

Senator Josh Becker, Chair
Senator Ben Allen
Senator Catherine Blakespear
Senator Brian Dahle



Thursday, February 29, 2024
9:30 a.m. or Upon Adjournment of Session
1021 O Street - Room 1200

Consultants: Diego Lopez, Eunice Roh, and Joanne Roy

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Issue 1: Climate, Resources, and Environmental Budget Solutions
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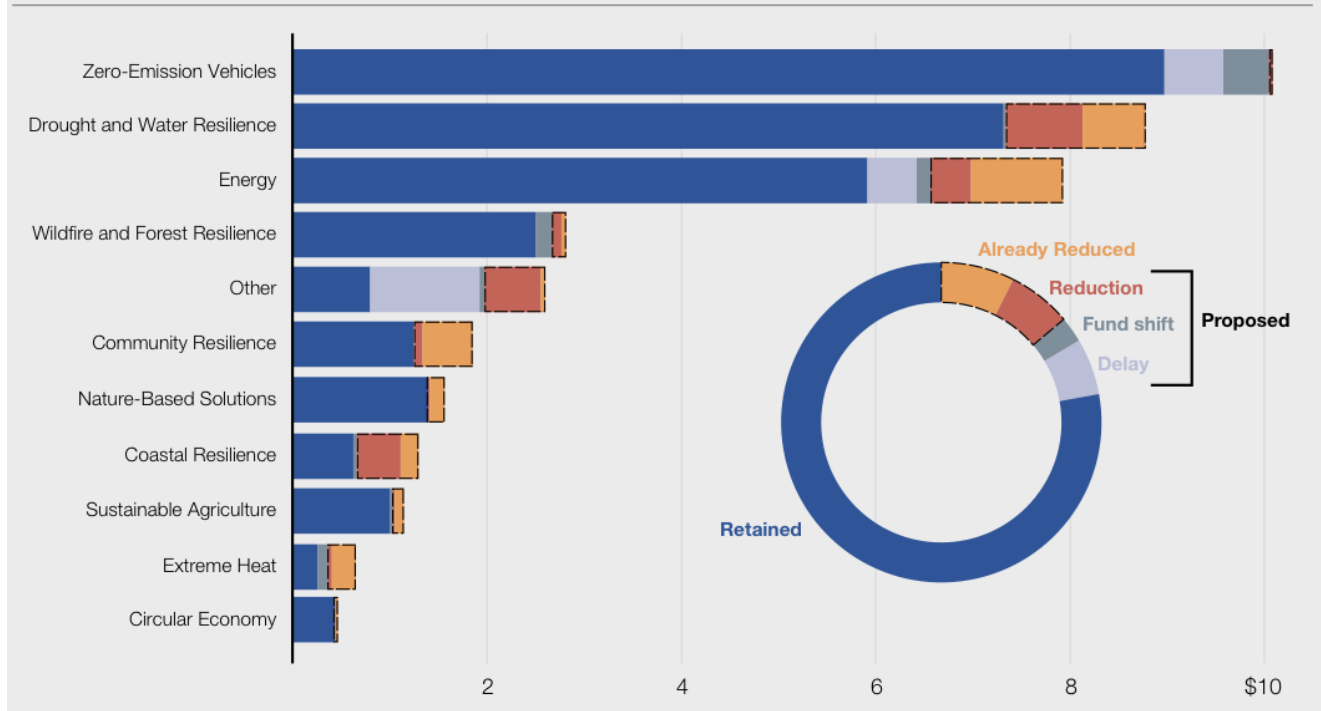
Governor’s Proposal. According to the Legislative Analyst’s Office (LAO) report, *The 2024-25 Budget: Crafting Climate, Resources, and Environmental Budget Solutions* (February 2024):

The Governor’s budget proposes \$4.1 billion in General Fund Solutions for the 2024-25 budget problem. Similar to last year, the Governor relies on three strategies to achieve additional General Fund savings

from climate, resources, and environmental programs across the budget window (2022-23 through 2024-25) — \$2 billion from spending reductions, \$1.1 billion from delaying spending to a future year, and \$1 billion from reducing General Fund and backfilling with a different fund source (primarily using the Greenhouse Gas Reduction Fund [GGRF]). The amount of multiyear savings proposed across the combined budget window and forecast period (2023-24 through 2027-28) is somewhat less — \$3.6 billion. This is the net result of some additional out-year reductions that are more than offset by the costs associated with the resumption of delayed expenditures.

Governor's Proposal Would Retain Majority of Planned Multiyear Climate Funding

(In Billions)



Source: LAO

Reductions. The Governor reduces \$2 billion in General Fund support for selected programs across the budget window. 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 2024-25 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. Besides the \$2 billion in reductions affecting the 2024-25 budget, the proposal reduces an additional \$543 million from General Fund expenditures that recent budget agreements had planned for the out-years (2025-26 through 2027-28).

Funding Delays. The Governor proposes delaying \$1.1 billion in intended General Fund for certain programs, with the intent to provide it in a future year rather than within the budget window as originally planned. This would achieve near-term General Fund savings, but shift the associated costs to a future year. In addition to the \$1.1 billion originally planned for the current or budget year, the Governor also proposes delaying \$635 million in General Fund expenditures that had been planned for 2025-26.

Fund Shifts. The Governor achieves an additional \$1 billion in savings affecting the budget window by reducing or eliminating the intended General Fund for a program but then backfilling it with GGRF.

Relies on GGRF to Maintain Funding for Certain Programs. Of the \$2.3 billion in GGRF that the administration estimates is available for discretionary expenditures in 2024-25, the Governor proposes using more than three-quarters to backfill proposed General Fund reductions, including the \$1 billion in fund shifts for climate and environmental programs. This includes \$557 million in current-year expenditures (primary within the ZEV package) for which the Governor is requesting that the Legislature take early action to reduce General Fund and backfill it with GGRF. (The administration has requested that administering departments pause their spending of authorized General Fund for these programs to avoid eroding these potential current-year savings.)

