **Fiscal Stability for Boating Programs.** The May Revision proposes to increase the biennial registration tax on recreational vessels from $10 to $40 per year (from $20 to $80 biennially) beginning 2024 and re-evaluating vessel registration fees every four years thereafter. (The vessel fee registration fee was $5 until 2005 when it was raised to its current level of $10 per year.) The May Revision proposes to further align revenues and expenditures by removing annual baseline funding for Boat Launching Facility (BLF) grants ($6 million) and instead proposing projects through the annual budget process, and reducing support allocations for the Aquatic Invasive

Species Program by $5.3 million. These changes are intended to provide long-term structural stability for the Harbors and Watercraft Revolving Fund.

## ENVIRONMENTAL PROTECTION

### STATE WATER RESOURCES CONTROL BOARD (SWRCB)

- **Sustainable Groundwater Management Act (SGMA).** The May Revision includes $4.8 million General Fund and 19 positions in 2023-24 and 2024-25 to support the next phase of SWRCB's implementation of SGMA. These resources will support SWRCB's intervention efforts in six groundwater basins where DWR determined local groundwater sustainability plans are inadequate.

### DEPARTMENT OF PESTICIDE REGULATION (DPR)

- **Improve and Streamline Processes.** The May Revision includes $1.9 million DPR Fund and $1.4 million ongoing to improve and streamline DPR's registration and reevaluation processes, identify alternatives to high-risk fumigants, and lead collaborations with stakeholders and agency partners to support implementation of sustainable pest management in agricultural, urban, and wildland settings.

### DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

- **Exide.** The May Revision includes $67.3 million Lead-Acid Battery Cleanup Fund over two years ($40.4 million in 2023-24 and $26.9 million in 2024-25) to clean up 6,425 parkways surrounding the former Exide Technologies facility identified with high levels of lead and/or other metals.

- **Generation and Handling Fee.** The May Revision includes $1.2 million and five new permanent positions to support workload and contract costs to support an in-depth analysis of the current shortfall in Generation and Handling Fee revenues, as well as to increase various fee administration activities to better ensure that generators are paying the amounts owed. The May Revision also includes a loan from the Beverage Container Recycling Fund to address a shortfall in revenue deposited into the Hazardous Waste Control Account, as noted below.

### DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CalRecycle)

- **Beverage Container Recycling Fund (BCRF) Loans.** The May Revision includes two budgetary loans from BCRF, as follows:

    - $100 million to the General Fund to assist in closing the projected budget shortfall.

    - $40 million to the Hazardous Control Waste Account (HWCA) to address a shortfall of fee revenue deposited in HWCA. DTSC will first seek to address this shortfall with a $15 million loan from its Toxic Substances Control Account. These loans are anticipated to repaid over a three-year period and may be repaid sooner based on programmatic needs.

# AGRICULTURE

## CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

- **Blythe Border Protection Station Relocation Project.** The May Revision includes $2,759,000 from the General Fund to begin the Working Drawings phase for the Blythe Border Protection Station Relocation Project, located in Riverside County.

- **Reappropriation and Extension of Climate Smart Agriculture Programs.** The Governor requests expenditure/encumbrance and liquidation deadline extensions for CDFA's Climate Smart Agriculture (CSA) grant programs.

- **Sustainable Agriculture Package.** The May Revision proposes to maintain $1 billion for the sustainable agriculture package, which is the same level of funding that was proposed in January.

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Tuesday, May 23, 2023**
**9:00 a.m.**
**1021 O Street - Room 2200**

Consultants: Eunice Roh and Joanne Roy

**Item** **Department** **Page**

# DISCUSSION



*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# DISCUSSION

## 0509 Governor's Office of Business and Economic Development
## 3360 Energy Resources Conservation and Development Commission
## 3860 Department of Water Resources
## 3900 State Air Resources Board
## 8660 Public Utilities Commission

### Issue 1: Clean Energy Reliability Investment Plan (CERIP)

**Background.** Chapter 239, Statutes of 2022 (SB 846 Dodd) directs the California Energy Commission (CEC), in consultation with the California Public Utilities Commission (CPUC) and the California Air Resources Board (CARB), to develop a plan to invest in "programs and projects that would accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability." Specifically, SB 846 provides $1 billion for clean energy investments over multiple years--$100 million in 2023-24, $400 million in 2024-25, and $500 million in 2025-26.

The CEC developed the proposed funding priorities in the CERIP through extensive analysis of the state's reliability situation in the near- and mid-term, taking into account the need to provide ratepayer benefits and scale the deployment of clean energy resources. A synthesis of the reliability analysis was provided to the Legislature, pursuant to the SB 846 requirement for a Joint Agency Reliability Planning Assessment, on February 9, 2023. The report notes that near- and mid-term reliability will meet planning standards, if the state can sustain record setting build out of clean energy resources to meet procurement requirements set by CPUC. However, there is the potential for shortfalls in the near- and mid-term if the state cannot bring resources on fast enough and experiences heat events like the state experienced in 2020 and 2022 or wildfire impacting transmission, like in 2021.

In CERIP, the CEC identified initiatives that support grid reliability, while also supporting ratepayer affordability, with a greater emphasis on scaling demand-side clean energy solutions. The CERIP also augments resources to support net peak reliability and potential extreme events that threaten grid reliability. The CERIP went through a public review process, was adopted by the CEC at the February 28, 2023 business meeting and was submitted to the Legislature on March 1, 2023.

**Governor's Proposal.** The May Revision includes the following for CERIP:

| Funding Priority | Proposed Funding 23/24 | Proposed Funding 24/25 | Proposed Funding 25/26 | Proposed Funding Total |
|---|---|---|---|---|
| **Planning and Enabling Structures to Support Clean Energy Deployment** | $57 | $5 | $5 | $67 |
| **Central Procurement Function (CPF):** Support for DWR to stand up the CPF | $32 | $0 | $0 | $32 |
| **Permitting/Interconnection:** Address barriers throughout the energy resource development process, including permitting and interconnection delays, for local agencies, and other appropriate entities at the Governor's Office of Business and Economic Development. | $15 | $0 | $5 | $20 |
| **CBO Support:** Improve processes and provide resources that support engagement and technical assistance for communities of concern. | $8 | $5 | $0 | $13 |
| **Transmission:** Support critical planning studies, such as Transmission Corridor Planning, and implementing recommendations in the permitting roadmap for offshore wind resources. | $2 | $0 | $0 | $2 |
| **Scaling Demand-Side Resources** | $0 | $175 | $270 | $445 |
| **Distributed and Customer-Side Solutions:** Initiatives that scale clean energy resources that are available across the state (clean distributed generation, energy storage, energy efficiency and/or demand response/demand flexibility technologies) and advance affordability and resilience, as well as reliability. | $0 | $175 | $270 | $445 |
| **Scaling Supply-Side Resources** | $0 | $150 | $150 | $300 |
| **Scaling Supply-Side Technologies:** Expanding clean energy generation options by helping scale commercial-ready technologies, including geothermal, and offshore wind. These classes of technologies may benefit from investments that can scale them and overcome initial high costs. | $0 | $50 | $100 | $150 |
| **Cost-Share Innovation Grants:** Providing cost share for projects that are needed for electric service reliability and the clean energy transition (including transmission). These cost-share investments could match federal funds and/or ratepayer funds that are going towards critical statewide resources and unlock projects that otherwise would not be deployed. | $0 | $50 | $50 | $100 |
| **Long-Duration Energy Storage:** Augmenting existing program to further expand the diversity of long-duration energy storage technologies, particularly non-lithium ion, that can provide extended reliability support at the net peak. | $0 | $50 | $0 | $50 |
| **Augmenting for Extreme Events** | $33 | $50 | $65.4 | $148.4 |
| **DSGS:** Demand Side Grid Support (DSGS) Program to create long-term extreme event load reduction, including to add Ag/Water industries | $20 | $30 | $45.4 | $95.4 |
| **DEBA**: Distributed Electricity Backup Assets Program (DEBA) under the SRR | $13 | $20 | $20 | $53 |
| **Administration** | $10 | $20 | $9.6 | $39.6M |
| **Total** | $100 | $400 | $500 | $1,000 |

The focus of the first year of funding in 2023-24 is to improve planning and enabling structures that can support greater clean energy deployment in years two and three of funding, 2024-25 and 2025-26 respectively. The first year also augments the state's grid reliability during extreme events. Because the largest funding allocations in SB 846 are in 2024-25 and 2025-26, the CEC has proposed those years to implement initiatives that can scale both demand-side and supply-side resources, with a greater emphasis on demand-sides resources.

The CEC proposes that funding in future years will fund initiatives in each of the funding priority categories, but in different proportions. The CEC proposes continued funding for enabling investments, but at a lower level than in the first year, to focus less on planning activities in future years and more on scaling of resources. The CEC proposes continued support to augment resources for extreme events, with a slightly increased but level funding in years two and three to bring on additional sectors that can support grid reliability during extreme events.

**Planning and Enabling Structures to Support Clean Energy Deployment.** There are certain activities that do not directly reduce demand or generate electricity directly but are critical to set a path more effectively to achieving greater load reduction and generation. These activities include improving planning processes and supporting the development of new or improving existing institutional structures that enable resources to support grid reliability. The CEC has identified four focus areas for CERIP funding for enabling investments. Two of these will improve planning processes and two will support institutional structure development/improvement. Funding for this priority area is primarily in the first year with a total of $57M in year one and $5M each for years two and three:

- Stand up Department of Water Resources (DWR) Central Procurement Function (CPF): Proposed funding of $32M in 2023-24 to support staffing necessary to establish the CPF program within DWR. This funding would not be used to fund procurement of energy resources. All long-term support for the CPF would be through cost recovery from a nonbypassable charge approved by the CPUC. DWR's CPF program will enable the state to procure and catalyze the development of long-lead time, large, and diverse clean resources (e.g., geothermal, offshore wind, long duration energy storage, etc.). These energy resources require years of planning and strategic financing mechanisms to develop and support long-term energy reliability and greenhouse gas reduction. DWR will administer the CPF program under the Statewide Water and Energy Electricity Supply and Strategic Reserve Office. If designated by the CPUC to implement the CPF program, DWR will coordinate with the CPUC and consult with others in implementing its critical processes of the new program, establishing and implementing internal policies and operations, researching technical requirements of diverse clean energy resources under the CPUC's consideration, and other start-up functions to establish the CPF program. If DWR is not selected to perform the CPF, any funds from the requested $32M will be returned to the CERIP after incurred costs to support the Scaling Supply-Side Technologies effort.
- Permitting: GO-Biz Office of Permit Assistance will utilize proposed funding of $15 million in 2023-24 and $5 million in 2025-26 to establish best practices and produce documentation to increase transparency and alignment of local jurisdiction permitting processes to significantly reduce barriers for deployment of energy projects, inclusive of crossjurisdictional transmission projects. GO-Biz will establish parameters for determining local jurisdictional readiness, using prior implementations like Plug-In Electric Vehicle Charging Station Readiness and the Broadband for All Permitting Playbook for Local Jurisdictions. The program will provide technical assistance and direct engagement to increase transparency and alignment of process to ensure readiness standards are consistent. Performance based awards on concentrations of project and time to implementation will be delivered to audited and certified local jurisdictions.
- Community Engagement: Proposed funding would be $8M for 2023-24 and an additional $5M in 2024-25. As noted previously, the state has appropriately shifted to a greater focus on supporting justice communities in the clean energy transition. The state would benefit from greater support from community-based organizations to inform program development. Resources to reimburse community-based organizations for their involvement in CEC planning activities

will help to provide additional, valuable community feedback to improve planning, identify project types that could benefit communities, and help inform permitting and development of clean energy resources. Funding is this area would be administered by the CEC and would be provided as grants to communitybased organizations for working with the CEC to identify critical community needs and to shape clean energy programs, with an emphasis on the demand-side programs.

- Transmission Planning: Proposed funding would be $2M for 2023-24 only. Stakeholders have identified the need for more transmission to support the necessary growth in clean energy resources. The state would benefit from investing in additional planning for transmission. The typically long development cycle associated with transmission development makes this a prime area to focus on in the near term. Studies that evaluate different potential transmission corridors can advance the planning process. Relatively small investments in this space could be critical to inform transmission development. Funding in this area would be for technical support for transmission studies.

Scaling Demand-side Clean Energy Resources

The CEC proposes $175M in 2024-25 and $270M in 2025-26 to develop a new program of initiatives, in close collaboration with the CPUC, to support distributed and customer-side solutions that scale clean energy resources that are available across the state (clean distributed generation, energy storage, energy efficiency and/or demand response/demand flexibility technologies) and advance affordability and resilience, as well as reliability. These customer side applications will accelerate net peak load reduction and demand flexibility through investments, designed for a range of customers, including residential housing; tribes seeking to reduce utility bills and improve resiliency; agricultural customers with large pumping loads, commercial and industrial customers; state agencies and facilities; and local governments. Funding will be used to expand the deployment of a diverse suite of clean distributed generation and energy storage technologies coupled with load management and demand reduction technologies. Priority would be given to projects that improve customer and grid reliability, lead to ratepayer cost savings, and assist with customer energization. Solutions may also include panel upgrades and infrastructure that support all electric building projects, light-, medium-, and/or heavy-duty electric vehicle electric charging equipment, and grid integration controls. Funding would be targeted to projects that avoid the need for electric distribution system capacity upgrades in the near- and mid-term or would provide a more cost-effective method for addressing new or expanded customer load (i.e., non-wire alternative). Program funding could also be used to cover costs for traditional electric distribution system capacity expansions, extensions, and upgrades, if necessary, for a particular project. The CEC would work closely with CPUC, the electric investor-owned utilities (IOUs) and POUs to determine optimal locations for these types of projects, identifying when a project would lead to “electric distribution deferrals” or necessary electric distribution upgrades. CEC will work with CPUC during the first year of CERIP to create program structure and funding opportunities. This approach will ensure that the initiatives can be implemented quickly in years two and three to realize ratepayer benefits in the near term while supporting grid reliability in the near- and mid-term. These initiatives also support the loading order and the state’s clean energy deployment and greenhouse gas reduction goals.

Scaling Supply-side Clean Energy Resources

The CEC proposes a total of $300M ($150M each year for 2024-25 and 2025-26) that can support greater scaling of supply-side resources in a way that does not compete with but is complementary to existing supply-side resource build out. Funds would be allocated through three programs: a supply side investment program, enhancing the CEC’s LDES program and a supply-side innovation grant program.

• Scaling Supply-side Technologies: Proposed funding would be $50M for 2024-25 and expanding to $100M in 2025-26. Resources would help expanding clean energy generation options by helping to scale commercially ready technologies through cost-share in coordination with the Central Procurement Function contemplated by the CPUC. The state needs to diversify the suite of clean energy options, in part to hedge against the supply chain and permitting issues associated with solar and storage. Many newer technologies, including those that have been under development over recent years – and even funded in part by CEC Electric Program Investment Charge program grants – are just now becoming commercially viable. These new classes of technologies will benefit from investments that can move them from demonstrations to large-scale deployments. Other more established technologies, such as geothermal, or offshore wind may have new opportunities for deployment, especially when combined with additional investment to push them towards economic feasibility. These larger, long-lead time resources would be addressed through the Central Procurement Function. Investments for supply-side resources can help to bring the overall project costs down, enabling a more affordable resource for ratepayers.

• Cost-Share Innovation Grants: Proposed funding would be $50M each for 2024-25 and 2025- 26. Resources would be invested to expand clean energy generation options by helping scale promising commercially ready technologies. This initiative could fund strategies not previously deployed but that appear to have the potential to unlock greater supply-side value. This initiative would solicit new strategies for deploying clean energy technologies. Grants would fund projects that are a combination of new approaches and either newly commercial or commercially ready technologies. This funding would be available to be leveraged for federal cost share opportunities.

• Long Duration Energy Storage: Proposed funding would be $50M for 2024-25 only. Resources would be allocated to augment the CEC’s Long Duration Energy Storage (LDES) program to further expand the diversity of LDES technologies, particularly non-lithium ion, that can provide extended reliability support at the net peak.

Augmenting for Extreme Events

Proposed funding would augment the DSGS program by $20M in 2023-24, $30M in 2024-25, and $45.4 million in 2025-26. The DEBA program is proposed to be augmented by $13M in 2023-24 and $20M each in 2024-25 and 2025-26. The DSGS and DEBA programs were initially authorized under Chapter 61, Statutes of 2022 (AB 205). After the adoption of AB 205, the Legislature approved Chapter 251, Statutes of 2022 (AB 209) – which established a legislative mandate for DSGS to expand into CPUC jurisdictions without appropriate corresponding funding. Additional funding for DSGS will enable the program to better expand into CPUC jurisdiction territories and provide stability – or reduce risks – for participants to rely on the program. Given the inherent uncertainty of extreme heat events – and feedback from stakeholders and participants questioning the stability of the fund -- this additional funding is essential for the success of the program and to ensure confidence in participants. Additional funding for DEBA will enable the expansion of clean energy technology deployment to support the net peak.

Administration

Administrative funding will provide the CEC the ability to increase staff and secure technical support to implement CERIP priority initiatives that fall under its purview. Proposed funding of $10M in the first year will be focused on administering the first-year funds and a larger focus on developing the detailed demand-side and supply-side clean energy resource initiatives. Proposed funding of $29.6M across 2024-25 and 2025-26 will be for managing the initiatives formed in the first year. The demand-side and supply-side initiatives will be shaped through a public process of workshops to scope initiatives and develop grant funding opportunities and guidelines.

**Staff Recommendation.** Hold Open.

# 0540 Ocean Protection Council (OPC)
# 3360 Energy Resources Conservation and Development Commission (California Energy Commission or CEC)
# 3560 State Lands Commission (SLC)
# 3600 California Department of Fish and Wildlife (CDFW)
# 3720 California Coastal Commission

## Issue 2: Oversight: Offshore Wind Energy (OWE): Resources-Related Roles and Responsibilities

**Background.** ***Offshore Wind Energy (OWE): Basics.*** All wind turbines operate in the same basic manner. As the wind blows, it flows over the airfoil-shaped blades of wind turbines, causing the turbine blades to spin. The blades are connected to a drive shaft that turns an electric generator to produce electricity. The newest wind turbines are technologically advanced and include engineering and mechanical innovations to help maximize efficiency and increase the production of electricity.

Offshore wind is a domestic energy resource that is located close to major coastal load centers. It provides an alternative to long-distance transmission or development of electricity generation on land-constrained regions. Offshore winds tend to blow harder and more uniformly than on land. Since the higher wind speeds can produce significantly more energy/electricity, developers are increasingly interested in pursing OWE resources.

OWE facility design and engineering depends on site-specific conditions, particularly water depth, seabed geology, and wave loading.

***OWE: Potential Environmental Impacts.*** California is home to one of the most diverse coastal and ocean ecosystems in the world, with over 1,100 miles of coastline; and the protection of coastal and ocean resources remains an important value for the state as a steward of them.

