

**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) Circular 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 be 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.