The Governor also proposes delaying \$600 million in planned GGRF spending for ZEV programs from 2024-25 to 2027-28. While this does not directly result in General Fund savings, it has the effect of freeing up additional GGRF resources in 2024-25 which can then be redirected for alternative purposes (such as the proposed fund shifts, which do generate budget solutions). The Governor also would sustain previous plans to provide \$600 million from GGRF for the ZEV package in 2025-26 and 2026-27.

Climate-Energy Packages. To help provide a better understanding of what is being proposed for reductions, delays, and shifts, the following sections are broken down by thematic packages, describing recent budget augmentations over the past few years, the Governor's budget proposal, and the LAO's assessment.

ZERO-EMISSION VEHICLES

Recent Budget Agreements Included \$10 Billion Over Several Years for ZEV Programs. The 2021-22 and 2022-23 budgets included plans to provide a combined \$10 billion over several years to different departments for a collection of activities intended to promote statewide adoption of ZEVs. Of this initial funding plan, the majority of support was from the General Fund (\$6.3 billion), but also included \$1.6 billion from Proposition 98 General Fund, \$1.3 billion from GGRF, and about \$700 million combined from federal and other special state funds. Funded activities included programs for both light- and heavy-duty vehicles, such as vehicle purchase incentives and projects to expand the state's vehicle charging network.

The 2023-24 budget agreement made some changes to this original package in light of the evolving General Fund condition. Specifically, it reduced multiyear funding for several programs by a total of \$845 million. This included reducing \$550 million for transit buses and infrastructure, \$150 million for school buses and infrastructure, and \$85 million for ports. However, the current-year agreement also added money for a new flexible ZEV transit capital program that provides formula funding to transit agencies which they can use to support zero-emission buses and related infrastructure and/or to cover their operating expenses. This program is funded with GGRF and intended to provide \$910 million over four years, thereby more than offsetting the reductions in terms of total multiyear planned ZEV spending. To achieve General Fund savings, the 2023-24 budget package also included a number of fund shifts to use GGRF revenues in place of some planned General Fund (including for out-year expenditures) and delayed certain intended spending to 2026-27.

Governor's Proposed Changes to ZEV Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reductions	Proposed Multiyear Total
School buses and infrastructure	CARB	\$1,525 ^c	\$1,390 ^c	—	\$1,390 ^c
	CEC	425 ^c	410 ^c	—	410 ^c
Clean trucks, buses, off-road equipment	CARB	1,100	1,100	—	1,100
	CEC	670 ^d	670 ^d	— ^{f,g}	670 ^d
ZEV fueling infrastructure grants	CEC	870	870 ^d	— ^{f,g}	870 ^d
Transportation package ZEV	CalSTA	790 ^e	790 ^e	—	790 ^e
Clean Cars 4 All	CARB	656 ^d	656	— ^f	656 ^d
Clean Vehicle Rebate Project	CARB	525	525	—	525
Drayage trucks and infrastructure	CEC	500	500 ^d	— ^f	500 ^d
	CARB	445	445 ^d	— ^{f,g}	445 ^d
Sustainable community plans and strategies	CARB/CalSTA	339	339 ^d	— ^f	339 ^d
Equitable At-Home Charging	CEC	300	300 ^d	— ^f	300 ^d
ZEV manufacturing grants	CEC	250	250	-\$7	243
Ports	CARB	250	185	—	185
	CEC	150	130	—	130
Transit buses and infrastructure	CARB	520	140	—	140 ^d
	CEC	230	60	— ^g	60
Emerging opportunities	CARB	100	100	—	100
	CEC	100	100	-7	93
Charter boats compliance	CARB	100 ^d	100	— ^f	100
Near-zero heavy duty trucks	CARB	45	45	—	45
Drayage trucks and infrastructure pilot	CARB	40	40	-14	26
	CEC	25	25	-9	16
ZEV consumer awareness	GO-BIZ	5	5	—	5
Hydrogen infrastructure	CEC	60	—	—	—
Flexible ZEV transit capital program	CalSTA	—	910 ^{d,h}	—	910 ^d
Total		\$10,020	\$10,085^h	-\$38	\$10,047

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes Proposition 98 General Fund.

^d Includes Greenhouse Gas Reduction Fund (GGRF).

^e Includes federal funds.

^f Delays to 2027-28.

^g Fund shift to GGRF.

^h The 2023-24 budget agreement made \$845 million in program reductions and added \$910 million across four years for a new flexible ZEV transit program.

Note: Totals may not add due to rounding

ZEV = zero-emission vehicle; CARB = California Air Resources Board; CEC = California Energy Commission; CalSTA = California State Transportation Agency; and GO-Biz = Governor's Office of Infrastructure and Economic Development

Source: LAO

Governor's Proposal: Reduces \$38 Million, Delays \$600 Million, and Shifts \$475 Million to GGRF. The Governor's budget proposes to reduce net multiyear spending for ZEV activities by \$38 million relative to the 2023-24 budget package. The proposal also includes delays and fund shifts. Specifically:

- Modest Reductions to Four Programs (\$38 Million).** The budget makes reductions to the following programs: California Energy Commission (CEC) ZEV manufacturing grants (\$7 million), CEC emerging opportunities (\$7 million), and the California Air Resources Board (CARB) and CEC drayage trucks and infrastructure pilot projects (\$14 million and \$9 million, respectively).

- **Funding Delays (\$600 Million).** The Governor proposes delaying a total of \$600 million in planned expenditures from GGRF for seven programs from 2024-25 to 2027-28. (This delay has the net effect of freeing up \$600 million in GGRF funds in the budget year, which the Governor then uses to backfill General Fund reductions for other programs. The proposal also would commit a like amount of GGRF in 2027-28 for the delayed expenditures.) The affected programs are: CEC ZEV fueling infrastructure grants (\$120 million); CEC clean trucks, buses, and off-road equipment (\$137 million); Clean Cars 4 All (\$45 million); CEC and CARB drayage trucks and infrastructure (\$50 million and \$48 million, respectively); CARB sustainable community plans and strategies (\$100 million); CEC Equitable At-Home Charging (\$80 million); and CARB charter boats compliance (\$20 million). The administration notes that prior-year funding is available for most of these programs to meet applicant demand in the interim.
- **Current-Year Shift to GGRF (\$475 Million, Early Action).** The budget proposes shifting \$475 million of current-year ZEV expenditures from General Fund to GGRF for the following programs: ZEV fueling infrastructure grants (\$219 million); drayage trucks and infrastructure (\$157 million); transit buses and infrastructure (\$29 million); and clean trucks, buses, and off-road equipment (\$71 million). This proposed change is enabled by higher-than-projected cap-and-trade auction revenues materializing in the current year. The Governor is requesting that the Legislature take early action to effectuate this fund shift so that programs can proceed with making grant awards this spring.