According to NOAA, scientists around the world are still investigating the potential impacts of OWE development on marine life. Site assessment, construction, and operations could interact with marine life on the seabed, in the water, and at the surface. For example, OWE projects could:

- Increase ocean noise, which could affect the behaviors of fish, whales, and other species.
- Introduce electro-magnetic fields that impact navigation, predator detection, communication, and the ability for fish and shellfish to find mates.
- Change existing habitats by altering local and regional hydrodynamics.
- Create a "reef effect" where marine life cluster around the hard surfaces of wind developments.
- Impact organism life cycle stages, including larval dispersal and spawning.
- Change species composition, abundance, distribution, and survival rates.
- Increase vessel traffic, which could lead to more vessel strikes.
- Release contaminants that can be consumed or absorbed by marine life.

Offshore wind is a new use of marine waters, requiring substantial scientific exploration, regulatory review, and monitoring. It is critical to ensure that the planning, siting, and development of new projects to do not harm fisheries, fishing communities, aquatic wildlife such as marine mammals, endangered species, ecosystems, and critical habitat. Also, it is necessary to ensure that new projects are compatible with other ocean uses, including commercial, recreational, and tribal fishing.

***Monitoring, Mitigation, and Adaptive Management.*** There have been efforts made to assess/begin to assess the potential impacts of large-scale wind turbine installations off the shore of California to birds, fish, and other wildlife. While progress has been made, it is difficult to collect data for extended periods in the open ocean; and conditions offshore may be more variable due to climate change. In view of this, it is likely that only with the installation of the actual turbines and associated facilities offshore will the impacts become evident. Therefore, monitoring for impacts to wildlife should be an ongoing obligation of the installations and operation of any offshore wind facility.

*Advancing Environmental Monitoring Technologies for Floating Offshore Wind.* In August 2022, CEC released a competitive solicitation to fund projects that advance environmental monitoring technologies to support efforts by floating offshore wind operators, state agencies, and other relevant entities to better evaluate biological and ecological implications of floating offshore wind deployments. The CEC received eight proposals by October 2022.

In February 2023, CEC announced that there would be three awardees with a total of $8.9 million (Electric Program Investment Charge Interim Plan ($7.7 million) and the Electric Program Investment Charge 4 Program ($1.2 million)) to fund their projects. The three awardees are as follows:

1) $3.5 million to Lawrence Berkeley National Laboratory: Integrated Monitoring of Cetacean and Ocean Environmental Impacts from Floating Offshore Wind Development on the Pacific Coast.

2) $3.4 million to Integral Consulting, Inc.: Integrated, Real-Time, Multi-Scale System for Monitoring Seabird Interactions with Floating Offshore Wind Technologies.

3) $2 million to Schafer Energy Research Center – Humboldt State University Sponsored Programs Foundation: Integrated Monitoring and Mitigation Approach to Reduce Entanglement Hazards for Floating Offshore Wind Developments.

Funding of proposed projects from this solicitation is contingent upon the approval of these projects at a publicly noticed CEC business meeting and execution of a grant agreement.

***Fishing Community Impacts.*** There will be a need to make OWE compatible with fishing, aquaculture, and other ocean uses. The construction and operation of wind turbines could impact commercial, recreational, and tribal fishing in a variety of ways, including:

- Displacing fishermen from traditional fishing areas
- Changing the distribution, abundance, and species composition of fish in an area
- Causing economic losses
- Increasing vessel traffic and competition for support services on shore
- Disrupting vessel radar systems
- Damaging or destroying fishing gear
- Reducing safety at sea from increased vessel traffic and navigation challenges.

In particular, fishermen using trawl, dredge, and other mobile gear may have to significantly change their operations to avoid interacting with turbines and underwater cables. Longline, gillnet, and fixed gear fisheries could also be displaced by OWE projects or affected by ecosystem and navigation changes triggered by the operations.

***Existing Offshore Wind Turbine Projects.*** As of 2020, there were 35.5 gigawatts (GW) of offshore wind power installed globally. Most of this development is for turbines anchored to the sea bed through a solid foundation. For deeper depths — beyond 165 feet or so — floating turbines are feasible. In these instances, the turbines are anchored to the sea bed via cables.

The vast majority of OWE development so far has occurred in the Atlantic Outer Continental Shelf. However, new OWE areas are being proposed along the East Coast, in the Gulf of Mexico, and in the Pacific waters. The White House has set a goal of significantly increasing the nation's OWE capacity to 30 gigawatts by 2030.

There are at least two European projects utilizing floating offshore wind turbines — one of which is the 6 megawatt (MW) turbines used in the Hywind Scotland project off the coast of Scotland that have rotor diameters on the order of 154 meters (about 1.4 football fields in length including end zones).

***California and OWE.*** Northwesterly winds drive the upwelling of deeper, cool nutrient-rich waters that sustains a thriving ecosystem. The development of large-scale OWE projects has the potential to reduce the wind stress at the sea surface, which could have local and/or regional implications on California wind-driven upwelling, nutrient delivery, and ecosystem dynamics.

In August 2022, the State Energy Resources Conservation and Development Commission (California Energy Commission or CEC) released ambitious targets for OWE generation off the coast of California. These include a goal of 5 GW installed by 2030 and 25 GW by 2045. For context, 1 GW is estimated to be sufficient to provide electricity to 700,000 – 750,000 residences. OWE generation is projected to be an important component of the state's efforts to decarbonize energy generation and to achieve carbon neutrality by 2045. The US National Renewable Energy Laboratory has estimated that the state has the technical potential for 200 GW of offshore wind generation.

Due to the water depth in areas with high ambient winds, much of the OWE projects serving California are likely to be composed of very large floating wind turbines anchored to the sea floor in federal waters (3-200 miles) offshore. A Siemens 10 MW turbine has a rotor diameter of 193 meters (about 1.75 football fields), and the Coastal Commission estimates that a 15 MW turbine would have a maximum height at blade tip of about 889 feet and a rotor length of about 807 feet. These turbines would have to have about one mile distance between them in all directions for operation. These projects will include components in state waters, such as cables transporting the energy onshore, vessels transiting state waters to serve the projects, and docking and support facilities onshore. The cables located on the California sea floor will require right-of-way leases from the state.

***OWE Leases Off the Coast of California.*** In December 2022, the federal agency with leasing authority — the Bureau of Ocean Energy Management (BOEM) — held a wind energy auction for five leases off the coast of California. This was the first federal OWE leases in the Pacific. The leases sold for $757.1 million and covered 373,268 acres located approximately 20 miles offshore of central (San Luis Obispo County) and northern (Humboldt County) California. These lease areas have the potential to generate up to 4.6 GW of OWE.

The Coastal Commission found in its federal consistency determination for both leases that the proposed activities have the potential for adverse impacts to marine resources, commercial and recreational fishing, environmental justice communities, and tribal cultural resources, among other things. Examples of these adverse impacts include sea floor habitat disturbance, elevated levels of underwater sound, marine species displacement, invasive species, and an increased risk of vessel strikes to marine mammals. In view of these findings, the Coastal Commission made its concurrence contingent upon seven conditions:

- Plan review and coordination between BOEM, the Coastal Commission, lessees, and other state agencies to include communication, and taking marine wildlife protection and monitoring measures, among other things.
- No bottom contact for sensitive areas of the sea floor such as deep-sea coral/sponge habitat.
- Minimizing the risk of vessel strikes by reducing vessel speed.
- Safe navigation.
- Engagement with environmental justice and local communities.
- Engagement with California Native American Tribes.
- Impacts to fishing and fishing communities.

On the last point, BOEM is required to have lessees have an independent fisheries liaison for coordination and communication of site activities affecting commercial and recreational fishing communities and harbor districts, and to coordinate activities and develop a process for requiring and remediating conflicts. Lessees are required to report on process, outreach, and outcomes of engagement with fishing communities and harbor districts.

BOEM is also required to work with the Coastal Commission, the lessee, and other regulators to develop and facilitate a working group consisting of fishing organizations and representatives of different regions/ports representing different fisheries in both the commercial and recreational sectors. This working group will develop a statewide strategy for avoidance, minimization, and mitigation of impacts to fishing and fisheries that prioritizes fisheries productivity, viability, and long-term resilience. The statewide strategy should include protocols for communication, best practices for survey and data collection, a methodology for a comprehensive socioeconomic analysis of direct and indirect impacts to fishing, a framework for compensatory mitigation for unavoidable impacts, and a fishing agreement template that memorializes the elements of the statewide strategy. The strategy should include specific consideration for those fisheries that are disproportionately and/or directly affected by offshore wind development.

***AB 525 (Chiu).*** Among the several mandates, AB 525 (Chiu), Chapter 231, Statutes of 2021, required CEC, to develop and produce a coordinated, comprehensive, and efficient permitting roadmap for OWE facilities in federal waters off the coast of California (such as the identification of sea space and planning for the improvement of waterfront facilities), and associated electricity and transmission infrastructure. The permitting roadmap must include:

- A goal for the permitting timeframe.
- Clearly defined local, state, and federal agency roles, responsibilities, and decision-making authority.

- Interfaces with federal agencies, including timing, sequence, and coordination with federal permitting agencies, and coordination between reviews under the California Environmental Quality Act (CEQA) and the federal National Environmental Policy Act (NEPA).

In December, 2022, CEC issued a draft conceptual permitting roadmap for OWE facilities originating in federal waters off the coast of California.

***Intergovernmental Renewable Energy Task Force.*** Floating OWE projects are complex and will require close coordination between BOEM, the state, and other federal and local agencies and tribal governments. To help facilitate this coordination, the Intergovernmental Renewable Energy Task Force (Task Force) was established in 2016. The Task Force, which includes representatives from federal, state, local, and federally recognized tribal governments, work together to identify opportunities for renewable energy leasing and development off the coast of California. Through coordination with the Task Force, and stakeholder outreach and engagement process, BOEM is moving forward with further environmental review for the leasing two areas mentioned above for additional evaluation of floating OWE development.

***Resources-Related Agencies Involved in OWE Development.*** Among the state agencies involved in OWE projects, several departments are within the California Natural Resources Agency, as follows:

*California Energy Commission (CEC).* CEC is engaged in a range of initiatives to better understand the opportunities and actions for deploying floating offshore wind responsibly off the coast of the state, including the creating of the California Offshore Wind Energy Gateway.

Current law requires CEC, in coordination with specified state entities and other relevant federal, state, and local agencies, to develop a strategic plan for OWE developed or installed off the California coast in federal waters, and requires CEC to submit the strategic plan to the California Natural Resources Agency and the Legislature on or before June 30, 2023.

*California Coastal Commission (CCC).* The Coastal Commission is an independent quasi-judicial state agency, and its mission statement states that it "is committed to protecting and enhancing California's coast and ocean for present and future generations." The Coastal Commission does so "through careful planning and regulation of environmentally sustainable development, rigorous use of science, strong public participation, education, and effective intergovernmental coordination."

CCC implements the California Coastal Act and the federal Coastal Zone Management Act (CZMA). The California Coastal Act requires CCC review and authorization of all development within the state's Coastal Zone. CCC's coastal zone generally extends 1,000 yards inland from the mean high tide line. In significant coastal estuarine habitat and recreational areas, it extends inland to the first major ridge line or five miles from the mean high tide line, whichever is less. For federal consistency, reviews under the CZMA, CCC reviews activities that affect the coastal zone, regardless of their location.

CCC's coastal program uses a variety of planning, permitting, and non-regulatory mechanisms to manage coastal resources. CCC implements a permitting and planning program, including issuing coastal development permits (CDPs), reviewing local governments' Local Coastal Programs (LCPs), reviewing appeals of locally permitted CDPs, and under the CZMA, federal consistency reviews of federal agency, federally permitted, and federally funded (to state and local government) activities. For the last of these (federal consistency reviews under the CZMA), the Commission's standard of review is the enforceable policies of the CCMP, found in Chapter 3 of the Coastal Act.

The CZMA gives authority to CCC to review and authorize activities in federal waters. review of federal activities or permits outside of the coastal zone, including offshore wind projects, that could have an effect on the state's coastal resources; and is the only state agency with the authority to review and authorize activities in federal waters under the federal CZMA.

CCC reviewed BOEM's potential lease sales for Humboldt County (April 2022) and San Luis Obispo County (May 2022) and concurred in the federal consistency determination with the CCMP. CCC's concurrence covers lease and lease exploration activities.

Development activities in the coastal zone generally require a costal development permit from the CCC or from a local government with a local coastal program certified by the CCC. Development is broadly defined to include, among other things, the construction of buildings, divisions of land, and activities that change the intensity of use of land or public access to coastal waters. Coastal Act policies are the standards the CCC uses to determine the permissibility of proposed development subject to its jurisdiction.

Existing Coastal Act policies specifically address industrial development in the coastal zone, and encourage their development within existing sites, as provided. Coastal Act policies authorize permitting new industrial development if certain conditions are met, such as an alternative location is not feasible or more environmentally damaging, even if other Coastal Act polices are not complied with. Existing override policies guide permitting of marine terminals for tankers, oil and gas development int eh coastal zone, including offshore oil development, new or expended refineries, and the construction of new thermal electric generating plants, among other things.

*Ocean Protection Council (OPC).* OPC advises the Governor and the Legislature on ocean and coastal issues and supports assessing the impacts of offshore wind to marine life, fisheries, tribal and cultural resources, and local economies. OPC's *Strategic Plan to Protect California's Coast and Ocean 2020-2025* includes a goal to support sustainable commercial OWE development.

*State Lands Commission (SLC).* SLC manages lands owned by the state, including navigable waterways and submerged lands up to three nautical miles offshore. SLC considers applications for leases to use state lands, such as applications for offshore wind development in state waters.

SLC is vested with jurisdiction over certain public and sovereign lands, including tidelands and submerged lands. SLC administers these lands pursuant to statue and the public trust doctrine, a common law doctrine which, among other things, provides for the protection of maritime or water-dependent commerce.

SLC is authorized to enter into leases for commercial, industrial, and recreational purposes, among other things. Each form of lease shall contain such terms and conditions as SLC deems to be in the best interests of the state.

*California Department of Fish and Wildlife (CDFW).* CDFW has jurisdiction over conservation, protection, and management of fish, wildlife, native plants, and habitats necessary for biologically sustainable populations of species. CDFW is also responsible for marine biodiversity protection in the state's coastal marine waters. The Governor's January Budget proposal for 2023-24 includes 25 permanent positions and $6.4 million for permitting energy projects, which helps prevent the mission level gaps in the most under resourced service areas identified in the Service-Based Budget Final Report from growing larger.

***2021-22 Budget Act: Clean Resilient Energy Expenditure Plan.*** As part of the Administration's Clean Resilient Energy Expenditure Plan, approximately $20 million was appropriated for an interagency approach to OWE:

- *$6.5 million to OPC, CCC, and CDFW for interagency offshore wind environmental analyses*. In March 2021, the Biden Administration announced a nationwide goals of 30 gigawatts of offshore wind by 2030. Developers hope to move though the permitting, procurement, and transmission milestones quickly enough to qualify for the Investment Tax Credit (ITC), which requires that they spend five percent of upfront project cost by December 2025. To meet the ITC deadline, environmental analyses must be prepared with BOEM, CDFW, and CCC, the latter of which cannot collect fees for this first-of-a-kind review process. The resources provided were meant to ensure that the initial environmental assessments of OWE establish a foundation for moving forwarded with OWE and protect the marine an coastal environment. This funding was meant to accelerate environmental assessment of potential offshore wind areas off the state's coast such that the state would be positioned to evaluate proposed lease areas in a timely and sufficient manner, while positioning the potential projects to be able to complete the permitting process on time to qualify for the ITC. In coordination with CEC, OPC, CCC, and CDFW conduct environmental assessments that determine if floating offshore wind development would threatens coastal marine ecosystems. This includes assessing the impacts to the fishing industry and tribal communities.

    - *OPC ($2.125 million):* The resources for environmental assessments will fulfill the state's role in the federal leasing process. The assessments supported by these resources build upon the already $1 million in environmental assessments funded by the OPC and includes assessments of marine life, fisheries, cultural resources, and recreation.

    - *CCC ($0.875 million):* The resources support a senior environmental scientist to synthesize information from OPC's environmental assessments and other studies to inform a comprehensive siting-level analysis of potential impacts to coastal resources from offshore wind development in the North and Central Coast. This analysis is included in CCC's federal consistency review of BOEM's proposed wind energy lease areas.

    - *CDFW ($3.5 million):* The resources support scientific and legal staff that provide information on potential impacts to habitats, species, fisheries, ocean users, endangered species, and California Environmental Quality Act (CEQA) and the California Endangered Species Act (CESA) review. The resources also give the department the capacity needed to inform CCC's analysis of fishing information and data in their review of federal consistency with the Coastal Act.

- *$2.2 million to CEC for OWE community outreach, engagement, and technical analysis.* The resources allows CEC to lead an outreach process, supported by consultants to work with stakeholder groups such as commercial fishers, tribal governments, and ports.

- *$11 million to CEC for Humboldt offshore wind port investments.* Upgrades to the Humboldt port are necessary to any OWE project along the north coast. It is likely that this port will have a significant role to play for OWE projects along the central coast as well because of the availability of land around the port for storage, manufacturing and assembly. In recognition of the importance of this port, OPC funded a report assessing upgrades that would be needed at the port for OWE at various scales. In addition to the environmental and engineering work by Humboldt Bay Harbor, Recreation, and Conservation District (Harbor District), the district has an application for $55 million in federal funding from the federal Department of Transportation. There is a 20 percent match requirement, and this funding provides for the Harbor District's match, including resources to complete additional environmental and engineering work.

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, May 25, 2023**
**1:00 p.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

**Part A**

Consultant: Eunice Roh

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# VOTE-ONLY

## 3355 Office of Energy Infrastructure Safety

### Issue 1: Electricity: Expedited Utility Distribution Infrastructure Undergrounding Program (SB 884)

**Governor's Proposal.** The Governor's Budget requests 18 permanent positions and $4,021,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) in 2023-24 and ongoing to review and evaluate distribution infrastructure undergrounding plans submitted by large electrical utilities, as required by SB 884. This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted.

### Issue 2: Continued Implementation

**Governor's Proposal.** The Governor's Budget includes 58 positions and $12,269,000 in 2023-24 and ongoing ($11,435,000 Public Utilities Commission Utilities Reimbursement Account (PUCURA) and $834,000 Safe Energy Infrastructure and Excavation Fund (SEIEF)) to allow the department to meet its public safety mission and reduce the current reliance and associated risk with the use of contractors. This includes $9,489,000 in personnel costs for 58 new full-time permanent positions, and $100,000 for a Spanish translation contract among other operating expenses. In addition, this proposal includes trailer bill language that amends statute to improve operational efficiency and "clean up" language. This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted and adopt placeholder trailer bill language.

### Issue 3: Human Resources and Procurement Services

**Governor's Proposal.** The May Revision includes $1,205,000 ($928,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and $277,000 from the Safe Energy Infrastructure and Excavation Fund (SEIEF)) in 2023-24 and $420,000 ongoing ($323,000 from PUCURA and $97,000 from SEIEF) as well as eight permanent positions to transition its human resources and procurement services in-house. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

# 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

## Issue 4: Implementing Hourly Electricity Retail Resource Accounting (SB 1158, Becker)

**Governor's Proposal.** The Governor's Budget requests $214,000 from the Energy Resources Programs Account (ERPA) for one permanent position to develop regulations implementing hourly retail resource accounting (hourly accounting) under the Power Source Disclosure (PSD) Program and to collect, process, and produce hourly data in support of Integrated Resource Planning and other activities, as required by Chapter 367, Statutes of 2022 (SB 1158, Becker). This item was originally heard on March 23rd, 2023.