ZEV: LAO Comments.

Legislature Could Consider Alternative and/or Additional Reductions. While there is significant unspent funding planned for the budget year and out-years in the ZEV package, most of this funding is from GGRF. Consequently, making reductions would not automatically generate General Fund savings. However, the Legislature could achieve further budget solution if it were to reduce GGRF spending on ZEV activities, make additional General Fund reductions elsewhere, then redirect the freed-up GGRF to backfill those other priorities. Based on available data on remaining funds, the Legislature could consider reducing the following:

- **School Bus and Infrastructure (About \$1 Billion in Proposition 98 General Fund).** The 2022-23 budget package established a new program to fund zero-emission school buses and related infrastructure administered by CARB and CEC. The Legislature previously approved \$500 million of Proposition 98 General Fund to fund the first round of grants and adopted intent language to allocate additional funding in the future. The Governor's budget provides an additional \$500 million of Proposition 98 General Fund for a second round of grants in 2024-25. The administration has indicated it is in the process of, but has not yet allocated, the original grant funding. With this in mind, the LAO recommends the Legislature: (1) consider reverting the prior funding (about \$500 million) to achieve General Fund savings, and (2) reject the new \$500 million proposed in the budget year.
- **Buses and Off-Road Equipment (At Least \$249 Million).** CARB has used its appropriations for this category of activities to fund its Hybrid and Zero-Emission Truck and Bus Voucher Incentive Program. Expenditure data suggest \$249 million of the GGRF previously appropriated for this program is unspent and could be reverted and redirected to achieve General Fund savings elsewhere. CEC also received funding in this category but the administration had not provided data on CEC's expenditures as of this writing.
- **Charter Boats Compliance (\$60 Million).** CARB closed its grant solicitations for this program

in December 2023 and currently is reviewing applications. Approximately \$40 million of General Fund plus \$20 million of GGRF remains in the balance. The Legislature could consider reverting this \$60 million but likely would have to take early action in order to capture the savings as CARB is in the process of preparing to award the funds.

- **Emerging Opportunities (\$47 Million).** CARB is using this funding for ZEV technology demonstration projects. Of the \$53 million General Fund originally allocated, \$47 million remains in the program's balance and could be reverted for General Fund savings.
- **CEC ZEV Program Funding (Unknown, Potentially Several Hundreds of Millions of Dollars).** Updated information on CEC's ZEV package expenditures was not available at the time of this writing. Based on historical CEC ZEV spending timelines, the LAO suspects that several hundreds of millions of dollars of unspent funding could be available. The LAO will provide more information to the Legislature after the LAO receives these data from the administration.

WATER AND DROUGHT

Recent Budget Agreements Included \$8.8 Billion Over Several Years for Water and Drought-Related Activities. The 2022-23 budget appropriated and intended to provide a combined \$8.8 billion (\$8.3 billion from the General Fund and about \$450 million from other funds) over several years to various departments for emergency drought response and water resilience activities. Nearly half of the funding (\$4 billion) was to support activities related to drinking water quality and availability, water recycling and groundwater cleanup, water supply, and flood management. About \$1.4 billion was intended for immediate drought response activities, such as for the State Water Resources Control Board (SWRCB) to respond to drinking water emergencies. The remaining funding (\$3.3 billion) was to support habitat restoration, water quality, and conservation activities. The 2023-24 budget agreement reduced total multiyear funding by \$632 million General Fund (7 percent). Major reductions included \$278 million for water recycling, \$119 million for Salton Sea restoration activities, and \$60 million for local assistance grants related to implementation of the Sustainable Groundwater Management Act.

(Continued on next page)

Governor's Proposed Changes to Water and Drought Resilience Package

General Fund Unless Otherwise Noted^a (In Millions)

Program	Department	Original Multiyear Total ^b	Revised Multiyear Total ^c	Proposed Reductions	Proposed Multiyear Total
Drinking Water, Water Supply, Flood		\$4,025	\$3,732	-\$224	\$3,508
Drinking water, wastewater projects	SWRCB	\$1,700	\$1,700	—	\$1,700
Water recycling, groundwater cleanup	SWRCB	800	522	-\$174 ^d	348
Water conveyance, water storage	DWR	700	700	—	700
Flood management and planning	DWR	644	644	—	644 ^e
Dam safety	DWR	100	100	-50	50
Aqueduct solar panel pilot study	DWR	35	20	—	20
Watershed climate studies	DWR	25	25	—	25
Water storage tanks	DWR	21	21	—	21
Immediate Drought Response		\$1,439	\$1,409	-\$27	\$1,382
Community drought relief	DWR	\$800	\$800	—	\$800
Data, research, communications	Various	202	202	—	202
Water rights activities	SWRCB	113	113	—	113 ^e
Drought contingency control section	Various	96	96	—	96
Forecasting water supply/runoff	DWR	101	101	-\$27	74 ^f
Drinking water emergencies	SWRCB	62	62	—	62
Drought salinity barrier	DWR	27	3	—	3
Drought food assistance	DSS	23	23	—	23
Conservation technical assistance	DWR	10	10	—	10 ^e
Water refilling stations at schools	SWRCB	5	—	—	—
Habitat/Nature-Based Solutions		\$1,208	\$1,208	-\$438	\$770
Wildlife and habitat projects	CDFW, DWR	\$459	\$459	—	\$459
Watershed climate resilience	WCB	334	334	-\$312	22
Watershed climate resilience	DWR	161	161	-126	35
Aquatic/large-scale habitat projects	Various	149	149	—	149
Spending from various bonds	WCB, DWR	105	105	—	105
Water Quality and Ecosystem Restoration		\$1,191	\$1,027	-\$102	\$925
Water resilience projects	CNRA	\$445	\$445	—	\$445 ^e
Streamflow enhancement program	WCB	250	250	—	250
Salton Sea	DWR	220	101	—	101
PFAs support	SWRCB	200	155	-\$102	53
Urban streams and border rivers	Various	70	70	—	70
Clear Lake	CNRA	6	6	—	6
Conservation/Agriculture		\$916	\$771	-\$19	\$752
SGMA implementation	DWR	\$356	\$296	—	\$296
Water conservation programs	DWR	180	180	—	180
SWEEP	CDFA	160	120	— ^g	120
Multibenefit land repurposing	DOC	110	90	—	90
Agricultural conservation	DWR, CDFA	70	45	—	45
Relief for small farmers	CDFA	25	25	-\$13	12
On-farm technical assistance	CDFA	15	15	-6	9
Totals		\$8,779	\$8,148	-\$810	\$7,337

^a In total, about \$450 million is from a variety of non-General Fund sources, including bond funds, federal funds, special funds, and reimbursements.

^b Based on 2021-22 and 2022-23 budget agreements.

^c Based on 2023-24 budget agreement.

^d Governor proposes delaying \$100 million from 2022-23 to 2025-26.

^e Includes funding from sources other than General Fund.

^f Original appropriation was \$16.75 million ongoing. Governor proposes reducing annual amount to \$10 million beginning in 2024-25.

^g Governor proposes delaying \$21 million until 2024-25 and shifting the fund source from General Fund to Greenhouse Gas Reduction Fund.

SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; DSS = Department of Social Services; CDFW = California Department of Fish and Wildlife; WCB = Wildlife Conservation Board; 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.

Source: LAO

Governor's Proposal: Reduces \$810 Million, Delays \$100 Million, and Delays and Shifts \$21 Million. The Governor's budget proposes to reduce multiyear General Fund spending for water and drought resilience, relative to the 2023-24 budget agreement, by \$810 million. (The \$7.3 billion the Governor proposes to retain represents 84 percent of the original 2022-23 package.) The proposal would revert \$100 million appropriated in earlier years for water recycling projects administered by SWRCB and delay providing it until 2025-26. Similarly, for the California Department of Food and Agriculture's (CDFA's) State Water Efficiency and Enhancement Program, the proposal would revert \$21 million General Fund appropriated in earlier years and instead provide the same amount of funding from GGRF in 2024-25. Proposed reductions include:

- **Watershed Climate Resilience.** The budget proposes to reduce funding by \$438 million (\$126 million to the Department of Water Resources [DWR] and \$312 million to the Wildlife Conservation Board [WCB]), retaining just 11 percent (\$56 million) of the original amount. DWR indicates that the proposed reduction would affect the number of long-term projects it can fund but not its near-term program plan, which includes six pilot studies and a subsequent set of grants. While the reduction will lead to WCB awarding fewer grants, it has other funding sources available for these types of projects, including \$43 million from Proposition 68 (2018) and annual support of \$21 million from the Habitat Conservation Fund.
- **Water Recycling and Groundwater Cleanup: The proposal would reduce funding for groundwater cleanup by \$55 million and for water recycling by \$119 million (the 2023-24 budget already reduced funding by \$278 million).** (The budget also would delay \$100 million until 2025-26 for water recycling.) Relative to the original package, the budget would retain \$348 million, or 43 percent for these two programs. SWRCB indicates it would prioritize providing low-cost financing for water recycling projects through its State Revolving Fund (SRF) programs and providing grants for water recycling and clean water projects in disadvantaged communities. In addition, the federal IJA is providing more federal funding than normal for SRF programs between 2022 and 2026 (\$1.16 billion for the Drinking Water SRF and \$790 million for the Clean Water SRF), which can be used for water recycling and groundwater cleanup projects.
- **Per- and Polyfluoroalkyl Substances (PFAs) Support.** The proposal would reduce funding for addressing PFAs by \$102 million (retaining \$53 million, or 27 percent, of the original total, after accounting for additional reductions made in 2023-24). PFAs are long-lasting chemicals which are hard to break down and have been used in a variety of consumer and industrial products. Reduced funding would result in fewer and/or smaller state-funded grants. However, SWRCB will receive approximately \$460 million in federal funds through its SRF programs from 2022 through 2026 to address "emerging contaminants," which include PFAs.
- **Dam Safety.** The budget would halve funding—from \$100 million to \$50 million—for dam safety pilot projects administered through a competitive grant program by DWR. The reduction would result in DWR funding fewer projects.
- **Agricultural Programs.** The budget would reduce funding for drought relief for small farmers by \$13 million and for on-farm technical assistance by \$6 million. (Relative to the original package, the budget would retain \$21 million, or 53 percent, for these two programs.) CDFA indicates that demand for drought relief grants was lower than anticipated (it awarded about \$12 million of the available \$25 million), perhaps in part due to a similar program being offered through the Governor's Office of Business and Economic Development (GO-Biz). The on-farm technical assistance program was similarly undersubscribed, although CDFA indicates this could reflect the limited capacity of technical assistance providers, rather than the needs of farmers.

- **Forecasting Activities.** The budget would reduce an ongoing appropriation for DWR— from \$17 million to \$10 million annually—that supports water supply/runoff forecasting. Specifically, the reduction would result in conducting fewer aerial snow surveys and conducting them (and associated modeling) in fewer watersheds.

Water and Drought: LAO Comments.

Legislature Could Consider Alternative and/or Additional Reductions. In light of the state budget condition, the Legislature has several options for additional and/or alternative reductions from the water and drought resilience package.