**Staff Recommendation.** Approve as budgeted.

## Issue 5: Load Management Standards

**Governor's Proposal.** The May Revision includes $373,000 and 2 positions in 2023-24 and ongoing to implement new energy load management standards adopted by the California Energy Commission. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

## Issue 6: Energy Program Reappropriations

**Governor's Proposal.** The Governor requests several reappropriations to address delays resulting from COVID-19 and project completion timelines. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

## Issue 7: Energy Resources Programs Account (ERPA) Structural Deficit Relief Trailer Bill Language

**Governor's Proposal.** The May Revision proposes to raise the statutory cap on the Energy Resources Program Account (ERPA) surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity ratepayers. This increase will generate approximately $3 million in additional revenues in 2023-24, and approximately $6 million annually thereafter to offset recent revenue decreases. This item was originally heard on May 16th, 2023.

**LAO Comment.**

***LAO Bottom Line: While ERPA is in a deficit, the fund is not projected to go insolvent in 2023-24. The Legislature could direct the administration to return with this proposal next January to allow for sufficient time to discuss these changes, which are significant.***

To address a structural deficit in ERPA, the administration proposes trailer bill language that would: (1) more than double the statutory cap on the surcharge on electricity bills from $0.0003 per kilowatt hour (kwh) to $0.000642 per kwh, (2) tie the statutory cap on the surcharge to the Consumer Price Index to allow for future automatic increases, and (3) extend the surcharge to behind-the-meter electricity consumers. Based on our understanding, a two-thirds vote from both houses of the Legislature would be required to adopt this proposal. The administration put forth a similar proposal last year upon which the Legislature did not act.

***Taking Action Now is Not Essential.*** The fund does have a structural deficit—and has for several years—and legislative action probably is needed to prevent fund insolvency in the coming years. However, we have identified two important factors for the Legislature to consider when evaluating this proposal.

***Funding Shortfall Has Not Yet Materialized.*** First, the administration projects that ERPA will not go insolvent until 2024-25. As a result, immediate action to address the deficit is not absolutely necessary for the budget year.

***Magnitude of Ongoing Shortfall Is Unclear.*** Second, the magnitude of the structural deficit over the long run is uncertain. Revenues are projected to grow as transportation and building electrification increases electricity sales in the coming years. For instance, as shown in the figure below, the California Energy Commission (CEC) projects that electricity sales will grow under both its mid-case and high-case scenarios. As a result, the degree to which a long-term increase in the surcharge rate is needed is unclear, as revenue from increasing sales could at least partially eliminate the fund deficit in future years.

***Legislature Could Defer Decision Until Next Year.*** Given these two factors, the Legislature could consider rejecting the administration's proposal this year, and direct it to come back with a proposal as part of the budget process next January. While this is essentially what occurred last year, the administration once again has presented the Legislature with its proposal late in the spring budget process—rather than in January—which precludes time for careful consideration and deliberation. Upon our initial review, many components of the Governor's proposal appear reasonable. For example, growth in behind-the-meter generation has eroded ERPA revenues, and a policy rationale exists for extending the charge so these consumers pay their "fair share" of supporting CEC's regulatory costs. Moreover, tying the surcharge to inflation is a reasonable strategy to ensure future revenue is sufficient to pay for growth in baseline costs, such as growth in salaries and benefits for CEC staff. However, considering this proposal as part of next spring's budget process would allow for more time to solicit and account for stakeholder feedback, to evaluate projections and assess what level of increase to the cap may be needed to meet future funding needs, and to review whether all existing ERPA expenditures continue to be justified.

**Staff Recommendation.** Reject without prejudice.

## Issue 8: Commissioner Pay Parity

**Governor's Proposal.** The May Revision includes trailer bill language to amend GC 11553.5 to provide a commensurate increase in CEC Commissioner salaries of 5 percent per year for the next three fiscal years. Currently, commissioner salaries are capped under state law. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 9: Opt-In Permitting Provisional Language**

**Governor's Proposal.** The May Revision requests that provisional language be added to Item 3360-001-3062 to support unanticipated workload from the Opt-in Permitting program included in the 2022 Budget Act. This language would allow Department of Finance to augment this item by up to $1,500,000 to address increased permitting and licensing workload. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

# 3360 Energy Resources Conservation and Development Commission
# 3900 State Air Resources Board
# 7350 Department of Industrial Relations

## Issue 10: SB 2 Implementation: Transportation Fuels Market Supply and Pricing

**Governor's Proposal.** The May Revision includes funding and positions to implement SB 2 First Extraordinary Session, (Skinner), Chapter 1, Statutes of 2023-24, which authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the cost of doing business; require increased reporting; and establish a new division within CEC for oversight. Specifically:

- $5.9 million from the Energy Resources Programs Account and 14 positions on an ongoing basis for the CEC to collect new data, analyze and track trends in the petroleum supply chain and pricing, produce required reports, and establish a new oversight division. Additionally, the CEC will redirect 10 existing positions internally to support the new Division of Petroleum Market Oversight.

- $1 million one-time from the Cost of Implementation Account for the California Air Resources Board to support the development of the Transportation Fuels Transition Plan.

- $286,000 from the Occupational Safety and Health Fund and one position for the Department of Industrial Relations to support analysis on managing refinery turnaround and maintenance schedules.

This item was originally heard on May 17th, 2023.

**Staff Recommendation.** Approve as budgeted for CARB and DIR. Approve the funds and positions for CEC, but shift the fund source from the Energy Resources Programs Account to the General Fund. Adopt placeholder trailer bill language.

# 3360 Energy Resources Conservation and Development Commission
# 3900 State Air Resources Board

## Issue 11: Reauthorization of the Clean Transportation Program Fees and Program Amendments

**Governor's Proposal.** The Governor's Budget requests to extend until June 30, 2035 the following vehicle registration, smog abatement, vessel registration, and identification plate fees at the existing rates:

| AB 8 Fees | Code Section | Average Annual Number & Type of Fee Payers | Department | Average Annual Revenue (Dollars in Millions) | Fund | Program |
|---|---|---|---|---|---|---|
| $2 Vehicle Registration Fee | Vehicle Code section 9250.1 | 33.6 million vehicles | CEC | $67 | ARFVTF (3117) | Clean Transportation Program (CTP) |
| $4 Smog Abatement Fee | Health and Safety Code section 44060.5 | 10.0 million vehicles | CEC | $42 | ARFVTF (3117) | Clean Transportation Program |
| $5 Vessel Registration Fee / $10 Vessel Registration Fee | Vehicle Code section 9853.6 | 24,000 original vessel registrations | CEC | $0.21 | ARFVTF (3117) | Clean Transportation Program |
| $2.50 Identification Plate Fee * | Vehicle Code sections 9261 and 9261.1 | ~135,000 specialized vehicles | CEC | $0.08 | ARFVTF (3117) | Clean Transportation Program |
| $1 Vehicle Registration Fee | Vehicle Code section 9250.1 | 33.6 million vehicles | CARB/BAR | $33 | Enhanced Fleet Modernization Account (3122) | Enhanced Fleet Modernization Program/Consumer Assistance Program |
| $4 Smog Abatement Fee | Health and Safety Code section 44060.5 | 10.0 million vehicles | CARB | $42 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| $5 Vessel Registration Fee / $10 Vessel Registration Fee | Vehicle Code section 9853.6 | 24,000 original vessel registrations | CARB | $0.18 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| $2.50 Identification Plate Fee * | Vehicle Code sections 9261 and 9261.1 | ~135,000 specialized vehicles | CARB | $0.08 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| | | Total Annual Revenue | | $185 | | |

* Identification Plate Fee - Since 1986, Identification Plates shall be renewed between Jan 1 and Feb 4 every five calendar years. FY 15/16 and FY 20/21 were renewal years. Average Non-renewal yea

The Governor also proposes to slightly modify which types of projects and entities would be eligible to receive funding grants from the CTP. First, the proposal would limit eligibility for CTP funding to zero-emission technologies. (CTP historically has funded both low-emission and zero-emission technologies, although has begun to prioritize the latter in recent years.) Second, the proposal would modify CTP's existing statute to allow for U.S. Department of Energy national laboratories to receive awards under the program. Third, the proposal would expand the definition of tribes that may receive funding through the program to all California tribes, rather than only federally recognized tribes. This item was originally heard on March 23rd, 2023.

**Staff Recommendation.** Amend the trailer bill language with the following:

- Require 50 percent of the CTP expenditures to directly benefit or serve residents of disadvantaged communities and low-income Californians, and at least 50 percent of the funds for location-based investments be expended in disadvantaged and low-income communities.
- Require the focus of the CTP to support (1) deployment of infrastructure and other projects that advance the adoption of medium- and heavy-duty vehicles that meet the clean transportation, equity, air quality, and climate emission goals; and (2) the deployment of light-duty vehicle infrastructure to fill gaps in current deployment.

- Revise the purpose of AQIP to focus on reducing criteria air pollutants in goods movement and in non-attainment basins.
- Align the goals of the program with the state's existing climate policies and goals.
- Extend the sunset date on program fees.
- Require the guidelines for the EFMP to ensure that replacement vehicles are either plug-in hybrids or a zero-emission vehicles, unless CARB, in consultation with the CEC, determines that charging and refueling capabilities are inadequate in certain areas, or an adequate supply of vehicles are not available in new or secondary markets, as specified.
- Expand the primary purpose of the AQIP to include funding of projects in the off-road and warehouse sectors.

# 3480 DEPARTMENT OF CONSERVATION
# 3900 STATE AIR RESOURCES BOARD
# 3940 STATE WATER RESOURCES BOARD

**Issue 12: Carbon Capture, Removal, Utilization and Storage Program (SB 905)**

**Governor's Proposal.** The Governor's Budget requests funding for the Air Resources Board (CARB), Department of Conservation (DOC), and the State Water Resources Control Board (State Water Board) to implement Chapter 359, Statutes of 2022 (SB 905, Caballero). More specifically, the request includes:

- **CARB.** \$5.5 million from the Cost of Implementation Account, Air Pollution Control Fund (COIA) and 18 permanent positions in 2023-24 and \$4.5 million ongoing to implement the requirements established by SB 905. Included in the request is \$1,700,000 in ongoing contract funds: \$700,000 to establish an electronic unified permit submittal system for carbon sequestration project operators pursuing permits to operate in California, and \$1 million in ongoing contract funds to perform evaluations of new and emerging carbon capture, removal, utilization and storage (CCUS) and carbon dioxide removal (CDR) technology.
- **DOC.** \$3,682,000 from COIA and 4 permanent positions to create a Geologic Carbon Sequestration Group (Group).
- **State Water Board.** \$280,000 ongoing from COIA for one permanent position to collaborate with CARB to develop and implement a unified permit application process for the construction and operation of CCUS projects and provide technical expertise to ensure these projects are protective of groundwater resources.

This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted for Department of Conservation and State Water Board. Approve \$1,914,500 for 9 positions and \$1,700,000 contract funds on a three-year limited term basis for CARB.

## 3860 DEPARTMENT OF WATER RESOURCES

### Issue 13: SB 846 Diablo Canyon Loan

**Governor's Proposal.** The May Revision includes budget bill language that provides a General Fund loan up to $400 million to the Diablo Canyon Extension Fund for the purpose of being loaned to the company licensed to operate the Diablo Canyon Units 1 and 2 for extending operations of the Diablo Canyon powerplant facility, consistent with Chapter 239, Statutes of 2022 (SB 846 Dodd). This item was originally heard on May 17th, 2023.

**Staff Recommendation.** Approve as budgeted.

### Issue 14: Summer 2023 Imported Energy Reimbursement Program

**Governor's Proposal.** In 2022, DWR's Electricity Supply Strategic Reliability Reserve Program (ESSRRP) was authorized to reimburse electrical corporations for the above-market costs of imported energy and imported capacity products procured from July to September 2022 to support summer electric service reliability. DWR requests this same authority for Summer 2023 as critical reliability measure for extreme events. To enable this, a transfer of up to $100 million is proposed from the California Energy Commission's Distributed Electricity Backup Assets program to DWR for these activities. This item was originally heard on May 17th, 2023.

**Staff Recommendation.** Approve as budgeted and adopt placeholder trailer bill language.

### Issue 15: SB 1020 Clean Up Trailer Bill Language

**Governor's Proposal.** The May Revision includes trailer bill language that would authorize the Department of Water Resources to satisfy all or a portion of its procurement obligations imposed on the State Water Resources Development System, commonly known as the State Water Project, by connecting (in addition to installing) zero-carbon resources or eligible renewable energy resources behind the meter on State Water Project property to service its load. This item was originally heard on May 17th, 2023.

**Staff Recommendation.** Approve as budgeted.

# 3900 STATE AIR RESOURCES BOARD

## Issue 16: Policy and Technical Support for California Climate Investment Programs

**Governor's Proposal.** The Governor's Budget includes $629,000 ongoing from the Greenhouse Gas Reduction Fund (GGRF) for three permanent positions to undertake statutorily required duties providing policy and technical support to agencies administering ten new California Climate Investments programs established through the 2022 Budget Act along with other duties regarding the oversight and administration of California Climate Investments. The 2022-23 Budget established ten new California Climate Investments Programs: Community Air Monitoring, Community Emission Reduction Incentives, Lower Emission Boats, Methane Monitoring, Methane Data and Technical Assistance, Methane Reduction—Cattle Feed, Methane Reductions—landfills/wastewater infrastructure, Organic Waste, CalSHAPE, and Sea Level Rise. For each new program, CARB works closely with administering agencies and provides detailed guidance to ensure the statutory requirements around the use of GGRF dollars are met. CARB develops and implements new programs with the administering agencies as well as provide ongoing policy and technical support. For each of the ten new programs and project types, CARB is requesting 3.0 Air Pollution Specialists, who would each be assigned three to four programs each. This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Rescind the action taken on April 20th, 2023. Approve the funding and positions on a three-year limited-term basis.

## Issue 17: Expanding Mobile Air Monitoring in Communities

**Governor's Proposal.** The Governor's Budget requests budget bill language to revert $3 million from a 2022-23 appropriation and to use the reverted funds for a four-year limited-term appropriation of $750,000 per year to support 4.0 limited-term positions to provide technical air monitoring and community engagement services to support the contracted deployment of new, mobile Community Air Monitoring data collection and visualization approaches. This request will fund 2.0 limited-term Staff Air Pollution Specialist (SAPS) and 2.0 Associate Governmental Program Analysts (AGPA) to administer and support technical and community engagement deliverables for the duration of the mobile air monitoring contract (2 years) plus two additional years (4 years total). This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Rescind the action taken on April 20th, 2023. Reject the Governor's proposal and revert the $3 million to the Greenhouse Gas Reduction Fund.

## Issue 18: Low Carbon Fuel Standard Administration

**Governor's Proposal.** The Budget includes three permanent positions and $451,000 in 2023-24 and ongoing from the Cost of Implementation Account (COIA) to address the growing workload of the Low Carbon Fuel Standard (LCFS) program. This item was originally heard on March 30th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 19: Zero-Emission Portfolio for Implementation of the Proposed Advanced Clean Fleets Regulation**

**Governor's Proposal.** The Governor's Budget requests $7.6 million in 2023-24 from the Air Pollution Control Fund for 32.5 three-year limited-term position to comply with the proposed Advanced Clean Fleets Regulation. This request includes $2 million in one-time funding to modify two separate reporting systems to handle reporting for the new regulations to verify and track compliance as the requirements are phased in. In 2024-25 and 2025-26, CARB is requesting $400,000 in funding for maintenance and ongoing fees to run the two systems. This item was originally heard on March 30th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 20: Electric Vehicle Supply Equipment Payment Standards Trailer Bill Language**

**Governor's Proposal.** The Governor's Budget includes trailer bill language would require an electric vehicle charging station that is newly installed or made publicly available to offer specified payment methods, including a contactless payment method that accepts major credit or debit cards, an automated toll-free telephone number or a short message system that provides the electric vehicle charging customer with the option to initiate a charging session and submit payment, and Plug and Charge payment capabilities meeting the International Organization for Standardization (ISO) 15118 standard (for direct current fast charging stations). The bill would authorize the state board, by regulation that is effective no earlier than January 1, 2028, to add or subtract from the payment methods required by the bill, as appropriate in light of changing technologies. This item was originally heard on March 30th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 21: Implementing Evaluations and Recommendations for Hydrogen to Support Decarbonizing the California Economy (SB 1075)**

**Governor's Proposal.** The Budget includes $3.1 million from the Cost of Implementation Account in 2023-24 ($849,000 ongoing) for four permanent positions and one-time contract services to develop and publish an evaluation and provide policy recommendations on the use of hydrogen, as required by Chapter 363, Statutes of 2022 (SB 1075, Skinner). This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 22: Technical Adjustment: Reappropriation for the Statewide Mobile Air Monitoring Initiative**

**Governor's Proposal.** The Governor requests a technical adjustment to reappropriate $27 million Greenhouse Gas Reduction Funds (GGRF) appropriation for the Statewide Mobile Air Monitoring Initiative. This item was originally heard on May 16th, 2023.

**LAO Comment.**

***Reject Funding for Mobile Air Monitoring Program and Redirect to Higher Priority.*** The May Revision proposes to extend the deadline for CARB to spend $27 million of GGRF to secure a contract for a new Mobile Air Monitoring program. This program was approved with $30 million of GGRF as part of the 2022-23 budget package and is intended to support expanded community-level air monitoring that would provide a one-time snapshot of air pollution at the local level. Against the context of the changed budget situation, the fact that CARB has not yet expended any of the funds provides the Legislature the opportunity to reconsider the merits and urgency of funding this program. The state already supports the AB 617 Community Air Protection Program—including with $310 million in the current year and $250 million proposed for 2023-24—which has similar goals and an established track record, as well as existing staff and administrative structures. Therefore, rather than establishing a largely duplicative program on a one-time basis, we recommend the Legislature reject the Governor's proposal to extend these GGRF funds for this program and instead revert and redirect them for other legislative priorities.

**Staff Recommendation.** Reject the Governor's proposal and revert the $27 million to the Greenhouse Gas Reduction Fund.

# 7502 Department of Technology
# 8660 Public Utilities Commission

## Issue 23: Broadband Infrastructure Funding

**Governor's Proposal.** The Governor's Budget proposes to defer a total of $1.1 billion General Fund allocated to two broadband programs. Specifically, the Administration proposes to (1) defer $550 million for the last-mile infrastructure grants in 2023-24 to future years ($200 million in 2024-25, $200 million in 2025-26, and $150 million in 2026-27) and (2) defer $175 million from 2022-23 and $400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years ($300 million in 2024-25 and $275 million in 2025-26).

**Staff Recommendation.** Approve as budgeted, but (1) adopt trailer bill language and (2) adopt budget bill language that requires reporting.