- **Water Storage Projects (\$500 Million in 2025-26).** The administration’s original proposal for this funding noted that it would build on the \$2.7 billion provided by Proposition 1 (2014) for water storage projects, yet specific details on how the funds would be used have not been provided. Given this funding has not yet been appropriated, eliminating it likely would be less disruptive compared to certain other options before the Legislature.
- **Drinking Water Project Grants (\$200 Million).** While these programs are important, the state currently has an unprecedented amount of federal funding available for these purposes through the federal SRFs. In addition, state statute requires an annual GGRF appropriation of \$130 million (through 2030) to SWRCB for the same types of drinking water projects. As such, the state could continue to pursue its goals and focus on the drinking water needs of disadvantaged communities even with a reduction in General Fund support.
- **Water Recycling (Reduce Rather Than Delay \$100 Million).** Although eliminating this funding—rather than delaying it, as proposed by the Governor—would reduce the number of projects SWRCB could support with state funding (which is more flexible than federal funding), other funding sources are available for these projects. Specifically, SWRCB can use federal funds provided through the SRF for water recycling projects.
- **Revert Unspent Funding Provided in Earlier Budgets.** Of the \$6.5 billion General Fund already appropriated for water and drought resilience packages across 2021-22, 2022-23, and 2023-24, the Governor proposes reducing about \$524 million of uncommitted funds (as discussed above). Based on the LAO’s review of other uncommitted funds, the Legislature could consider additional reductions of close to \$775 million. For example, SWRCB has about \$300 million in uncommitted funds for drinking water/wastewater programs. SWRCB expects to commit a good portion of this funding between April and June, with an estimated \$65 million remaining by the end of the 2023-24 fiscal year. Consequently, depending on how much of this funding the Legislature wished to pull back, it may have to act quickly to capture the potential savings that currently are available. While these programs remain important, particularly among disadvantaged communities, SWRCB could partially offset reductions with federal SRF funding and its annual GGRF appropriation. Additionally, CNRA has approximately \$228 million in uncommitted funds for water resilience grants. The administration indicates it will select awardees in the March/April time frame, meaning the Legislature would have a short window to act and reduce these funds to solve the budget problem. Other examples include \$50 million for dam safety (given the Governor already proposes a reduction of the other \$50 million, an additional reduction would eliminate the pilot program) and \$104 million for WCB’s streamflow enhancement program.

ENERGY

Recent Budget Agreements Included \$7.9 Billion Over Several Years for Energy Programs. The 2021-22 and 2022-23 budgets included plans to provide a combined \$7.9 billion (\$6.9 billion from the General Fund and about \$1 billion from other funds) over several years to different departments for an energy package.

Funded activities focused primarily on three categories—reliability, clean energy, and ratepayer relief. (In addition to programs shown in the figure below, the recent agreements included \$1 billion for CERIP implementation and a Climate Innovation program, both of which are discussed in the “Other Recent Augmentations” below.) On net, the 2023-24 budget agreement reduced total multiyear funding by \$944 million. Major reductions included \$549 million from the California Arrearage Payment Program at the Department of Community Services and Development, \$270 million from the Residential Solar and Storage Program at the California Public Utilities Commission (CPUC), \$105 million from the Distributed Energy Backup Assets (DEBA) program at CEC (\$100 million of which was redirected to the Investments in Strategic Reliability Assets program at DWR for no net budget savings), and \$50 million from the program providing incentives for long-duration storage. In addition, the 2023-24 adjustments to the energy package included numerous funding delays as well as shifts totaling about \$1 billion from the General Fund to GGRF.

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Governor's Proposed Changes to Energy Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reductions	Proposed Multiyear Total
Investments in Strategic Reliability Assets	DWR	\$2,370	\$2,470 ^f	— ^d	\$2,470
California Arrearage Payment Program	CSD	1,200	651	—	651
Equitable Building Decarbonization	CEC	922	922 ^c	-\$283 ^e	639
Residential Solar and Storage	CPUC	900	630 ^c	— ^d	630
Distributed Electricity Backup Assets	CEC	700	595 ^f	— ^d	595
Long duration storage	CEC	380	330 ^c	— ^e	330
Demand Side Grid Support	CEC	295	295	—	295
Transmission Financing	IBank	250	225	—	225
Oroville pump storage	DWR	240	240	— ^d	240
Equitable Building Decarbonization—TECH Initiative	CPUC	145	145 ^c	—	145
Carbon removal innovation	CEC	100	75	-40	35
Industrial decarbonization	CEC	100	90 ^c	-22	68
Hydrogen grants	CEC	100	100	-35	65
Food Production Investment Program	CEC	75	65 ^c	-19	46
Offshore wind infrastructure	CEC	45	45	—	45
Equitable Building Decarbonization—Refrigerants	CARB	40	40	—	40
Capacity building grants	CPUC	30	30	-20	10
Energy modeling	CEC	7	7	—	7
DOE grid resilience match	CEC	5	5	—	5
Distributed energy workload	CPUC	5 ^g	5 ^g	—	5 ^g
Hydrogen Hub	GO-Biz	5	5	—	5
Energy data infrastructure and analysis	CEC	5	5	—	5
AB 525 implementation	Various	4 ^h	4 ^h	—	4 ^h
Support for reliability	DWR	3	3	—	3
Totals		\$7,926	\$6,982	-\$419	\$6,563

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes Greenhouse Gas Reduction Fund (GGRF).

^d Proposed funding delays.

^e Proposed fund shift to GGRF.

^f Reflects \$100 million transferred from Distributed Electricity Backup Assets to DWR Strategic Reliability Assets.

^g Public Utilities Commission Utilities Reimbursement Account.

^h Includes \$1.5 million Energy Resources Program Account and \$2.6 million General Fund.

DWR = Department of Water Resources; CSD = Department of Community Services and Development; CEC = California Energy Commission, CPUC = California Public Utilities Commission; IBank = California Infrastructure and Economic Development Bank; CARB = California Air Resources Board; DOE = Department of Energy; and GO-Biz = California Governor's Office of Business and Economic Development

Source: LAO

Governor's Proposal: Reduces \$419 Million, Delays \$505 Million, and Shifts \$144 Million to GGRF. Also shown in the figure above, the Governor's budget proposes to reduce net multiyear spending for energy activities by \$419 million relative to the 2023-24 budget package. (This would retain 83 percent of the original intended amount.) The proposal also includes funding delays for four programs totaling \$505 million. Finally, the Governor shifts \$144 million for two programs from the General Fund to GGRF (Equitable Building Decarbonization and incentives for long-duration storage). Major proposed program changes include:

- Funding Delays for Four Programs.** The proposal delays funding for (1) Residential Solar and Storage (instead of \$75 million in 2024-25 and \$125 million in 2025-26, it would provide \$100 million in both 2026-27 and 2027-28), (2) a pump storage project at the Oroville Dam complex (instead of \$90 million in 2024-25 and \$110 million in 2025-26, it would provide \$100 million in both 2026-27 and 2027-28), (3) Investments in Strategic Reliability Assets (delays \$55 million

from 2024-25 to 2025-26), and (4) DEBA (reverts \$50 million from 2023-24 and instead provides \$25 million in both 2025-26 and 2026-27).

- **Equitable Building Decarbonization.** The budget proposes reducing overall funding for this CEC program by \$283 million, retaining \$639 million, or 69 percent, of the original allocation. This program is intended to support energy upgrades for low- and middle-income households and still is being developed by CEC. The reduction would result in fewer direct install incentives. (The Governor also proposes to shift \$87 million for this program from General Fund to GGRF in 2024-25, which would have no programmatic effect.)
- **Carbon Removal Innovation Program.** This proposal would reduce this program by \$40 million, adding to the \$25 million reduction that was adopted in 2023-24. There is no further funding proposed for this program beyond the \$35 million retained in 2022-23 (representing 35 percent of the original allocation).
- **Industrial Decarbonization.** The budget would reduce funding for this new CEC program that provides incentives for technologies that reduce emissions at industrial operations by \$22 million, retaining \$68 million from its original planned allocation of \$100 million. The proposal would reduce the number of state-funded projects, but the program plans to leverage \$90 million in federal Department of Energy (DOE) funds, which would help offset the reduction.
- **Hydrogen Grants.** The proposed reduction of \$35 million would retain \$65 million of the original amount for CEC to provide these grants. The administration noted this program is a good candidate for reductions due to more than \$1 billion newly coming to California from DOE to support hydrogen energy development through the Alliance for Renewable Clean Hydrogen Energy Systems (ARCHES) initiative.
- **Food Production Investment Program.** This proposed reduction of \$19 million would be in addition to \$10 million reduced from the program in 2023-24. Relative to the original package, the budget would retain \$46 million, or 62 percent, for this program. CEC expects it would support 10 to 14 fewer projects as a result of the proposed reduction.
- **Capacity Building Grants.** The original package provided \$30 million across 2021-22 and 2022-23 to provide capacity grants to tribes and community-based organizations to participate in CPUC decision-making processes. CPUC has not yet spent this funding and the Governor proposes to reduce it by \$20 million. To accommodate this reduction, CPUC would decrease its grant funding allocations by approximately 70 percent and forgo a planned technical assistance contract.

Energy: LAO Comments.

Legislature Could Consider Alternative and/or Additional Reductions. In light of the state budget condition, the Legislature has several options for generating General Fund savings through making additional and/or alternative reductions from the energy package. Based on the best available data on remaining funds, the Legislature could consider reducing the following programs (all amounts from the General Fund unless otherwise noted).

- **Hydrogen Grants (Additional \$65 Million).** The Legislature could consider a further reduction or elimination of the program's funding—beyond the \$35 million proposed by the Governor—

due to the significant federal funding (more than \$1 billion) newly available for hydrogen development in California through ARCHES. None of this funding has yet been committed.

- **Industrial Decarbonization (Additional \$60 Million).** The Legislature could consider a further reduction or elimination of the program’s funding beyond the \$22 million proposed by the Governor. Federal funds are also available to support the goals of this program. This program has not yet begun dispersing funding.
- **Food Production (Additional \$35 Million).** The Legislature could consider further reductions beyond the \$19 million the Governor proposes for this program, which has only committed a small portion of its funding. However, if the Legislature wants to make additional reductions, it may have to take early action, as the administration plans to collect proposals later this spring. The funds the Governor proposes retaining for the program are from GGRF, not General Fund, but the Legislature could instead eliminate General Fund for a different program and redirect this GGRF to offset those reductions in order to achieve additional savings.
- **Transmission Financing (\$225 Million).** Previous budgets appropriated \$225 million to the California Infrastructure and Economic Development Bank to boost new electricity transmission in the state. The administration has not yet dispersed these funds, though it plans to do so later this spring. The Legislature could consider making reductions or eliminating this funding, but it may have to take early action. Additionally, federal energy funds the state is receiving to support grid reliability may be able to help offset reductions to this program.
- **DEBA (\$543 Million).** As of this writing, data from the administration indicate this program (which is intended to provide incentive funding to promote more efficient backup energy resources) has \$543 million from previously appropriated funds remaining in its balance. CEC indicates that it expects to release additional solicitations this spring. Given the large size of this allocation and that CEC has only spent a total of \$2 million (on administrative costs) thus far, it seems a reasonable candidate for capturing additional savings. Depending on the level of savings needed, the Legislature could prioritize equity by making reductions to the portion of program funding not explicitly directed to disadvantaged communities (roughly half of the funding). Given CEC’s plans to proceed with new grant solicitations this spring, the Legislature may have to consider early action if it wants to make reductions.

WILDFIRE AND FOREST RESILIENCE

Recent Budget Agreements Included \$2.8 Billion for Wildfire Resilience-Related Activities. Recent budget packages included a total of \$2.8 billion over a four-year period—2020-21 through 2023-24—to support wildfire and forest resilience. Roughly 40 percent of the funding over the four years—\$1.1 billion—was for programs designed to promote healthy forests and landscapes, generally by removing hazardous fuels. Just over one-quarter of the funding—\$766 million—was to support the installation and maintenance of wildfire fuel breaks. The remaining funds—totaling \$909 million—was 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. Of the \$2.8 billion total, \$2 billion was from the General Fund and the remaining \$755 million was from GGRF. The 2023-24 budget agreement reduced net funding for various wildfire and forest-resilience activities by \$47 million and shifted \$14 million from the General Fund to Proposition 98.

The largest reduction—\$25 million—was for efforts to steward state lands, intended to help CNRA

departments bring buildings in high-fire-risk zones into compliance with new defensible space regulations that are under development pursuant to AB 3074 (Friedman), Chapter 259, Statutes of 2020. As shown in the figure below, after these reductions, the budget retained a multiyear total of \$2.8 billion for wildfire and forest resilience activities (98 percent of the original planned amount).