Trailer bill language will make the following amendments:

- Clarify that upon full execution of any contract for the lease, build, or joint-build or any portion of the state-owned middle mile broadband network, the California Department of technology shall update the map on its public internet website to identify those segments of this network that will be built, leased, or jointly built pursuant to those fully-executed contracts.
- Require lease agreements to include sufficient fiber strands to support speeds and capacity comparable to the speeds and capacity offered by infrastructure built or jointly built by the state.
- Eliminate the June 30, 2023, deadline for the rural-urban reallocation of FFA funds and instead specify that any funds in the FFA must be allocated to rural and urban counties with 50 percent provided to rural counties and 50 percent provided to urban counties.
- Modify the CASF Public Housing Account to require the CPUC to prioritize grants to those existing public housing facilities that have not received a CASF grant and do not have access to free or low-cost broadband internet service on-site.

Budget bill language for the CDT and CPUC will require the reporting of following information at the time intervals provided below:

| Agency | Information in Report | Report Recipients | Frequency |
|---|---|---|---|
| **CPUC** | • List of projects awarded funding<br>• Amount of ARPA funds encumbered and expended<br>• Amount of BEAD funds encumbered and expended<br>• Amount of General Funds in Federal Funding Account encumbered and expended | • Relevant policy committees of each house<br>• Budget committees of each house<br>• Joint Legislative Budget Committee<br>• Legislative Analyst's Office | Quarterly |

| | | | |
|---|---|---|---|
| **CDT** | • List of contracts executed for lease, construction, and joint-build of the middle mile<br>• Identification of miles constructed, leased, or jointly built by county<br>• Amount of ARPA funds encumbered and expended<br>• Amount of General Funds encumbered and expended | • Relevant policy committees of each house<br>• Budget committees of each house<br>• Joint Legislative Budget Committee<br>• Legislative Analyst's Office | Quarterly |
| **CDT and CPUC** | • Prohibit shifting funding sources for the Federal Funding Account and Middle Mile without advance notification to the budget committees in each house of the Legislature | • Budget committees in each house | As needed |

## 8570 DEPARTMENT OF FOOD AND AGRICULTURE

### Issue 24: Oversight Costs for AB 1499 (2017)

**Governor's Proposal.** The Governor's Budget includes trailer bill language to allow the Department to use revenue collected pursuant to Chapter 798, Statutes of 2017 (AB 1499, Gray) to fund existing Fairs and Exposition Branch positions and operating expenses. This item was originally heard on March 30th, 2023.

**Staff Recommendation.** Reject and defer to the policy process.

### Issue 25: Blythe Border Protection Station Relocation Project

**Governor's Proposal.** The May Revision includes $2,759,000 from the General Fund to begin the Working Drawings phase for the Blythe Border Protection Station Relocation Project, located in Riverside County. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

### Issue 26: Reappropriation and Extension of Climate Smart Agriculture Programs

**Governor's Proposal.** The Governor requests expenditure/encumbrance and liquidation deadline extensions for CDFA's Climate Smart Agriculture (CSA) grant programs. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

# 8660 PUBLIC UTILITIES COMMISSION

**Issue 27: 2023-24 California LifeLine Enrollment, Caseload, and Population May Revision Estimate**

**Governor's Proposal.** The May Revision provides an update to the Universal LifeLine Telephone Service Program (California LifeLine Program)—reducing the state operations cost estimate by $3,330,000 in 2023-24 and ongoing to reflect reductions in consulting costs and increasing the local assistance cost estimate by $65,478,000 in 2023-24 and ongoing to reflect publishing costs resulting from increased auto-renewals and new caseload projections. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 28: Electricity: Expedited Utility Distribution Infrastructure Undergrounding Program (SB 884)**

**Governor's Proposal.** The Governor's Budget requests 6 permanent positions and $2,068,000 in 2023-24 and 2024-25, $1,618,000 in 2025-26, and $1,435,000 ongoing from the PUCURA to develop, administer, and enforce new standards for an expedited electric utility distribution infrastructure undergrounding program, including providing maintenance and operating oversight, as required by SB 884. This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 29: Permanent Staffing to Support Wildfire, Enforcement and Reform Statutes**

**Governor's Proposal.** The Budget includes $6,342,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account for 29 positions to ensure continued legal, ratemaking, and administrative support of the various wildfire prevention, cost recovery, and enforcement mandates. This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted.

**Issue 30: Public Utilities Commission: Customer Renewable Energy Subscription Programs and the Community Renewable Energy Program (AB 2316)**

**Governor's Proposal.** The Governor's Budget provides $1,413,000 in 2023-24, $1,313,000 in 2024-25, $1,113,000 in 2025-26 and 2026-27, and $1,103 in 2027-28 and ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to review, evaluate, and modify existing customer renewable energy subscription programs, as required by Chapter 350, Statutes of 2022 (AB 2316, Ward). This item was originally heard on April 20th, 2023.

**Staff Recommendation.** Approve as budgeted.

### Issue 31: Digital Divide Grant Program

**Governor's Proposal.** The May Revision provides $1 million in 2023-24 and $200,000 in 2024-25 and ongoing to implement the Digital Divide Grant Program per Public Utilities Code 280.5. This program will distribute competitive awards for the purpose of funding community technology programs in low-income school districts in rural and urban communities. This item was originally heard on May 16th, 2023.

**Staff Recommendation.** Approve as budgeted.

### Issue 32: Modifications to User Fee Statutes

**Governor's Proposal.** The May Revision proposes trailer bill language to modify PUC 285, 432, and 433. The proposed language clarifies that VoIP telecommunication carriers must continue to remit a CPUC user fee but removes the existing statutory prescription that these be based on intrastate revenues. CPUC is otherwise required to retain two different fee filing systems for telecommunications carriers and carriers are required to report in two different methodologies on two separate filing systems, administratively burdensome for both the CPUC and carriers. The transition off intrastate revenues is similar to what was authorized in 2021 for the telecommunications surcharge supporting the CPUC public purpose programs which CPUC has now transitioned to a per access line fee. This item was originally heard on May 16th, 2023.

**Staff Comments.** The proposed trailer bill language is a substantive policy change that requires additional time for review and assessment that the current timeframe does not provide. In addition, it is not clear that action on this item is absolutely critical this budget year—therefore, if statutory changes continue to be needed, the administration can submit trailer bill language for consideration as part of the Governor's Budget in January 2024.

**Staff Recommendation.** Reject without prejudice.

## VARIOUS DEPARTMENTS

### Issue 33: Energy TBL

**Governor's Proposal.** The Governor has put forward two major proposals related to procuring sufficient clean energy resources to meet reliability and GHG reduction goals. These proposals are contained in budget trailer legislation. The proposals include: (1) establishing a new centralized energy procurement role for the state, for which costs could be recovered from ratepayers, and (2) requiring "capacity payments" from LSEs that experience energy resource deficiencies during months when the state utilizes the ESSRRP. This item was originally heard on March 23rd, 2023.

**Staff Recommendation.** Approve placeholder trailer bill language.

### Issue 34: Clean Energy Reliability Investment Plan

**Governor's Proposal.** The May Revision includes the Clean Energy Reliability Investment Plan, pursuant to SB 846. California Energy Commission (CEC), in consultation with the California Public Utilities Commission (CPUC) and the California Air Resources Board (CARB), developed a plan to invest in "programs and projects that would accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability." Specifically, CERIP includes $1 billion for clean energy investments over multiple years--$100 million in 2023-24, $400 million in 2024-25, and $500 million in 2025-26. This item was originally heard on May 23rd, 2023.

**Staff Recommendation.** Approve, but amend the Governor's proposal to include the following:

- 2023-24 - $100 million
  - $35 million for the Community Renewable Energy Program
  - $28 million for Long-Duration Energy Storage
  - $20 million for DSGS
  - $5 million for CBO Support
  - $2 million for Transmission Planning
  - $10 million for Administration

- 2024-25 - $400 million
  - $195 million for Community Renewable Energy Program
  - $50 million for Cost-Share Innovation Grants
  - $50 million for Scaling Supply-Side Technologies
  - $50 million for Long-Duration Energy Storage
  - $30 million for DSGS
  - $10 million for Central Procurement Function
  - $5 million for CBO Support
  - $10 million for Administration

- 2025-26 - $500 million
  - $170 million for the Community Renewable Energy Program
  - $145 million for Distributed and Consumer-Side Solutions
  - $50 million for Cost-Share Innovation Grants
  - $50 million for Scaling Supply-Side Technologies
  - $45 million for DSGS
  - $20 million for Long-Duration Energy Storage
  - $10 million for Central Procurement Function
  - $10 million for Administration

Adopt trailer bill language that requires CERIP funding to prioritize projects that do at least one of the following: (1) Serve customers who live in low-income households as defined in Section 39713 of the Health and Safety Code that are within disadvantaged communities as defined in Section 39711 of the Health and Safety Code; (2) Support the viability of community-owned projects; or (3) Support the viability of urban infill projects that provide local reliability benefits and/or are located in disadvantaged communities as defined in Section 39711 of the Health and Safety Code.

## Issue 35: Cap-and-Trade Spending Plan

**Governor's Proposal.** The Governor's budget assumes cap-and-trade revenues of $2.8 billion in 2023-24. This includes $2.5 billion from projected budget-year auction proceeds and $298 million from other GGRF revenues (such as interest earnings, additional current-year revenues from the November 2022 auction, and utilizing the existing GGRF fund balance). Under the Governor's proposal, about $1.6 billion would go to continuously appropriated programs, $351 million would go toward other existing commitments, and $861 million would be used for proposed discretionary spending (all to backfill proposed General Fund cuts). In addition to using the full $861 million of discretionary GGRF revenues to backfill proposed ZEV and AB 617 program General Fund reductions in 2023-24, the Governor also proposes using $414 million annually in future GGRF discretionary funds to backfill proposed cuts to intended General Fund for ZEV programs in 2024-25 and 2025-26. The Governor also proposes a trigger restoration approach for GGRF revenues that the state might receive above current estimates during the 2023-24 fiscal year. Specifically, proposed budget control section language would require the administration to allocate additional GGRF revenues to backfill other proposed reductions to ZEV programs. This item was originally heard on March 30th, 2023.

**LAO Comment.**

***LAO Bottom Line: Under our office's higher GGRF revenue estimates, we believe the state could spend $460 million more on discretionary activities than the Governor proposes in the May Revision. The administration proposes to utilize nearly all GGRF discretionary revenue for the ZEV Package, but the Legislature may have other priorities. We continue to recommend the state reject the Governor's proposed midyear GGRF trigger restoration approach. Finally, we recommend the Legislature reject the Governor's proposal related to the Mobile Air Monitoring Program and instead redirect those funds for a different purpose.***

***Legislature Could Potentially Allocate Several Hundred Million Dollars More.*** The May Revision assumes an additional $686 million in GGRF revenue compared to the Governor's January proposal. This increase reflects the additional revenue collected at the February 2023 cap-and-trade auction (which was higher than the administration assumed in January), and an increase in the administration's expected proceeds from the auctions in the budget year. Roughly two-thirds of the additional revenue is continuously appropriated under current law, with the remainder available for discretionary spending. Combined with newly identified carryover funds from prior years, the May Revision includes $500 million for new discretionary spending in 2023-24. This additional funding increases total 2023-24 cap-and-trade discretionary spending in the May Revision to about $1.5 billion. Final information on 2022-23 GGRF revenue will be available later this month after the results from the May 17 auction are released.

***Governor Uses Additional GGRF Revenues for ZEVs, but Legislature May Have Higher Priorities.*** In January, the Governor proposed shifting a total of $1.4 billion in ZEV Package spending from General Fund to GGRF ($611 million in 2023-24, and $414 million each in 2024-25 and 2025-26). The May Revision reduces an additional $635 million in General Fund expenditures on ZEVs over three years and backfills them with GGRF. Specifically, the proposal would shift $500 million in ZEV expenditures from the General Fund to GGRF in 2023-24, $80 million in 2024-25, and $55 million in 2025-26, resulting in a total of $2.1 billion for ZEV package backfills across the three years. While reducing pressure on the General Fund has merit, the Legislature may have higher priorities for the funds than sustaining ZEV funding.

***Reject Governor's GGRF Trigger Approach***. We continue to recommend the Legislature reject the Governor's proposed control section language—introduced in January and maintained in May—that would grant the administration authority to allocate any GGRF revenues that come in higher than expected throughout the year to backfill reductions to ZEV programs. Historically, the Legislature has opted to delay action on any additional GGRF revenues that materialize midyear and allocate them as part of the subsequent year's budget package. This approach allows the Legislature the discretion to consider its highest priorities for that spending as part of a more comprehensive discussion. Giving the administration the discretion to prioritize ZEV programs with any additional funds shifts too much decision-making authority away from the Legislature. Maintaining legislative discretion and spending authority is particularly important now, as the budget problem has grown since January and the Legislature may be faced with identifying additional spending solutions midyear and in next year's budget process if revenue forecasts continue to decline. Given these evolving conditions, the Legislature may have shifting priorities for how it might want to use any additional GGRF monies—such as to preserve programs that may face potential new reductions—rather than automatically directing them to restore ZEV programs.

**Staff Recommendation.** Approve the fund shifts to the GGRF for the ZEV package. Reject the trigger restoration approach for GGRF. Approve $460 million in additional discretionary GGRF spending, which includes:

- $100 million for the Equitable Building Decarbonization program at CEC
- $100 million for the Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program at CARB
- $100 million for ZEV Transit Buses & Infrastructure at CEC and CARB
- $60 million for the Protecting the Coast from Climate Change at the State Coastal Conservancy
- $40 million to Implement SB 1 (Atkins) at Ocean Protection Council
- $35 million for Agriculture Related Methane Reductions at CDFA
- $10 million for the Building Energy Benchmarking Program at CEC
- $10 million for Technical Assistance for Federal Tax Credits at CEC
- $5 million for the Intertidal Biodiversity DNA Barcode Library at the Ocean Protection Council

## Issue 36: Legislative Analyst's Office Reporting Requirement

**Senate Proposal.** Chapter 337, Statutes of 2022 (AB 1279, Muratsuchi) requires the Legislative Analyst's Office to conduct independent analyses of the state board's progress toward the state's GHG emissions goals every two years. This proposal would amend this requirement to read as the following: "As part of its annual reporting requirements pursuant to Section 38592.6, the Legislative Analyst's Office shall conduct independent analyses of the state board's progress toward the goals stated in subdivision (c) and shall prepare annual reports detailing its review, which may include recommendations for improvements. When appropriate, these annual reports may incorporate reviews of the state board's evaluation and reporting practices, which could include potential changes to advance transparency and accountability."

**Staff Recommendation.** Approve.

***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, May 25, 2023**
**1:00 p.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultants: Eunice Roh and Joanne Roy

# PART B

**Item** **Department** **Page**

## VOTE-ONLY

*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# VOTE-ONLY

## 0540 California Natural Resources Agency (CNRA)

### Issue 1: Human Resources Consolidation (May Revision (MR))

**Governor's Proposal.** The May Revision requests three positions in 2023-24 and ongoing to begin the transition to a consolidated Human Resources office for small entities within CNRA.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 2: Museum of Tolerance (MR)

**Governor's Proposal.** The May Revision requests $2.1 million one-time to support renovations of the Museum of Tolerance, which provides education and messaging of tolerance and empowerment of the Jewish community.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 3: Technical Adjustment to Reappropriation Item (MR)

**Governor's Proposal.** The May Revision requests that technical corrections be made to Item 0540–491, as proposed in the April 1 Finance letter. These changes will allow the funding transferred to the Rivers and Mountains Conservancy to be reappropriated.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3100 Exposition Park

### Issue 4: California Science Center Phase III Debt Service (MR)

**Governor's Proposal.** The May Revision requests that Item 3100-001-0001 be decreased by $2.43 million to be in accordance with the Food and Agricultural Code Section 4103.5. This section requires the state to fund debt service on the California Science Center Phase III project starting in fiscal year 2022-23 or the year in which the facility is certified as available for use and occupancy. The current project schedule indicates the certificate of occupancy will not be issued until 2024-25; thus, a decrease is requested as the Governor's Budget included this authority.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 5: Operational Start-Up for California Science Center Phase III Facility (MR)

**Governor's Proposal.** The May Revision requests $1.337 million and three full-time positions for 2023-24 for start-up of the state-approved 200,000-square-foot Air and Space Center scheduled to open in spring 2025.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 6: Operations and Administration Supervisor (MR)

**Governor's Proposal.** The May Revision requests $152,000 one-time, $160,000 ongoing Exposition Park Improvement Fund (EPIF) to establish one Staff Services Manager II (SSMII) to oversee operations and administration management, including supervision of administrative, operations, and events personnel. This position will work in concert with the Office of Exposition Park Management (OEPM) executive leadership to develop and implement policies, create operational efficiencies, and identify opportunities for revenue-generation flexibilities. This position may also support efforts to formulate policies and operations to create public and private partnerships and business development opportunities.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 7: Park Partnerships (MR)

**Governor's Proposal.** The May Revision ongoing funding from EPIF to establish one Staff Services Manager I position to facilitate strategic constituent and stakeholder management including managing community coalition building, digital engagement strategies and social media, storytelling campaigns for Exposition Park to support the implementation of the Exposition Park Master Plan and the future 2028 Olympics.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 8: Park Wide Surveillance System Supplemental Appropriation (MR)

**Governor's Proposal.** The May Revision requests a $600,000 supplemental appropriation from the Exposition Park Improvement Fund for the working drawings phase of the Park Wide Surveillance

System project. Significant progress has been made on the preliminary plans phase of the project since the Governor's Budget and as preliminary plans near completion it has been identified that the unique layout of the park and unrecorded rights on the impacted portions of the property will result in the need for additional resources for real estate due diligence in the working drawings phase of the project.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 9: Peace Officers: Exposition Park (AB 483) – Reappropriation (MR)

**Governor's Proposal.** The May Revision requests reappropriation of $1.95 million one-time General Fund for compliance with AB 483 (Jones-Sawyer), Chapter 411, Statutes of 2021. These resources will support all one-time and on-going activities and administrative support for AB 483, which grants peace officer status to security officers appointed by the Exposition Park Manager, as specified, and clarifies the training requirements for those peace officers. Ongoing transition efforts and related activities continue through 2025, and additional time is needed to expend funds.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 10: Southeast Underground Parking Structure (MR)

**Governor's Proposal.** The May Revision requests $14.1 million Public Buildings Construction Fund to construct an underground parking structure with a public park on its top-deck. The underground parking structure will be roofed with open, green space. Among other things the open space is intended to be available to serve as additional event space that can generate revenue for the EPIF.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted and adopt placeholder trailer bill language requiring the project to include a Project Labor Agreement and a Community Workforce Agreement.**

## 3340 CALIFORNIA CONSERVATION CORPS

### Issue 11: Implementation of New Fire Fighter Personal Protective Equipment Regulations (MR)

**Governor's Proposal.** The May Revision requests $1.123 million General Fund in 2023-24 and $841,000 ongoing to fund one Associate Governmental Program Analyst position, various operating expenses & equipment costs, and special repairs necessary to ensure compliance with revisions made to the California Code of Regulations, Title 8, Article 10.1 Safety Orders: Personal Protective Clothing and Equipment for Fire Fighters.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 12: Residential Center, Auberry: New Residential Center, Reappropriation (MR)**

**Governor's Proposal.** The May Revision requests reappropriation of $2.6 million General Fund for the working drawings phase of the Residential Center, Auberry: New Residential Center project. The project will either renovate an existing elementary school or create a new facility that includes buildings consisting of an administration building, several dormitories, an education building, a multipurpose building, a kitchen, a dining room, an apparatus building(s) with CalFire administration offices, a laundry room, CalFire office quarters (a captain's barracks), a new warehouse with work area, and a hazardous materials storage building. Additionally, the scope of work includes related infrastructure and sitework as needed. This facility will accommodate about 90 permanent residential Corpsmembers and support Type I fire crews and respective CalFire staff. Total project costs are estimated at $114.9 million.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3460 COLORADO RIVER BOARD OF CALIFORNIA (CRB)

**Issue 13: Contracted Fiscal Services Support (MR)**

**Governor's Proposal.** The May Revision requests an ongoing budget increase of $136,000 to support the provision of accounting and budgeting services by the Department of General Services' Contracted Fiscal Services (DGS-CFS) division. The CRB's annual expenses are fully reimbursed by local water and power agencies.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3480 DEPARTMENT OF CONSERVATION (DOC)

**Issue 14: Solutions — Sustainable Agricultural Lands Conservation Program (GB)**

**Senate's Proposal.** The Governor's budget requests to reduce $25 million General Fund that was intended for the Sustainable Agricultural Lands Conservation.

**Date this item was originally heard.** April 13, 2023.

**LAO Comments.** This program funds conservation easements on and plans for agricultural lands to preserve them from being converted to more GHG-intensive residential uses. Eliminating the full $25 million in General Fund support for this program, as the Governor proposes, however, would not leave it without any funding. This is because the program receives annual funding allocations from

GGRF as part of the continuously appropriated Affordable Housing and Sustainable Communities program through SGC. While the annual funding amounts vary depending on the level of cap-and-trade auction revenues, they typically total tens of millions of dollars. The program awarded $74 million in grants using GGRF in December 2022 and has allocated nearly $300 million since it began. This funding could allow it to continue existing activities even without the intended General Fund augmentation.

**Staff Recommendation. Approve as budgeted.**

## Issue 15: Reappropriation: California Geologic Energy Management Division (CalGEM) (MR)

**Governor's Proposal.** The May Revision requests to reappropriate $1 million Oil, Gas, and Geothermal Administrative Fund until June 30, 2024, for contract funding authorized in the 2022 Budget Act to study fugitive emissions, including greenhouse gases, toxic air contaminants, and volatile organic compounds.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## Issue 16: Reduction of 2023-24 Appropriation (Multi-Benefit Land Repurposing Program) (MR)

**Governor's Proposal.** The May Revision requests that Item 3480-001-0001 be decreased by $1 million one-time, and Item 3480-102-0001 be eliminated to reduce the amount provided for the Multi-Benefit Land Repurposing Program. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes adjustments to this program to assist in closing the projected shortfall and ensuring the submission of a balanced budget plan.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3540 DEPARTMENT OF FORESTRY AND FIRE PREVENTION (CALFIRE)

**Issue 17: Property Acquisitions: Camp Fox, Boys Ranch, and Sierra Elementary (Governor's Budget (GB))**

**Governor's Proposal.** The Governor's budget requests $4 million GF for the acquisition phase for property at three locations throughout the state: Camp Fox ($500,000) (located in San Diego County), Boys Ranch ($1 million) (located in Sacramento County), and Sierra Elementary ($2.5 million) (located in Fresno County). This project will seek to acquire sites across various counties to expand current CalFire infrastructure. These facilities will be used to provide housing and training grounds for CalFire crews.

**Date this item was originally heard.** March 9, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 18: (a) CalFire Training Center Capacity; (b) Additional CalFire Training Center: New Facility (GB)**

**Governor's Proposal.** ***(a) CalFire Training Center Capacity.*** The Governor's budget requests $12.9 million GF and 12 new positions beginning in 2023-24, $12 million annually through completion of a new training center facility (referenced below in (b)), and $3.4 million ongoing to address current issues of overcapacity at CalFire Training Centers (CFTC) by providing funding for two temporary training facilities.

**(b)** ***Additional CalFire Training Center: New Facility.*** The Governor's budget includes $19.2 million General Fund for two capital outlay activities related to building a proposed new training facility: (1) $545,000 for a study that is anticipated to be completed in June 2024, which would identify potential parcels in the Sacramento area on which to construct the facility and develop a more refined cost estimate for the project, and (2) $18.7 million to acquire a property for the new center. The department anticipates needing a minimum of 50 acres for the facility.

**Date this item was originally heard.** March 9, 2023.

**Staff Recommendation. Approve $9.5 million General Fund in 2023-24 and $8.6 million General Fund through 2027-28, including:**

**(1) $545,000 in 2023-24 for a facility study that includes: (A) estimates of future growth in CalFire staffing and associated training needs and (B) an evaluation of multiple potential alternatives for meeting those training needs. More specifically, add budget bill language, as follows: "*The funds appropriated in Provision 7 shall be available for a facility study that includes (1) estimates of future growth in CalFire staffing and associated training needs and (2) an evaluation of the benefits and costs of multiple potential alternatives for meeting those training needs (with constructing a new training center as one, but not the only, option considered). The results of the master plan for CFTC-Ione shall be incorporated into this study.*"**

**(2) and $8.9 million in 2023-24 and $8.6 million through 2027-28 to support costs associated with leasing and operating two temporary facilities.**

**Reject the proposed $18.7 million General Fund in 2023-24 for site acquisition and $3.9 million General Fund and 12 new positions in 2023-24 and $3.4 million ongoing for facility-related staffing.**

## Issue 19: Growlersburg Conservation Camp (CC): Replace Facility (GB)

**Governor's Proposal.** The Governor's budget requests $4.5 million GF in 2023-24 to restart a previously paused project that would replace the existing facilities and infrastructure at the Growlersburg CC site in Georgetown (El Dorado County). The proposed funding would support the working drawings phase.

CalFire estimates the total cost of the project—including $93 million for construction—to be $100 million, and that it would be completed in 2028. The Administration anticipates funding the construction phase of this project with lease revenue bonds, which ultimately would be repaid from the General Fund over about 25 years.

**Staff Comment.** LAO raises several valid concerns regarding this proposal, e.g. the state prison population has decreased in recent years resulting in declines at conservation camps, population declines have resulted in the closure of eight conservation camps, remaining camps are operating below design capacity, and the prison population is projected to decline further.

The Administration states does not currently have a proposal to further consolidate the California Department of Corrections and Rehabilitation (CDCR)/CalFire conservation camps beyond the previously consolidated eight. However, the Administration states that the decrease in CDCR inmate population, and particularly those eligible to serve in conservation camps, is an issue the Administration is closely monitoring and considering how best to address the resulting impacts, including the number of available inmate hand crews and conservation camp facilities. As CalFire has previously stated, Growlersburg would not be on any list should further conservation camp consolidations occur in the future.

However, considering this capital outlay proposal has a significant, estimated cost of $100 million and the issues raised by LAO, it would be prudent for the Legislature to have a better understanding of CDCR/CalFire's long-term plan for conservation camps, and how Growlersburg would fit in with that plan, before approving this proposal.

**Date this item was originally heard.** March 9, 2023.

**Staff Recommendation. Reject.**

### Issue 20: Deferred Maintenance (GB)

**Senate's Proposal.** The Governor's budget requests to reduce by $13 million the $50 million provided in 2021-22 for CalFire to undertake deferred maintenance projects.

**Date this item was originally heard.** April 13, 2023.

**LAO Comments.** The reduction would still ease the department with sufficient funding — $37 million — to address a significant portion of the roughly $160 million backlog that has accumulated over many years. While addressing deferred maintenance is an important activity, the Governor's proposed reduction is worthy of consideration given the funds that would remain and the conditions of the General Fund.

**Staff Recommendation. Approve as proposed.**

### Issue 21: Public Works Contracts (Trailer Bill Language (TBL)) (GB)

**Governor's Proposal.** The Governor's budget requests TBL to clarify that CalFire, upon approval by the Department of Finance, is authorized to plan, design, construct, and administer contracts and professional services for public works projects under CalFire's jurisdiction.

The Administration states that this TBL clarifies CalFire's authority to continue to complete public works projects which include most maintenance and repair projects. Although CalFire staff have completed much of the department's maintenance and repair work for several decades, the Administration was recently made aware of the need to clean up the statute to continue to enable CalFire to complete this work. As CalFire is an emergency services department, it is timelier for internal CalFire staff to continue to complete smaller public works projects. In addition, CalFire staff are subject matter experts on the department's large inventory of mostly rural emergency services facilities. Since CalFire Technical Services' staff costs are primarily supported by the General Fund, rather than charged to specific projects, it is more fiscally prudent to utilize CalFire staff as opposed to Department of General Services for these types of smaller projects.

**Staff Recommendation. Approve as proposed except delete the clause, "Notwithstanding any other provision of law," from Public Resources Code Section 716 (a) and (c) because the clause is too broad.**

### Issue 22: 2023-24 Fire Protection Augmentation (MR)

**Governor's Proposal.** The May Revision requests $118.8 million one-time ($117.3 million General Fund, $1.3 million Reimbursements, and $224,000 Special Funds) and 503.5 positions in 2023-24 to augment fire protection resources given the trends associated with climate change, the long lasting effects of drought conditions, increasing fire severity and size, declining inmate camp populations to provide vegetation management, hazardous fuel reduction projects, and wildland fire suppression support.

**Date this item was originally heard.** May 16, 2023.

**Staff Comment.** The Administration clarifies that this proposal should not have included any funding for the purchase of new vehicles. Because of this clarification, Administration states that $805,000 should be removed from the proposal.

**Staff Recommendation. Approve as budgeted except reduce total by $805,000 as noted above.**

### Issue 23: Reversions of Lake Napa Projects (MR)

**Governor's Proposal.** The May Revision requests reversions of the funding authorities for the Lake/Napa Unit Auto Shop and Warehouse: Replace Facility and Lake Napa Unit Headquarters and St. Helena Fire Station: Relocate Facility projects. CalFire requests $27.3 million General Fund to be reverted. CalFire intends to propose a project for the 2024-25 fiscal year that will combine both capital projects on one site.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 24: Urban Forestry Inflation Reduction Act Grant (MR)

**Governor's Proposal.** The May Revision requests $43.2 million Federal Trust Fund and eight positions 2023-24 through 2027-28 ($8.1 million and 6.1 positions in 2023-24) to implement urban forestry grants from federal funding awarded by the US Forest Service through the Inflation Reduction Act (IRA). This authority is intended to allow CalFire's Urban & Community Forestry Program to increase the development of sustainable urban and community forests in California and assist disadvantaged communities in working towards a more equitable tree canopy distribution, providing greenhouse gas reduction, reducing the effects of extreme heat, and further changes that will benefit the people of California.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 25: Various Reappropriation Requests (MR)

**Governor's Proposal.** The May Revision requests budget bill language for various reappropriations necessary to continue implementation of existing authorized programs, including wildfire and forest resilience and mobile equipment investments.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

# 3600 CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE (CDFW)

## Issue 26: Climate Permitting Support (GB)

**Governor's Proposal.** The Governor's budget requests 40 permanent positions and $10.2 million in GF in 2023-24 and $9.6 million ongoing to expedite environmental review workload, including pre-consultation with project proponents, for priority energy and water infrastructure projects throughout the state. CDFW will allocate the positions and funding through two permitting project categories as follows:

1) 25 positions and $6.4 million for permitting energy projects.
2) 15 positions and $3.8 million for permitting water infrastructure projects.

These additional resources are intended to have the ability to work on priority energy and water infrastructure projects and augment existing staff to increase the number of permits issued each year for these two sectors.

**Date this item was originally heard.** March 9, 2023.

**Staff Recommendation. Approve as budgeted.**

## Issue 27: Solutions: Complete Fine-Scale Vegetation Mapping Reduction (GB)

**Senate's Proposal.** The Governor's budget requests to reduce $20 million General Fund intended for fine-scale vegetation mapping.

**Date this item was originally heard.** April 13, 2023.

**Staff Comments.** Reducing the $20 million intended for this effort in 2023-24 would prevent CDFW from being able to complete fine-scale statewide mapping of vegetation and habitats. As detailed in a study by CDFW, natural resource data users have confirmed that a high-resolution digital map of the state's vegetation is one of the top data requirements for the state. Completing a unified map of this data will provide critical information for land use planning, acquisitions, restoration investments, greater understanding of carbon sequestration, fire management, and climate impacts.

Illegal cannabis grows have significantly impacted vegetation and habitat. The Environmental Restoration and Protection Account in the Cannabis Tax Fund provides funding for cleanup, remediation, and restoration of environmental damage from cannabis cultivation. It would be appropriate to provide some funding from the CDFW's Cannabis Fund for this mapping project in order to support restoration, protection, and stewardship of habitat areas and watersheds.

**Staff Recommendation. Approve a reduction of $10 million General Fund, delay $10 million General Fund to 2024-25, and appropriate $10 million Cannabis Tax Fund in 2023-24.**

## 3600 DEPARTMENT OF FISH AND WILDLIFE (CDFW)
## 3860 DEPARTMENT OF WATER RESOURCES (DWR)

### Issue 28: Organizational Support for Salton Sea Management Program (SSMP) (MR)

**Governor's Proposal.** The Governor's budget requests the following:

- CDFW: Six positions, $1.7 million in 2023-24 and $1.6 million ongoing to provide technical support and aquatic habitat monitoring and management for SSMP.

- DWR: Three positions funded within existing General Fund, Prop 1, and federal fund resources to provide planning, design, implementation, monitoring, and operations and maintenance for SSMP.

The requested positions will be responsible for meeting the increased workload associated with implementation of the SSMP, including the construction and management of approximately 29,800 acres of habitat and dust suppression projects. These 9 positions will reduce dependence on future external consulting services and provide a skilled multidisciplinary team dedicated to the SSMP that will provide consistent financial and technical control and monitoring during all phases of SSMP implementation activities at the program and project level. These positions will increase the program's benefits and reduce risk by: 1) providing adequate technical and project management expertise to a program whose workload continues to expand beyond the capabilities of the positions initially assigned to the SSMP; 2) protecting the state's investment in SSMP projects by overseeing operations and maintenance contracts; 3) accelerating implementation of the SSMP to improve public health and ecological health in the region and meet the requirements of the State Water Board Order; 4) ensuring environmental compliance and documenting project outcomes; and 5) overseeing contracts for monitoring and research to inform future planning and management of the Salton Sea ecosystem.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3790 DEPARTMENT OF PARKS AND RECREATION (PARKS)

### Issue 29: New State Park – Dos Rios Ranch Day Use Public Access (GB)

**Governor's Proposal.** The Governor's budget requests $5.838 million General Fund one-time funding in 2023-24 for 17 positions, 21 vehicles and equipment costs, and $3.319 million General Fund ongoing to establish and open Dos Rios Ranch as a new state park for day-use operations to create recreational opportunities and park access to historically underserved communities in the Central Valley. Funds initially allocated for acquisition of a new state park in the 2020-21 Governor's Budget will now be used for larger planning efforts, as well as any acquisition costs.

**Date this item was originally heard.** March 9, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 30: 2023 Winter Storm Damage: Statewide Repairs and Adaptation (MR)**

**Governor's Proposal.** The May Revision requests $119 million General Fund phased over four years and $94 million in reimbursement authority for the 2023 Winter Storm Damage – Statewide Repairs and Adaptation project. This includes $14 million General Fund and $94 million in reimbursement beginning in 2023-24, $25 million General Fund in 2024-25, $40 million in 2025-26 and $40 million General Fund in 2026-27.

Additionally, the Department requests five positions, two vehicles and $1 million in ongoing reimbursement authority. FEMA funding will provide federal funding on a cost-sharing basis for the repair and replacement of the damaged facilities.

If approved, this augmentation will provide funding for three main categories: (1) strategic planning; (2) redevelopment funds to rebuild destroyed facilities back to pre-disaster condition that reflects the best science to ensure these parks are more climate-resilient; and (3) additional staffing to manage increased workload for past, current, and future FEMA disasters. As such, this proposal includes:

- $2 million for planning efforts for Seacliff State Beach (SB) ($1 million) and three parks along the Channel Coast, including El Capitan SB, Gaviota SB, and Refugio SB ($1 million). These parks were severely damaged by the 2023 Winter Storms, and it would not be possible and/or prudent to restore these parks to pre-disaster condition. Like the efforts the Department made in the Reimagining of Big Basin State Park in the aftermath of the 2020 Fire Event, rebuilding these parks will require a complete re-thinking of how and where visitor-serving facilities are reconstructed, by applying valuable lessons learned from the recent disaster, including adaptation measures to ensure new facilities are appropriately located and more resilient. In addition, the Department will also focus on addressing access and equity issues as it rebuilds these parks.

- $211 million to rebuild the various parks damaged by the 2023 Winter Storms to pre-disaster conditions, as applicable, and to rebuild the four parks described above consistent with the results of the proposed planning efforts. These funds will also be used to manage the adaptation process, which includes assessing site suitability/vulnerability, supporting sustainable design and adaptive design and management elements.

- $1 million ongoing reimbursement authority starting 2023-24 for five positions and two vehicles (4WD/AWD full-size SUVs) to address the increased workload associated with climate-driven disasters, including more frequent and disastrous fires and floods. The requested positions include two Associate Governmental Program Analysts, two Park Maintenance Chief III, and a Staff Park and Recreation Specialist.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***LAO recommends the Legislature (1) approve the 2023-24 proposal to address health and safety issues but (2) defer action on the out-year General Fund portions of the proposal to provide more time for the proposed planning process to be undertaken, cost estimates to be refined, and the Legislature to assess its options for how to rebuild state parks damaged in recent storms.***

***Governor Proposes State and Federal Funding to Rebuild Damaged Parks.*** The May Revision proposes to support various activities related to repairing recent storm damage at state parks and enhancing state park resilience to future climate change-fueled disasters. This includes:

- ***$213 Million from General Fund and Federal Funds Over Four Years for Planning and Rebuilding.*** This includes $119 million from the General Fund over four years ($14 million in 2023-24, $25 million in 2024-25, and $40 million each in 2025-26 and 2026-27) and $94 million in reimbursement authority in 2023-24 reflecting anticipated federal funds. Of this $213 million in total funding, $2 million is proposed for a planning effort at four damaged state parks to inform how they should be rebuilt to be more resilient and to reflect access and equity considerations. The remaining $211 million is proposed to support the rebuilding of various parks that were damaged by the recent winter storms, including rebuilding at the four parks.
- ***$1 Million Ongoing from Federal Funds for Disaster Workload.*** In addition, the proposal requests five positions and two vehicles to be funded from $1 million in ongoing reimbursement authority to support increased workload associated with addressing climate-driven disasters at state parks.