(Continued on next page)

Governor's Proposed Changes to Wildfire and Forest Resilience Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reductions	Proposed Multiyear Total ^f
Resilient Forests and Landscapes		\$1,139	\$1,114	\$4	\$1,110
Forest Health Program	CalFire	\$555 ^c	\$555 ^c	—	\$555 ^c
Stewardship of state-owned land	Various	305	280	— ^e	280 ^c
Post-fire reforestation	CalFire	100	100	—	100
Forest Improvement Program	CalFire	75 ^c	75 ^c	—	75 ^c
Forest Legacy Program	CalFire	49 ^c	49 ^c	\$4	45 ^c
Tribal engagement	CalFire	40	40	—	40
Reforestation nursery	CalFire	15	15	—	15
Wildfire Fuel Breaks		\$766	\$766	\$5	\$761
Fire prevention grants	CalFire	\$475 ^c	\$475 ^c	— ^e	\$475 ^c
Prescribed fire and hand crews	CalFire	134 ^c	134 ^c	\$5	129 ^c
CalFire unit fire prevention projects	CalFire	90	90	— ^e	90 ^c
Forestry Corps and residential centers	CCC	67 ^c	67 ^c	—	67 ^c
Regional Capacity		\$528	\$528	\$28	\$500
Conservancy projects	Various Conservancies	\$378	\$378	\$28	\$350
Regional Forest Capacity Program	DOC	150	150	— ^e	150 ^c
Forest Sector Economic Stimulus		\$170	\$153	\$44	\$110
Workforce training grants	CalFire	\$54	\$53 ^d	—	\$53
Biomass to hydrogen/biofuels pilot	DOC	50	50	\$44	7
Climate Catalyst Fund Program	IBank	49	33	—	33
Transportation grants for woody material	CalFire	10	10	—	10
Market development	OPR	7	7	—	7
Science-Based Management and Other		\$120	\$120	\$9	\$111
Monitoring and research	CalFire	\$38	\$38	\$6	\$32
Remote sensing	CNRA	30	30	—	30
Prescribed fire liability pilot	CalFire	20	20	—	20
Permit efficiencies	CARB, SWRCB	12	12	—	12
State demonstration forests	CalFire	10	10	—	10
Interagency Forest Data Hub	CalFire	10	10	3	7
Community Hardening		\$91	\$86	\$12	\$74
Home hardening	OES, CalFire	\$50	\$50	\$12	\$38
Defensible space inspectors	CalFire	25	20	—	20
Land use planning and public education	CalFire, UC ANR	16	16	—	16
Totals		\$2,814	\$2,767	\$101	\$2,666

^a Based on early action amendments to 2020-21 budget, as well as 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes Greenhouse Gas Reduction Fund (GGRF).

^d Reflects a reduction of \$15 million dollars of General Fund, partially offset by \$14 million in Proposition 98 General Fund.

^e Includes a proposed fund shift to GGRF.

^f In addition to the amounts displayed, the Governor would continue to maintain the statutory continuous appropriation of \$200 million annually GGRF from 2024-25 through 2028-29 to support wildfire and forest resilience.

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

Governor's Proposal: Reduces \$101 Million and Shifts \$163 Million. The Governor's 2024-25 budget proposes some additional General Fund reductions to the wildfire and forest resilience funding that was included in recent budget agreements. Cumulatively, the reductions would lower General Fund spending by \$101 million across the following seven programs, while retaining a total of \$2.7 billion for wildfire and forest resilience (95 percent of the original funding provided). In general, the proposed reductions

will result in fewer projects being undertaken by each program. The affected programs consist of:

- **Forest Legacy Program.** This program funds conservation grants and easements with private landowners to protect forest land from conversion to non-forest uses and to support good management practices. The budget proposes to reduce funding by \$4 million, retaining \$45 million.
- **Prescribed Fire and Hand Crews.** This funding supports the California Department of Forestry and Fire Protection (CalFire) fuels reduction crews, as well as a CalFire contract with the California National Guard to perform vegetation management work. The costs of the National Guard crews ultimately were paid by the federal government, resulting in savings. The budget proposes to reduce funding by \$5 million, retaining \$129 million.
- **Conservancy Projects.** This funding was provided for multiple state conservancies to support projects aimed at improving resilience to wildfires. The budget proposes to reduce funding by \$28 million (\$9.4 million from the San Diego River Conservancy, \$9 million from the Coachella Valley Mountains Conservancy, \$5.7 million from the Sacramento-San Joaquin Delta Conservancy, \$2.3 million from the State Coastal Conservancy, and \$1.3 million from the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy). While these reductions would lessen the number of projects that conservancies can undertake, it still would leave significant funding—\$350 million—for conservancy-led wildfire resilience efforts.
- **Biomass to Hydrogen/Biofuels Pilot.** This funding was for a pilot administered by the Department of Conservation (DOC) aimed at creating hydrogen and/or liquid fuel from forest biomass. The budget proposes to reduce funding by \$44 million (retaining \$6.5 million). The retained funding has already been used for a first round of planning grants for project developers and DOC's administrative activities. The proposed reduction will mean that DOC will not move forward with an originally planned second round of grant funding, which had been expected to support the implementation of pilot projects.
- **Monitoring and Research.** This funding was to support various efforts—including by CalFire as well as universities and other researchers—to improve knowledge of forest conditions and the effectiveness of different practices to reduce the risk of wildfire spread or damage. The budget proposes to reduce funding by \$6 million, retaining \$32 million.
- **Interagency Forest Data Hub.** This funding was to create an Interagency Forest Data Hub. The budget proposes to reduce funding by \$3 million, retaining \$7 million.
- **Home Hardening.** This funding was provided to implement the wildfire mitigation assistance pilot program authorized by AB 38 (Wood), Chapter 391, Statutes of 2019, providing grants to homeowners in certain vulnerable communities for retrofits aimed at improving resilience to wildfires. The budget proposes to reduce funding by \$12 million, retaining \$38 million. The proposed reduction would mean fewer homes and communities would be included in the pilot.