***Provide Funding Needed Immediately But Defer Decisions on Out-Year Spending Until More Information is Available.*** Rebuilding from the winter storms generally fits within LAO's exception for spending new General Fund to address immediate health and safety issues, so we find providing funding for this activity is reasonable in concept. LAO recommends the Legislature provide the requested General Fund for 2023-24 to enable the department to begin necessary repairs without delay. However, LAO believes that approving specific out-year General Fund amounts at this time is premature for three reasons. First, these funds are not needed in the budget year. Second, Parks has yet to complete its proposed planning efforts, which will help inform the scope of the work to be completed, including the extent to which facilities will be rebuilt in a like-for-like manner versus in a different way that could be more resilient to future disasters or provide improved access. As this planning has yet to occur, Parks has not yet refined its cost estimates for the proposed work. Third, the department has not yet solidified the amount of federal reimbursements the state expects to receive to match state funds. Accordingly, LAO recommends the Legislature defer action on the out-year portions of the General Fund request ($25 million in 2024-25, $40 million in 2025-26 and $40 million in 2026-27) to 2024-25 or a future year to provide the Legislature more time to receive additional information and consider its various potential rebuilding options prior to committing to specific spending amounts.

**Staff Recommendation. Approve the 2023-24 proposal to address public health and safety issues. Reject out-year portions portions of the General Fund request ($25 million in 2024-25, $40 million in 2025-26, and $40 million in 2026-27) in order to provide more time to receive additional information and consider various potential rebuilding options prior to committing to specific spending amounts.**

## Issue 31: Border Field State Park (SP): Monument Mesa Day Use and Interpretive Area (MR)

**Governor's Proposal.** The May Revision requests $1 million in spending authority from the $50 million General Fund transfer to the Natural Resources and Parks Preservation Fund included in the 2022-23 Governor's Budget for the preliminary plans phase of the Border Field SP: Monument Mesa Day Use and Interpretive Area project. This new project is intended to update the outdoor educational plaza at Monument Mesa within Border Field SP with mixed-use group event areas and provide interpretive elements and exhibits along with updated walkways and landscaping.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***LAO recommends rejecting this proposal—which essentially commits General Fund to a new capital outlay project—without prejudice given the condition of the General Fund.*** The May Revision proposes $1 million from the Natural Resources and Parks Preservation Fund (NRPPF) for preliminary plans for a new project to update the outdoor educational plaza at Monument Mesa within Border Field State Park. The total project cost is estimated to be $5 million. The proposal also notes that additional ongoing costs of about $130,000 annually are anticipated to be necessary to operate the park upon its renovation. As background, the 2022-23 budget package deposited $50 million General Fund into NRPPF to be appropriated by the Legislature for future Parks capital projects. In January 2023, the Governor proposed to transfer $15 million of these funds back to the General Fund as a budget solution. He proposed to retain $35 million in NRPPF, indicating this funding was necessary to support continuing Parks projects. The proposed funding for this new project would come from the remaining $35 million.

Given the condition of the General Fund, LAO recommends rejecting this proposal without prejudice and sweeping the associated NRPPF back into the General Fund. The NRPPF funds should be considered as interchangeable with those in the General Fund for the purposes of decision making—these funds were deposited from the General Fund and can therefore be shifted back to the General Fund to create a budget solution. As discussed above, given the state's budget condition, LAO recommends rejecting new General Fund commitments unless they address an urgent health or safety issue. This proposal would support the initiation of a new project to renovate a park and does not meet this high bar. Moreover, this project could result in future costs in out-years for project construction and operations, which could be problematic given projections about future deficits.

**Staff Recommendation. Reject without prejudice and revert the associated NRPPF back to the General Fund.**

### Issue 32: El Capitan State Beach (SB): Entrance Improvement (MR)

**Governor's Proposal.** The May Revision requests a supplemental appropriation of $1.3 million in reimbursement authority from the State Parks and Recreation Fund and $1.886 million in spending authority from the Natural Resources and Parks Preservation Fund for the construction phase of the continuing El Capitan SB: Entrance Improvements project in Santa Barbara County.

The Department lost $1.18 million in grant funding, which was termed out due to prolonged state and county permit processing required for this project. The Department has applied for new grant funding with another agency and will have the opportunity to reapply for grant funding from the original agency in July 2023.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 33: Fiscal Stability for Boating Programs (BCP and TBL) (MR)**

**Governor's Proposal.** The May Revision requests various adjustments to the Harbors and Watercraft Revolving Fund (HWRF). Adjustments include increasing the recreational vessel registration fee from $10 per year to $40 per year (from $20 to $80 biennially) effective January 2024, and further aligning revenues and expenditures by removing annual baseline funding for Boat Launching Facility (BLF) Grants ($6 million) and instead proposing projects through the annual budget process, and reducing support allocations for the Aquatic Invasive Species program (AIS) by $5.3 million.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***LAO recommends the Legislature defer action on the Governor's proposals, if feasible, to provide more time for careful consideration. If immediate action is needed to address the funding shortfall, LAO recommends the Legislature consider modifying the Governor's proposal to add a cost of living adjustment to the fee in order to enhance the longevity of the solution.***

***Governor Proposes Mix of Fee Increase and Expenditure Reductions to Address HWRF Insolvency.*** The May Revision includes a budget change proposal and associated budget trailer legislation to address the insolvency of HWRF by (1) increasing the recreational vessel registration fee from $10 per year to $40 per year (from $20 to $80 biennially) and (2) reducing funding for two grant programs, the Boat Launching Facility Grant program (by $6 million) and the Aquatic Invasive Species program (by $5.3 million). This proposal was submitted pursuant to budget bill language in the 2021-22 budget package that required Parks to develop a fee proposal in consultation with stakeholders and legislative staff and present it to the Legislature no later than January 10, 2023. The language required the proposal to include a combination of fee increases, expenditure reductions, and other actions designed to keep HWRF in structural balance on an ongoing basis.

***Deferring Action Would Provide More Time for Deliberation.*** At the time of this writing, LAO was still waiting for Parks to provide a fund condition statement to determine whether it would be feasible for the Legislature to defer action on this proposal until January. LAO views this as the best option since the May Revision provides minimal time to consider such a significant policy issue with long-term implications. However, according to Parks, legislative action is necessary in 2023-24 to avoid additional cuts to programs funded by the HWRF or the need for additional General Fund support.

***Based on LAO's Initial Review, Governor's Proposal Is Generally Reasonable But Does Not Provide a Permanent Solution.*** LAO's preliminary review based on the limited information available suggests that the Governor's proposal appears generally reasonable and consistent in most ways with direction the Legislature provided in 2021-22. Specifically, the proposal resulted from a stakeholder process and reflects a balanced approach—combining both a revenue increase and expenditure reductions. The programs the Governor proposes to continue supporting with HWRF appear to provide clear benefits to boaters, and thus requiring that boaters pay for them through fees is reasonable. Additionally, HWRF fees have not been raised in nearly twenty years, so it makes sense that a fee increase would be necessary to keep pace with rising costs and emerging needs. LAO notes that one way that the proposed solution appears to be inconsistent with the 2021-22 language is that it does not propose a permanent solution. Instead, Parks indicates that it will review the fund every four years for potential changes to the structure and level of the fees, and that it expects adjustments may be needed in 2029-30 to retain fund solvency. The Governor's proposal also does not include a mechanism that would allow the fees to keep pace with inflation.

***If Feasible, Recommend Deferring Action; If Not Feasible, Recommend Modifying Proposal to Increase Longevity of Solution.*** Given LAO finds the proposed approach reasonable, if the fund condition statement confirms that deferring action on the new fee is not feasible without significantly disrupting existing programs, LAO recommends the Legislature adopt the Governor's proposal. LAO does recommend the Legislature consider slightly modifying the proposal to incorporate a cost-of-living adjustment to enable fees to keep pace with inflation and make the solution more long lasting.

**Staff Recommendation. Considering the comprehensiveness of this proposal and the issues its trying to address, unknown fund condition at this time, lack of a permanent solution, as well as the short timeframe for the Legislature to deliberate, staff recommends to reject this proposal without prejudice.**

## Issue 34: Oceano Dunes State Beach Operations (MR)

**Governor's Proposal.** The May Revision requests provisional language to authorize the Department of Finance to increase expenditure authority in SPRF by up to $11.904 beginning January 1, 2024, through June 30, 2024, for use at Oceano Dunes State Vehicular Recreation Area. This proposal will provide for ongoing support operations, continued staffing, and initial planning efforts if the California Coastal Commission's amendment to the 1982 Coastal Development Permit requiring the Department to cease Off Highway Vehicle recreation by January 1, 2024, becomes effective.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## Issue 35: Providing Efficient Environmental Review for Federal and State Projects (MR)

**Governor's Proposal.** The May Revision requests $764,000 in 2023-24 and $724,000 ongoing from the General Fund, for four permanent positions to address the increase of federal and state reviews performed by the Office of Historic Preservation (OHP). OHP reviews all federal undertakings in California under the National Historic Preservation Act and reviews state projects that may affect historical resources on state-owned property under the Public Resources Code. The quantity and complexity of federal and state reviews have increased significantly in the past ten years. However, OHP has acquired no new positions during that same timeframe and can no longer continue redirecting workload to existing positions while managing other mandated programs.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 36: Reversion: Special Legislation Items (MR)

**Governor's Proposal.** The May Revision requests to revert the remaining balances, totaling $3.2 million, from various appropriations that are no longer needed by the Department.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 37: Sonoma Open Space Area Operations — Technical Correctional to Reimbursement Authority (MR)

**Governor's Proposal.** The May Revision requests a Budget Bill Language Correction to transfer $3 million in reimbursement authority from the Off-Highway Vehicle (OHV) Trust Fund to the State Parks and Recreation Fund to manage the open space park lands within the Sonoma Developmental Center. This is a technical adjustment to correct the reimbursement authority for this item, which was erroneously placed in the OHV Trust Fund.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 38: Various Reappropriations, Reversions, and Technical Adjustments (MR)

**Governor's Proposal.** The May Revision requests that Item 3790-490, Item 3790-491, Item 3790-492, Item 3790-493, Item 3790-495 and Item 3790-496 be added to reappropriate and revert specified amounts in various general fund and special fund appropriations for support and capital outlay. This request includes reappropriation of existing support, local assistance, and capital outlay appropriations to allow for the completion of projects currently in process, a reversion of $940,000 from Proposition 68 to stay within the 5 percent cap for program delivery, revert remaining balances for continuously appropriated items for support and capital outlay as they are no longer needed by the Department, and technical corrections for previously approved budget change proposals

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 39: Winter Recreation Fund Program Support (MR)**

**Governor's Proposal.** The May Revision requests $469,000 one-time Winter Recreation Fund to accommodate unmet visitor services workload at SNO-Parks, as well as project backlogs and cost increases for US Forest Service projects.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3820 San Francisco Bay Conservation and Development Commission (SF BCDC)

**Issue 40: Department of Justice Legal Costs (MR)**

**Governor's Proposal.** The May Revision requests $170,000 General Fund one-time to cover increased litigation costs anticipated in 2023-24.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 41: Realignment of Career Executive Assignment (CEA) Positions (MR)**

**Governor's Proposal.** The May Revision requests $150,000 General Fund ongoing to fund increased salaries and benefits costs for two existing CEA positions (Director of Regulatory and Director of Planning). These additional resources are required due to the realignment of the positions from an administrative to a scientific bargaining unit due to the changing natures of the two positions.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3835 Baldwin Hills Conservancy (BHC)

**Issue 42: Reappropriation: Proposition 68 Local Assistance (MR)**

**Governor's Proposal.** The May Revision requests reappropriation of the unencumbered balance of Proposition 68 local assistance funds, as published in the 2020 and 2021 Budget Acts, to implement forthcoming proposed projects in Disadvantaged and Severely Disadvantaged Community service areas.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

# 3860 DEPARTMENT OF WATER RESOURCES (DWR)

**Issue 43: Sustainable Groundwater Management Act (SGMA) – Program Delivery (GB)**

**Governor's Proposal.** According to LAO, the Governor's budget:

***Proposes $14 Million in Ongoing General Fund to Support 40 Positions, 11 of Which Are New.*** The Governor's budget proposes $14 million General Fund on an ongoing basis and authority for 11 new positions to support SGMA implementation activities. In addition to supporting the new positions, this funding would backfill expiring Proposition 68 funds in order to continue funding 29 existing positions. Overall, the proposal would sustain roughly the same current number of positions in the SGMA program, as most of the 11 new positions would backfill some of the current staff who were temporarily assigned to SMGA work but will be transitioning back to their other DWR responsibilities beginning in 2024-25.

***Proposes $900,000 in One-Time General Fund Support to Develop Groundwater Trading Implementation Plan.*** The budget proposes $900,000 General Fund on a one-time basis to develop an implementation plan for groundwater trading that considers vulnerable users. The funding would support two DWR positions and engage consulting services to help complete the plan. The plan would be developed based on recommendations in the California Water Commission's white paper, *A State Role in Supporting Groundwater Trading with Safeguards for Vulnerable Users: Findings and Next Steps*. This one-time planning effort would include interagency coordination among DWR, Department of Fish and Wildlife, Department of Food and Agriculture, and SWRCB. It would consider impacts on disadvantaged communities, small and medium farmers, and the environment.

**Date this item was originally heard.** March 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 44: Flood Management Proposals (GB):**
**(a) Delta Levee System Integrity and Habitat Restoration Program**
**(b) Systemwide Flood Risk Reduction Paradise Cut and Yolo Bypass Projects**
**(c) Yolo Bypass-Cache Slough Master Plan and Comprehensive Study**
**(d) Urban Flood Risk Reduction**
**(e) 2027 Central Valley Flood Protection Plan**
**(f) Central Valley Flood Protection Board: Local Maintenance Agency Assistance Program**
**(g) Flood Maintenance Operations Support**

**Governor's Proposals.** According to LAO, the Governor's budget proposes $119 million General Fund in 2023-24 and $35 million General Fund in 2024-25 for various flood projects in the Central Valley. The funding would support five projects and two studies conducted in collaboration with USACE. It also would support two projects as part of the Urban Flood Risk Reduction (UFRR) Program. (UFRR projects are consistent with USACE feasibility studies, but can be conducted on a faster time line by the state. Additionally, USACE typically requires the state to contribute a share of the costs of undertaking federal projects in California, and UFRR expenditures can be credited toward these requirements on future USACE projects.) Finally, funding would support two additional state projects and one study. More specifically, the Governor's budget requests the following:

**(a)** ***Delta Levee System Integrity and Habitat Restoration Program.*** $13.2 million General Fund one-time ($11.2 million for state operations and $2 million Local Assistance (two-year encumbrance and three-year liquidation period); and $27.4 million in Proposition 1 funding for local assistance. Funding will provide continued support to the Delta Levees Maintenance Subventions Program and the Delta Levees Special Flood Control Projects Program that includes multi-benefit (i.e., levee and habitat improvement) project work. To allow for the accelerated delivery of LA funds, this proposal requests provisional language in the budget act to include: Any guidelines adopted to implement projects or activities are not subject to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code. DWR's Delta Levee System Integrity and Delta Habitat Restoration Branch (Program) expects to commit all previously appropriated funding for projects by Spring 2023 and spend the next several years implementing the projects. Additionally, all state operations funds for administering the Program will be expended by June 2023.

**(b)** ***Systemwide Flood Risk Reduction Paradise Cut and Yolo Bypass Projects.*** $25 million in 2023-24 in Capital Outlay (CO) from General Fund. This request will support work and contracts needed to carry out the Paradise Cut Multi-Benefit Project and Yolo Bypass Fix-In-Place Projects. These projects improve climate resilience by reducing the risk of flooding while contributing to ecosystem restoration and other societal benefits such as agricultural sustainability.

**(c)** ***Yolo Bypass-Cache Slough Master Plan and Comprehensive Study.*** $3.35 million General Fund one-time for the state cost-share of the US Army Corps of Engineers (USACE) Yolo Bypass Comprehensive Study and continued development of the Yolo Bypass-Cache Slough Master Plan. The Master Plan will serve as the work plan, including all necessary projects and activities, for the Yolo Bypass-Cache Slough (YBCS) Partnership to achieve its goals for flood protection and public safety, ecosystem restoration, water supply and quality reliability, agricultural sustainability, and recreation. The USACE-led Comprehensive Study will evaluate the flood management projects in the Master Plan. Assuming the Comprehensive Study determines the projects generate significant net benefits and advance federal interests, then federal funding could be made available to match state and local funding for project implementation.

**(d)** ***2027 Central Valley Flood Protection Plan.*** $36.91 million General Fund State Operations in the following fiscal years: 1) $4.41 million ($3.998 million DWR and $0.412 million CVFPB) in 2023-24; $11 million in 2024-25; $11.5 million in 2025-26; $10 million in 2026-27. This funding supports the development of the 2027 Update to the Central Valley Protection Plan (CVFPP) and Conservation Strategy (CS) as required by Water Code Sections 9600-9616.

**(e)** ***Central Valley Flood Protection Board (CVFPB): Local Maintenance Agency Assistance Program.*** $623,000 General Fund ongoing for three new full-time, engineering permanent positions to carry out the new Deferred Encroachment Compliance Program (DECP). The DECP has a primary goal of retaining or regaining compliance with the United States Army Corp of Engineer's (USACE) PL 84-99 Rehabilitation Program for the Central Valley levees that the Board, and ultimately the State of California, are responsible to operate and maintain. These three new positions will exercise the Board's enforcement and permitting authority to resolve hazardous encroachments, develop and implement a programmatic permitting process for Local Maintaining Agency (LMA) maintenance activities (Governor's Water Resilience Portfolio Action 25.2), assist LMAs in preparation of Letters of Intent and System-wide Improvement Framework plans for regaining PL 84-99 eligibility, manage and update LMA assurance agreements, and facilitate consolidation of LMAs or formation of State maintenance areas when necessary.

**(f)** ***Urban Flood Risk Reduction.*** $135.5 million General Fund, including $90 million to support state cost-share of critical USACE projects and Urban Flood Risk Reduction (UFRR) projects and $10 million for State Operations to support and manage USACE and UFRR projects during 2023-24, and $35 million General Fund in 2024-25. DWR requests a five-year extended encumbrance and two-year liquidation period for the $125 million project funds, and a one-year encumbrance and two-year liquidation period for $10 million for the state operations support efforts.

**(g)** ***Flood Maintenance and Operations Support.*** $655,000 General Fund ongoing and position authority of two new full-time permanent positions to address increased workload and to continue providing critical flood maintenance and operations support. Position authority and funding are requested to meet the increasing workload and support

**Date this item was originally heard.** April 13, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 45: Dam Safety and Flood Management Grant Program (TBL) (GB)**

**Governor's Proposal.** The Governor's budget requests TBL to do the following:

1) Require DWR to, upon appropriation by the Legislature, develop and administer the Dam Safety and Climate Resilience Local Assistance Program (Program).
2) Specify that the Program would provide state funding for repairs, rehabilitation, enhancements, and other dam safety projects at existing state jurisdictional dams and associated facilities, subject to prescribed criteria.
3) Require DWR to develop and adopt program guidelines and project solicitation documents before disbursing any grant funds.
4) Require a grant cost share of at least 50 percent for projects funded pursuant to the Program, except as provided.

The 2022-23 Budget included $100 million for dam safety, to be allocated as $75 million in 2023-24 and $25 million in 2024-25.

**Date this item was originally heard.** April 13, 2023.

**Staff Recommendation. Approve as proposed, but with the following amendments: (a) limit the program to jurisdictional dams (and associated facilities) that have been in service prior to January 1, 2023; and, (b) delete "but are not limited to" proposed in PRC 6700(b).**

**Issue 46: Division of Safety of Dams Fees (TBL) (GB)**

**Governor's Proposal.** The Governor's budget requests TBL to do the following:

1) Require the Attorney General, upon request of DWR, to bring an action in superior court seeking injunctive relief, penalties, fees, costs, or any other remedies available to the department, as specified.
2) Increase fees for the filing of an application, as specified, and include the repair, alteration, or removal of an existing dam or reservoir.
3) Authorize DWR to adjust the fee schedule by regulation to ensure the filing fees collected reasonably cover the department's costs of application work, which may include, design review and construction oversight.
4) Authorize DWR to refund filing fees paid by the owner if requested by an owner.
5) Authorize DWR to adopt, by regulation, a methodology for determining the criteria and process for filing fee refunds requested by an owner.
6) Require the estimated cost of a new dam or reservoir, or the enlargement, alteration, repair, or removal of an existing dam or reservoir to include the labor costs of the owner for preparing environmental review documentation.

**Date this item was originally heard.** April 13, 2023.

**Staff Comment.** Water Code Section 6304 is proposed to be amended as follows: "An application shall not be considered by the department until *at least 20 percent* of the filling fee is ~~received.~~ *received, unless otherwise approved by the department. The application shall not be approved by the department until the filing fee is received in full.*" "Unless otherwise approved by the department" could be confusing on what is being approved. Is the language referring to unless the application itself is approved? Or is it referring to the ability of DWR to consider an application although 20 percent of the filing fee has been received. Assuming it is the latter, staff recommends to amend as follows, "received, unless ***the department decides to consider*** otherwise~~ approved by the department~~."

**Staff Recommendation. Approve as proposed but with amendments reflected in the staff comment.**

**Issue 47: Solutions — Reversion of 2021 and 2022 Balances: Agriculture and Delta Drought Response Program (LandFlex) and Salinity Barriers (MR)**

**Senate's Proposal.** The May Revision requests that Item 3860-495 be added to revert $24.5 million California Emergency Relief Fund for the drought salinity barrier in the 2022 Budget Act and $25 million for the Agriculture and Delta Drought Response Program (LandFlex) in the 2022 Budget Act.

The Department no longer anticipates needing to install the salinity barriers as a result of improved water conditions. The 2022 Budget Act included $50 million for LandFlex, which provides block grants to local government agencies to incentivize farmers to limit agricultural groundwater use near drought-stricken communities with drinking water wells that have gone dry or are close to going dry. DWR awarded $25 million in the first round of grants. Given that water conditions have significantly improved, the May Revision proposes a reversion of the remaining $25 million for this program.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as proposed.**

## 3930 DEPARTMENT OF PESTICIDE REGULATION (DPR)

**Issue 48: Accelerate Transition to Sustainable Pest Management and Continue Mission Critical Work (MR)**

**Governor's Proposal.** The May Revision requests seven permanent positions, $1.912 million DPR Fund in 2023-24 and $1.412 million DPR Fund in 2024-25 and ongoing. This funding is intended to support the state's shift from the use of high-risk pesticides to sustainable pest management as the de facto approach to managing pests by adding resources to improve the department's registration process and prioritize safer alternative products, accelerate the evaluation of high-risk legacy pesticide products, and lead strategic agency and stakeholder engagement/collaboration and the development of plans, programs and proposed funding to support systemwide implementation of safer, sustainable pest management in agricultural and urban environments.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 49: Technical Adjustments: Provisional Language Cleanup (MR)**

**Governor's Proposal.** The May Revision requests to add provisional language to Item 3930-001-0106 for the Pest Management Research Grant Program and Pest Management Alliance Grant Program to allow encumbrance or expenditure until June 30, 2025. These are provisions agreed to in previous budgets that were inadvertently excluded from the Governor's Budget. It is also requested to delete Provision 1 in Items 3930-001-0001, 3930-002-3288, and 3930-102-3288 since this provisional language no longer applies.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)

**Issue 50: Water Rights Modernization Continuation (GB)**

**Governor's Proposal.** The Governor's budget requests $31.5 million General Fund in 2023-24 for the Updating Water Rights Data for California (UPWARD) modernization project, which is a foundational piece of California's broader water rights modernization effort. This request for one-time contract funds is intended to allow the UPWARD project to be completed on time and with adequate functionality.

**Date this item was originally heard.** March 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 51: Implementation of the Sustainable Groundwater Management Act (SGMA) (MR)**

**Governor's Proposal.** The May Revision requests $4.8 million General Fund in 2023-24 and 2024-25 to support 19 new permanent positions and $500,000 in contracting capacity to continue implementation of the Sustainable Groundwater Management Act (SGMA) to protect groundwater users and uses where and while local efforts remain inadequate. This new workload reflects that, in March 2023, the Department of Water Resources found local governments' management efforts in six basins to be inadequate.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 52: Technical Adjustment: Reappropriation (MR)**

**Governor's Proposal.** The May Revision requests that Item 3940-490 be added to extend the encumbrance period for Item 3940-008-3058, Budget Act of 2018, until June 30, 2024. This reappropriation will allow SWRCB to continue to utilize the funding for the California Environmental Protection Agency Sacramento Headquarters Space Optimization Project.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

## 3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

### Issue 53: Staff Support for Expedited Cleanup of California National Priorities List (NPL) Sites (GB)

**Governor's Proposal.** The Governor's budget requests six permanent positions and $1.4 million Toxic Substances Control (TSCA) in 2023-24 and annually thereafter for DTSC's Site Mitigation and Restoration Program in order to implement needed oversight of 22 NPL projects during the investigation, remedy construction, and long-term operation and maintenance. DTSC will seek federal reimbursement for these costs through the Multi- Site Cooperative Agreement federal grant fund.

**Date this item was originally heard.** March 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 54: Administration of the Generation and Handling Fee (MR)

**Governor's Proposal.** The May Revision requests $55 million in loans—$15 million from the Toxic Substances Control Account and $40 million from the Beverage Container Recycling Fund—to the Hazardous Waste Control Account (HWCA) in 2023-24. This request also includes $1.2 million from the HWCA for five positions and increased contract authority to support in-depth analysis of the current shortfall in Generation and Handling Fee revenues, as well as to increase various fee administration activities to better ensure that generators are paying the amounts owed.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 55: Exide: Parkways Cleanup Funding (MR)**

**Governor's Proposal.** The May Revision requests a total of $67.3 million from the Lead-Acid Battery Cleanup Fund to the Exide Program in 2023-24 ($40.4 million) and 2024-2025 ($26.9 million) to clean up 6,425 parkways surrounding the former Exide Technologies facility in Vernon, California.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 56: Loan from the Toxic Substances Control Account to the Hazardous Waste Control Account (MR)**

**Governor's Proposal.** The May Revision requests $15 million to support a loan from the Toxic Substances Control Account to the Hazardous Waste Control Account to address a short-term revenue deficit stemming from lower than anticipated revenue from the Generation and Handling Fee.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 57: DTSC Environmental Justice Advisory Council (TBL) (MR)**

**Governor's Proposal.** The May Revision requests trailer bill language to clarify that members of the forum are entitled to a $100 per day per diem for participation in meetings, as well as reimbursement of reasonable travel expenses, similar to advisory committees that support other state departments.

SB 158 (Committee on Budget and Fiscal Review), Chapter 73, Statutes of 2021, authorized the creation of an environmental justice forum that represents communities across California to provide environmental justice advise and recommendations. Of the $300 million appropriated in SB 158, $2 million (over four years) was designated for support of the forum.

**This item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as proposed.**

## 3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CALRECYCLE)

**Issue 58: Development of a Statewide Zero Waste Plan (GB)**

**Governor's Proposal.** According to the LAO, the Governor's budget includes $2 million on a one-time basis in 2023-24 from the Beverage Container Recycling Fund to develop a zero waste plan. The zero waste plan would identify gaps in CalRecycle's programs and existing laws and recommend changes needed for the state to meet and exceed the goal established under AB 341 (Chesbro), Chapter 476, Statutes of 2011 by 2035. The department would aim to complete the plan in fall 2025. The Governor's budget also includes $301,000 ongoing from multiple special funds beginning 2023-24 to support two positions to oversee the development of the plan and coordinate its implementation once completed.

**Date this item was originally heard.** March 16, 2023.

**Staff Recommendation. Taking into consideration the valid concerns raised by LAO and its recommendations, as well as an understanding that a comprehensive "roadmap" for the state moving forward in the waste and recycling arena could be beneficial, staff recommends to approve as budgeted, but add budget bill language to do the following:**

1) **Require the department to submit a report to the Legislature by July 1, 2024, which shall evaluate the effectiveness of the department's existing programs and identify programmatic and department-wide changes needed to improve these programs;**

2) **Extend the date of publishing the Zero Waste Plan to January 1, 2026, and require the Plan to include, but not be limited to, the following: a status update on the implementation of the programmatic and department-wide improvements identified in the initial report; evaluate whether newly established and recently expanded programs are aligning with their intended goals; identify additional strategies needed to achieve the statewide goal of having at least 75 percent of solid waste generated be source reduced, recycled, or composted; and provide recommendations for legislative changes, if any, that are necessary to achieve the statewide goal.**

### Issue 59: Technical Adjustment: Beverage Container Recycling Pilot Program (MR)

**Governor's Proposal.** The May Revision requests a reappropriation to continue implementation of the Beverage Container Recycling Program Pilot Projects. Specifically, CalRecycle requests for an extension of the encumbrance period to June 30, 2025.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

### Issue 60: Various Reappropriations: CalRecycle Integrated Information System (CRIIS) and Beverage Container Recycling Program (MR)

**Governor's Proposal.** The May Revision requests that Item 3970-490 be added to reappropriate the balance of funds from Item 3970-101-0133, Budget Act of 2022 for encumbrance until June 30, 2024. This funding supports California Department of Technology Project Approval Oversight during the implementation phase of the CalRecycle Integrated Information System project. Additionally, it is requested that Item 3970-491 be added to reappropriate the balance of funds from Item 3970-101-0133, Budget Act of 2021 for encumbrance until June 30, 2025. This funding supports implementation of the Beverage Container Recycling Program Pilot Projects.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 61: Beverage Container Recycling Fund: Loan to Hazardous Waste Control Account (MR)**

**Governor's Proposal.** The May Revision requests that Item 3970-012-0133 be added to support a $40 million loan from the Beverage Container Recycling Fund to the Hazardous Waste Control Account to address a short-term revenue deficit stemming from lower than anticipated revenue from the Generation and Handling Fee (see Attachment 4). It is also requested that budget bill language be added to authorize the General Fund to support repayment of all or a portion of the loan under specified circumstances.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

**Issue 62: Beverage Container Recycling Fund: Loan to General Fund (MR)**

**Governor's Proposal.** The May Revision requests that Item 3970-013-0133 be added to support a $100 million loan to the General Fund. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes this adjustment to assist in closing the projected shortfall and ensuring the submission of a balanced budget plan. It is also requested that budget bill language be added to authorize repayment of all or a portion of the loan under specified circumstances.

**Date this item was originally heard.** May 16, 2023.

**Staff Recommendation. Approve as budgeted.**

# 0690 California Office of Emergency Services (Cal OES)
# 0509 Governor's Office of Business & Economic Development
# 3860 Department of Water Resources (DWR)
# 3940 State Water Resources Control Board (SWRCB)

## FLOOD PACKAGE (May Revision)

The May Revision proposes $290 million one-time General Fund for statewide flood response and support as follows:

- $125 million as a flood contingency set-aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms, the resulting snowmelt, and other flooding risks.
- $75 million to support local flood control projects such as the Pajaro River Flood Risk Management Project.
- $25 million to expand the scope of the California Small Agricultural Business Drought Relief Grant Program.

- $25 million set-aside in the current year in anticipation of potential disaster relief and response costs associated with recent storms and future flooding.

- $40 million for San Joaquin Floodplain Restoration, which restores the current year General Fund reduction proposed in the Governor's Budget.

The Flood Package proposal also includes legislation to codify provisions from recent executive orders that allow for diversion of flood flows for groundwater recharge purposes, subject to restrictions to protect water quality, infrastructure, and wildlife habitats. The proposal would set conditions for diverting floodwaters without permits or affecting water rights. The proposed legislation would also extend specified streamlining efforts related to water conservation to the Colorado River basin.

**Issue 63: Flood Package — Flood Contingencies (MR)**

**Governor's Proposal.** The May Revision requests that that Control Section 11.86 be added to administer a $125 million one-time General Fund flood contingency set aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms, the resulting snowmelt, and other flooding risks, including, but not limited to, supporting communities and vulnerable populations, such as farmworkers, from these impacts and to better withstand future flood events.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***Approve $125 Million for Flood Contingencies But Modify Allowable Uses and Reporting Language.*** The state will be in a better position to pay for response and recovery costs that are likely to be incurred if some amount of funding has been aside. The LAO notes that the particular amount proposed—$125 million—is not based on any specific assessment of need. Rather, this is the amount that the Governor had proposed for drought contingencies in January, which the Administration now proposes to redirect for flood contingencies. Because the state does not yet have certain estimates of what the funding need will be, however, maintaining the amount set aside in January seems to be a reasonable approach. LAO recommends the Legislature modify the Governor's proposal in two ways:

- ***Expand Allowable Uses to Include Both Urgent Drought and Flood Response Activities.*** Even though California had a very wet winter and the state's hydrologic conditions have changed, some drought impacts still linger. For example, some households and communities are dependent on wells that are still dry. LAO therefore suggests the Legislature consider making the funding available for both drought- and flood-related contingencies, such as ensuring access to drinking water or helping vulnerable households recover from flood damage. Broadening the allowable uses of these funds would better enable the state to respond to the highest priority drought or flood needs that may emerge over the coming year. The Legislature could also include additional parameters to help ensure these funds fill existing gaps, such as requiring that the funding be prioritized for expenditures that are not eligible for federal or local funding.

- ***Modify Reporting Language to Increase Legislative Oversight.*** LAO also suggests the Legislature add more accountability measures to the proposed control section language to increase opportunities for legislative oversight. For example, rather than requiring the Department of Finance to notify the Joint Legislative Budget Committee within 10 days *after* making an allocation from these contingency funds, the language could require notification to occur 10 days *prior* to making an allocation. (The language could allow the Administration to request a waiver of the 10 days if the funding need is especially urgent.)

**Staff Recommendation. Approve as budgeted except add modifications as recommended by LAO to expand allowable uses to include both urgent drought and flood response activities and adopt placeholder reporting language to increase opportunities for legislative oversight.**

**Issue 64: Flood Package — California Small Agriculture Business Drought and Flood Relief Grant Program (Finance Letter & TBL) (MR)**

**Governor's Proposal.** The May Revision requests that Item 0509-102-0001 be increased by $25 million one-time to expand the existing California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by recent storms. It is requested that provisional language be added to allow the funds to be available for encumbrance or expenditure until December 30, 2024. It is also requested that statutory changes be made to expand the existing program to include a round of grants for these businesses.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***Reject New $25 Million for Small Agricultural Businesses Flood Relief Grants, Expand Allowable Uses of Existing Funds.*** The 2022-23 budget provided $75 million from the General Fund to GO-Biz for drought relief grants for small agricultural businesses. This funding has not yet been awarded (GO-BIZ expects to launch the application in early July). Existing demand for either drought or flood relief grants is currently unknown. In light of this uncertainty and the state's budget deficit, LAO recommends rejecting the additional $25 million in 2023-24 for flood relief, and instead suggests allowing the 2022-23 funding to be used for both drought and flood relief. Although LAO's recommendation could delay award of drought relief grants (as GO-Biz would have to reconfigure the program somewhat), this could end up broadening the pool of eligible applicants, since eligibility for the existing program was complicated by the change in the tax filing deadline.

**Staff Comments.** The GO-Biz's Small Agriculture Business Drought Grant Program was appropriated $75 million. None of the funding has been granted so far because the program is not up and running yet. The timeline for standing up the program is not clear.

The purpose of the Administration's proposal has merit because small farmers impacted by drought and flood are going into extreme debt. Also, small farmers tend not to have crop insurance or relief from federal programs. There is an urgency to help the farmers now before some go out of business.

The California Underserved and Small Producers (CUSP) Grant Program at the Department of Food and Agriculture serves a common goal as the GO-Biz program and is up and running now. CUSP is able to provide grant relief much more quickly than the GO-Biz program that has yet to open its doors for business.

Considering the immediacy of this matter for many small farmers, it makes more practical sense to shift the $25 million to CDFA's CUSP Grant Program to be available for drought and flood relief; and amend statute accordingly.

**Staff Recommendation. Approve the requested funding amount of $25 million but move this funding to the California Underserved and Small Producers (CUSP) Grant Program at the**

**California Department of Food and Agriculture for the same purpose and adopt placeholder TBL to ad flood relief for grant eligibility in CUSP. Adopt placeholder TBL for the $75 million already appropriated to GO-Biz's Small Agriculture Business Drought Grant Program to be used for both drought and flood.**

## Issue 65: Flood Package — Flood Control Subventions Program (FCSP) (MR)

**Governor's Proposal.** The May Revision requests a new appropriation of $75,000,000 of General Fund to continue implementing the Flood Control Subventions Program (FCSP). The FCSP provides financial assistance for the State cost-share of federally authorized and federally led flood management projects undertaken by local partners. California Water Code (CWC) mandates the application and administration processes by which local agencies can obtain reimbursement from the State, and additional funding is needed to meet the Department's existing obligations anticipated over the next two years.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***Approve $75 Million for FCSP.*** Because it would help protect health and safety, draw down additional federal funding, and fulfill existing state obligations, LAO thinks this proposal merits the additional General Fund costs despite the budget problem. The projects that would be supported by this funding have already been authorized by both the State Legislature and US Congress, and the state therefore has an obligation to fund the share of cost to which it agreed in state statute. In recent years, state bonds funded most of the state share of FCSP projects, however, most of the flood-related bond funds have been expended. Based on local projects' most recent five-year cost estimates, the state will owe about $533 million for the 16 federally authorized projects between now and 2026-27, and the proposed $75 million will support the share of these costs projected to materialize in the budget year. Moreover, these projects help protect communities, including the disadvantaged community of Pajaro, that fall outside the State Plan of Flood Control and therefore typically receive comparatively less flood funding support. This proposed spending would assist local communities in drawing down federal financial, engineering, and construction support for their flood control projects and thereby help avoid future disasters.

**Staff Recommendation. Approve as budgeted.**

## Issue 66: Flood Package — Disaster Response Emergency Operations Account (DREOA) (MR)

**Governor's Proposal.** $25 million in 2022-23 for additional potential flood emergency costs that may have materialized in the current year. (These funds would be provided through the Office of Emergency Services.)

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***Approve $25 Million Current-Year DREOA Funds.*** The winter storms and resulting floods have already increased state costs in the current year by approximately $145 million. The proposed $25 million for current-year emergency operations funding would help the state deal with potential additional costs that may be incurred over the final months of 2022-23. LAO notes that many of these costs ultimately will be reimbursed by the Federal Emergency Management Agency.

## Issue 67: Flood Package — Drought and Flood Streamlining (TBL) (MR)

**Governor's Proposal.** The May Revision requests TBL to make recent temporary permitting rules permanent. The proposed TBL would (1) codify a recent executive order that streamlines authorization of diversion of flood flows for groundwater recharge, (2) make permanent statutory provisions, which are set to expire January 1, 2024, that exempt certain interim and immediate drought relief actions from the California Environmental Quality Act and other approval processes; (3) increase SWRCB's authority to enforce its regulations through cease and desist orders; and (4) extend authorities for certain Colorado River conservation efforts until December 31, 2026.

**Date this item was originally heard.** May 16, 2023.

**LAO Comments.** ***Defer Action on Permitting Trailer Bill Language to Allow More Time for Thorough Legislative Deliberation.*** The intentions the Administration expresses for its TBL proposal have some merit in concept. For example, the TBL attempts to help the state more efficiently manage flooding in wet years, both to reduce flood risks and to facilitate groundwater recharge. The latter could benefit groundwater sustainability and increase water supply that could be used during times of drought. However, the Legislature does not have sufficient time in the final weeks before the budget must be enacted for thoughtful deliberation or assessment of potential long-term implications of each component of the proposal. For instance, there currently are differing interpretations of how the proposed language would or would not change water rights related to diversion of flood flows. The Legislature will want to ensure the language accurately reflects its intent. The administration believes the issues addressed in this proposal are urgent and thus require codification in trailer bill. However, to the extent that the Administration is concerned additional near-term authority is needed to minimize flood risks and promote groundwater recharge this summer, LAO notes the Governor just issued a new executive order that expands recent flood-related orders and extends some provisions—which were set to end June 1—to August 31. The Governor could extend these temporary provisions even further if additional short-term actions are needed before the Legislature acts on more permanent changes. Moreover, thanks to this year's rain and snow, the need for immediate drought relief is lessened.

**Staff Recommendation. Reject.**

**0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT: IBANK**
**0521 SECRETARY FOR TRANSPORTATION AGENCY**
**0540 CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)**
**0650 OFFICE OF PLANNING AND RESEARCH (OPR)**
**0650 OPR: STRATEGIC GROWTH COUNCIL (SGC)**
**3125 CALIFORNIA TAHOE CONSERVANCY**
**3340 CALIFORNIA CONSERVATION CORPS (CCC)**
**3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION (CEC)**
**3480 DEPARTMENT OF CONSERVATION (DOC)**
**3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)**
**3600 DEPARTMENT OF FISH AND WILDLIFE (CDFW)**
**3640 WILDLIFE CONSERVATION BOARD (WCB)**
**3760 STATE COASTAL CONSERVANCY (SCC)**
**3790 DEPARTMENT OF PARKS AND RECREATION (PARKS)**
**3825 SAN GABRIEL AND LOWER LOS ANGELES RIVERS AND MOUNTAINS CONSERVANCY (RMC)**
**3830 SAN JOAQUIN RIVER CONSERVANCY**
**3835 BALDWIN HILLS CONSERVANCY**
**3845 SAN DIEGO RIVER CONSERVANCY**
**3850 COACHELLA VALLEY MOUNTAINS CONSERVANCY**
**3855 SIERRA NEVADA CONSERVANCY**
**3860 DEPARTMENT OF WATER RESOURCES (DWR)**
**3875 SACRAMENTO-SAN JOAQUIN DELTA CONSERVANCY**
**3900 CALIFORNIA AIR RESOURCES BOARD (CARB)**
**3940 STATE WATER RESOURCES CONTROL BOARD (SWRCB)**
**3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CALRECYCLE)**
**4700 COMMUNITY SERVICES AND DEVELOPMENT (CSD)**
**8570 CALIFORNIA FOOD AND AGRICULTURE (CDFA)**
**8660 CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC)**

**Issue 68: Governor's Proposed Budget Solutions: Climate-Energy Packages (GB & MR)**

**Governor's Proposal.** ***Governor's January Proposal*:** Among the various proposals to help address the $32 billion budget deficient, the Governor's January budget solutions include:

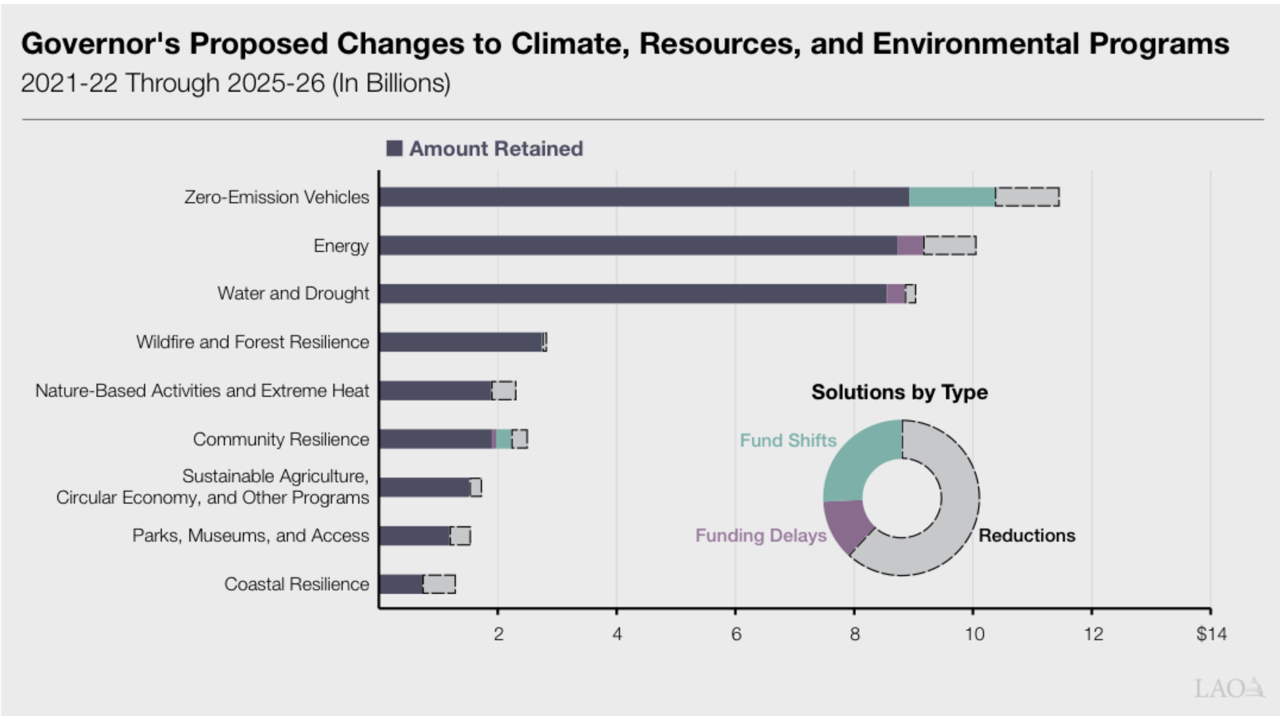
- Approximately $5.8 billion in solutions across five years, including $5.5 in 2023-24, as follows:

- $4.1 billion in reductions ($3.8 billion in 2023-24).
- $1.7 billion in fund shifts ($875 million in 2023-24).
- $800 million in funding delays.

- $2.2 billion in potential "trigger" restorations.

- Greenhouse Gas Reduction Fund (GGRF) trigger restoration approach.

- Some new spending.




*Source: LAO*

According to the LAO, the Governor's proposed solutions in the Climate-Energy Package:

*Uses Three Strategies to Generate $5.8 Billion in General Fund Solutions Across Five Years From Climate, Natural Resources, and Environmental Protection Programs.* The Governor relies on three strategies to achieve General Fund savings from climate, resources, and environmental programs: reductions, fund shifts, and funding delays. This includes $5.5 billion in General Fund savings in 2023-24—$3.8 billion from spending reductions, $875 million from reducing General Fund and backfilling with a different fund source, and roughly $800 million from delaying spending to a future year. The proposal includes additional net savings of $300 million in the out-years—$1.1 billion from further reductions and fund shifts, largely offset by the resumption of the delayed expenditures. The Governor's proposed approach differs by thematic area. For each area, the Governor proposes maintaining the majority of intended funding—using General Fund or a different source—across the five years.

- *Reductions.* The Governor reduces funding for selected programs. In some of these cases, the proposal is to rescind funding that was provided in the current or prior year that departments have not yet expended. In others, the Governor proposes not providing funding in 2023-24 that was pledged as part of a recent budget agreement. For some programs the Governor partially reduces the intended funding levels, and for others the proposal completely eliminates the funding. Reductions are the strategy through which the Governor generates the most savings across the five years ($4.1 billion, or 62 percent). This includes $3.8 billion scored towards solving the 2023-24 budget problem.

- *Fund Shifts***.** The Governor achieves additional savings by reducing or eliminating the intended General Fund for a program, but then backfilling it with funding from other sources—primarily using GGRF. The Governor would dedicate nearly all of the proposed 2023-24 discretionary GGRF expenditures—as well as amounts in future years—to backfill General Fund reductions. The Governor mentions the possibility of pursuing a general obligation bond for replacing or supplementing some program funding, but has not submitted a formal proposal to do so nor linked any specific program changes to potential bond funding. (A general obligation bond would have to be repaid from the General Fund and would require voter approval.) Similarly, the Governor mentions the potential availability of federal funds to help offset General Fund reductions, but does not propose any explicit shifts from state funds to federal funds. The proposal includes a total of $1.7 billion in fund shifts, including $875 million scored towards solving the 2023-24 budget problem.

- *Funding Delays***.** The Governor also proposes delaying intended funding for certain programs, with the intent to provide it in a future year rather than in 2022-23 or 2023-24. This would achieve General Fund savings in the budget year, but shift the associated costs to a future year. The proposal includes a total of about $800 million in funding delays, all scored towards solving the 2023-24 budget problem.

***May Revision: Shift to Future Climate Bond.*** The May Revision proposes some adjustments to the January "solutions" proposal — the most significant being an additional $1.1 billion in General Fund reductions across several climate resilience programs. The May Revision proposes to backfill these reductions with funding in a future climate bond proposal, including the following:

- $270 million Water Recycling
- $169 million Salton Sea Restoration
- $160 million Community Resilience Centers
- $100 million Transformative Climate Communities
- $100 million Regional Resilience Program
- $100 million Urban Greening
- $86.6 million Statewide Parks Program
- $60 million Sustainable Groundwater Management Act Implementation
- $50 million Dam Safety and Flood Management
- $20 million Multi-Benefit Land Repurposing

***May Revision: Climate Resilience Investments Maintained.*** The May Revision maintains climate resilience investments over multiple years (when including the proposed climate bond above), as follows:

- $2.7 billion (98 percent) Wildfire and forest resilience
- $1.4 billion (89 percent) Nature-based solutions
- $444 million (68 percent) Extreme heat

- $1.6 billion (85 percent) Community resilience
- $734 million (57 percent) Coastal resilience
- $1 billion (89 percent) Climate smart agriculture
- $443 million (93 percent) Circular economy
- $8.5 billion (97 percent) Water (drought and flood)
- $7 billion (89 percent) Energy
- $8.9 billion (89 percent) Zero-emission vehicles
- $1 billion (89 percent) Sustainable agriculture

For more detailed information regarding the Governor's proposed solutions impacting the Climate-Energy Package, please refer to past Subcommittee 2 agendas from this year.

**Dates this item was originally heard.** April 13, 2023, and May 16, 2023.

**Staff Recommendation. For the Climate-Energy Packages, in lieu of the Governor's proposed solutions, staff recommends the following: (a) Reduce (including triggers) $3.7 billion; (b) Shift $2.3 billion to other funds; (c) Delay $1.5 billion to future years; and, (d) Shift $2.1 billion to a new climate bond — with details to be worked out in the Legislature and 3-party agreements.**

## VARIOUS DEPARTMENTS

### Issue 69: Infrastructure Package (TBL) (MR)

**Governor's Proposal.** According to the Administration, the May Revision requests the following trailer bill proposals:

- ***Administrative Records Review.*** Streamlines procedures related to the preparation of the public record for the judicial review of level challenges brought under the California Environmental Quality Act (CEQA) in order to reduce limitation time.

- ***CEQA Judicial Streamlining.*** Provides for expedited judicial review of challenges to certain water, transportation, clean energy, and semiconductor or microelectronic projects under CEQA.

- ***Green Financing Programs for Federal Inflation Reduction Act (IRA) Funding.*** Allows IBank and DWR to access and utilize federal funding provided in the IRA, to finance projects that reduce greenhouse gas emissions.

- ***Accelerating Environmental Mitigation.*** Streamlines the implementation of environmental mitigation measures for the delivery of the California Department of Transportation's (Caltrans) projects.

- ***National Environmental Policy Act (NEPA) Delegation Authority.*** Removes the current sunset provision and permanently authorizes the consent of California to the jurisdiction of federal courts and waiver of immunity by the California Transportation Agency (CalSTA) with regards to the performance of certain federal environmental responsibilities under NEPA.

- ***Direct Contracting (Public-Private Partnership Authority I-15 Wildlife Crossings).*** Authorizes Caltrans to directly contract to construct three wildlife crossings over Interstate 15 (I-15) as part of the Brightline West high-speed rail project between California and Nevada.

- ***Job Order Contracting.*** Authorizes Caltrans to use the job order contacting method to complete routine transportation projects and maintenance work.

- ***Progressive Design Build Authority for Caltrans and DWR.*** Authorizes DWR and Caltrans to establish a design-build pilot program until January 1, 2031.

- ***Fully Protected Species Reclassification.*** Repeals four statutes designating species as "fully protected" under state law. The bill reclassifies the 37 fully protected species so that 15 will be listed as threatened under the California Endangered Species Act (CESA). 19 will be listed as endangered under CESA, and three will have no listing status and would retain the protections to species generally under the Fish and Game Code.

- ***Delta Reform Act Streamlining.*** Streamlines specified review processes under the Delta Reform Act.

**Staff Comments.** The 10 trailer bill proposals above were provided to the Legislature and the public on May 19, 2023. Because of the complexity of these issues and limited time to deliberate, it would be reasonable and prudent for these proposals to reviewed through the policy process.

**Staff Recommendation. Reject without prejudice.**

## SENATE PROPOSALS

### Issue 70: Old Town San Diego Historic Park Concession Extension (TBL)

**Senate's Proposal.** The Senate proposes trailer bill language to authorize Parks to negotiate an amendment to an existing concession contract with Old Town Family Hospitality to extend the term for an additional 30 years and other terms. The proposed TBL requires the concessionaire to provide capital improvements, as specified.

**Background.** Parks and concessionaire, Old Town Family Hospitality, are interested in extending the concession agreement which will provide new private sector funding and continuity at the park. This is intended to result in additional private sector investments to maintain the park, such as demolition and reconstruction of spaces that are currently closed, unusable, and deteriorating as well as development of a new event plaza.

**Staff Recommendation. Approve as proposed.**

### Issue 71: Water Arrearages (BBL & TBL)

**Senate's Proposal.** The Senate proposes budget bill language and trailer bill language to extend the COVID-19 pandemic bill relief period from June 15, 2021, to February 28, 2023 for the California Water and Wastewater Arrearage Payment Program, which was the end of the COVID pandemic emergency order.

The extension is proposed to help ensure all remaining funds are used, as intended, to help people who continue to struggle with their water and wastewater utility bills due to the economic impacts of the COVID pandemic. Currently, there is over $300 million in unspent funds to support the program.

**Staff Recommendation. Approve as proposed.**

**Issue 72: Ocean Protection Council: West Coast Offshore Wind Wildlife Science Entity**

**Senate's Proposal.** The Senate proposes to appropriate a total of $6 million General Fund ($1 million annually for six years) to the Ocean Protection Council for the purpose of creating a West Coast Offshore Wind Wildlife Science Entity to advise, coordinate, and oversee important science and monitoring necessary to inform the environmentally responsible development of offshore wind energy off the coast of California.

**Staff Recommendation. Approve as proposed and adopt placeholder trailer bill language.**

**Issue 73: Stream Gages: Reactivate, Upgrade, and Install**

**Senate's Proposal.** The Senate proposes to appropriate $22 million General Fund one-time to the Department of Water Resources, State Water Resources Control Board, Department of Fish and Wildlife, and Department of Conservation for the purpose of deploying a network of stream gages to help address significant gaps in information needed for water management and the conservation of freshwater species. Funding shall be used to reactivate and upgrade existing gages and install new gages, identify priority watersheds and gages for reactivation, and provide estimates of associated capital costs. These costs include:

- $5.1 million to reactivate 156 gages;
- $1.3 million to upgrade 39 existing gages; and,
- $15.6 million to install new stream gages in 436 watersheds.

**Staff Recommendation. Approve as proposed.**

**Issue 75: Dolores Huerta Peace and Justice Cultural Center**

**Senate's Proposal.** The Senate proposes $7 million General Fund one-time to CNRA for the purpose of constructing the Dolores Huerta Peace and Justice Center multi-cultural community center in Bakersfield. The center will contain a comprehensive community organizing and training academy, an art gallery, and a large multi-purpose hall.

**Staff Recommendation. Approve as proposed.**

**Issue 76: Museum of Latin American Art**

**Senate's Proposal.** The Senate proposes $10 million General Fund one-time to CNRA for the Museum of Latin American Art to be used for breaking ground, making upgrades to existing buildings, adding new buildings with an efficient design that meets energy demands, new open spaces, and modern layouts that give access to all communities.

**Staff Recommendation. Approve as proposed.**

## Issue 77: Offshore Wind Energy: Coastal Commission

**Senate's Proposal.** The Senate proposes $2.76 million General Fund in 2023-24 for 13 positions (12 permanent position and one limited-term position), as noted below, to perform duties associated with the offshore wind energy projects; and $2.55 million General Fund in 2024-25 and ongoing:

- 1 Coastal Engineer
- 1 Engineering Geologist
- 1 Environmental Program Manager
- 1 Tribal Liaison
- 1 Attorney
- 1 Senior Ecologist
- 4 Environmental Scientists
- 2 Associate Governmental Program Analysts
- 1 three-year limited-term Environmental Scientist to run the Working Group as required by the Coastal Commission's Federal Consistency determination.

**Date this item was originally heard.** This issue was originally heard as part of the oversight hearing on May 23, 2023.

**Staff Comments.** The Coastal Commission currently has one position to handle offshore wind energy projects. The Administration has been clear about the desire to quicken the pace of offshore wind energy development and achieve the state's renewable energy goals. As noted by multiple departments at the Subcommittee 2 oversight hearing on May 23, 2025, a key to expediting the state's responsibilities in these matters is to front load the process. For the Coastal Commission, one position is not sufficient for the anticipated workload. These types of projects have scientifically complex issues to identify, address, mitigate, and monitor. Staff with multiple areas of expertise is needed in order for the Commission to make informed decisions as well as fulfill its fiduciary duties responsibly and efficiently.

**Staff Recommendation. Approve as proposed.**