In addition to the reductions discussed above, the budget shifts \$163 million across four programs to GGRF, including (1) stewardship of state-owned lands (\$34.5 million), (2) fire prevention grants (\$82 million, proposed for early action), (3) Regional Forest and Fire Capacity Program (\$20 million), and (4) unit fire prevention projects (\$26 million). Notably, the Governor does not propose to make any changes to the \$200 million continuous appropriation from GGRF for forest health and wildfire prevention that was authorized as part of the 2021-22 budget but is not fully reflected in the budget

packages. Accordingly, in addition to the amounts in the figure above, under the Governor's plan, an additional annual \$200 million from GGRF would be provided for these purposes in 2024-25 through 2028-29.

Wildfire and Forest Resilience: LAO Comments.

Legislature Still Has a Few Potential Alternative and/or Additional Reductions It Could Make to Unspent Current- and Prior-Year Funds. The Legislature has a few other options that it could consider in addition to or in place of the Governor's proposed solutions. For example, the Legislature could replace some or all of the proposed fund shifts with reductions, which would make additional GGRF available for other critical legislative priorities. Additionally, the Legislature could consider (1) making reductions to programs that have significant uncommitted balances but are not included in the Governor's proposed solutions and/or (2) increasing the size of the reductions to certain programs beyond what the Governor proposes to capture the full uncommitted balance. Some potential options for these types of additional solutions include:

- **Tribal Engagement (\$22 Million).** This program supports tribes in the planning and implementation of projects that advance wildfire resilience, forest health, and cultural use of fire. It has an uncommitted balance of \$22 million General Fund, almost all of which is currently anticipated to be awarded sometime in summer 2024.
- **Forest Improvement Program (\$22 Million).** This program provides financial assistance to private, nonindustrial forestland owners under cost-share agreements. This program has an uncommitted balance of roughly \$22 million (\$20 million of which is General Fund and \$2 million of which is GGRF). Of this total, CalFire plans to award an \$8 million block grant by April 2024 to allow partner organizations to offer similar assistance outside of the Forest Improvement Program. CalFire expects to award the remaining funding through its typical rolling solicitation process, which provides awards of a couple of million dollars every two months. The Legislature could consider reducing funding for this program, with the amount available for generating savings dependent on when the Legislature acts.
- **Prescribed Fire and Hand Crews (\$31 Million GGRF).** In addition to the \$5 million in uncommitted General Fund that the Governor proposes reducing, the program currently has roughly \$31 million of uncommitted GGRF from prior appropriations. The Legislature could consider also reducing these funds and redirecting them to offset other General Fund costs. If it were to reduce funds for this program, CalFire would have less funding for fuel reduction work and research grants. The LAO notes that if the Legislature is interested in reducing the portion of this funding that CalFire uses for research grants (\$4.5 million), taking early action would be important to reduce disruptions given the department plans to make those awards in May 2024.
- **Home Hardening Program (\$13 Million).** This program has faced various implementation challenges and as such has roughly \$25 million of General Fund that has not yet been committed. Accordingly, in addition to the Governor's proposed \$12 million reduction, the Legislature could consider capturing an additional \$13 million in General Fund savings. A reduction to the funding for the program would result in fewer homes and communities being included in the pilot.

NATURE-BASED ACTIVITIES

Recent Budget Agreements Included \$1.6 Billion for Nature-Based Activities. Recent budget agreements included \$1.6 billion on a one-time basis over three years—from 2021-22 through 2023-24—from the

General Fund for various departments to implement a variety of nature-based activities. As shown in the figure below, about one-third of the total funding—\$495 million— was 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—was to support wildlife protection programs. The remaining funding—totaling \$667 million—was for regionally focused programs, youth and tribal programs, wetland-focused projects, and other types of activities. Many of the funded programs are related to helping the state achieve various goals and plans established by the administration over the past few years, such as the objective of conserving 30 percent of the state’s lands 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.

The 2023-24 budget agreement made General Fund reductions to planned nature-based activities totaling \$155 million across five programs. The largest reduction—\$100 million—was to funds provided to various conservancies across the state. Some other notable changes included reducing: \$35 million for a WCB program to mitigate the impacts of climate change on wildlife, \$10 million for the State Coastal Conservancy’s (SCC’s) San Francisco Bay wetlands support, and \$6 million for the California Department of Fish and Wildlife’s (CDFW’s) Natural Community Conservation Program Planning and Land Acquisition program. After accounting for these reductions, the budget retained \$1.4 billion for nature-based activities (90 percent of the original planned amount).

(Continued on next page)

Governor's Proposed Changes to Nature-Based Activities Package

General Fund (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reduction	Proposed Multiyear Total
Land Acquisition and Management Programs		\$495	\$495	—	\$495
Various WCB programs	WCB	\$245	\$245	—	\$245
Habitat restoration	DWR	200	200	—	200
Opportunity coastal acquisition	SCC	50	50	—	50
Wildlife Protection Programs		\$403	\$368	—	\$368
Protect wildlife from changing conditions	WCB	\$353	\$318	—	\$318
Climate change impacts on wildlife	CDFW	50	50	—	50
Regionally Focused Programs		\$383	\$273	-\$5	\$268
Conservancy funding	Various	\$230	\$130	—	\$130
Wildlife corridors (including Liberty Canyon)	CDFW and SMMC	52	52	—	52
San Joaquin Valley flood plain restoration	WCB	40	40	—	40
Natural Community Conservation Program Planning and Land Acquisition	CDFW	36	30	—	30
Climate Smart Land Management Program	DOC	20	16	—	16
Resource conservation strategies	WCB	5	5	-\$5	—
Youth and Tribal Programs		\$152	\$152	—	\$152
Local and tribal NBS corps programs	CCC	\$49	\$49	—	\$49
Tribal program	CNRA	100	100	—	100
Tribal staffing	CNRA	3	3	—	3
Wetland Focused Programs		\$111	\$101	-\$10	\$91
Wetlands Restoration Program	CDFW	\$54	\$54	—	\$54
NBS Wetlands Restoration Program	DC	36	36	—	36
San Francisco Bay wetlands support	SCC	11	1	—	1
Redondo Beach wetlands restoration	CNRA	10	10	-\$10	—
Other Programs		\$21	\$21	—	\$21
CalCIS	CNRA	\$18	\$18	—	\$18
Partnerships and improvements	CNRA	2	2	—	2
California nature support	CNRA	1	1	—	1
Totals		\$1,565	\$1,409	-\$15	\$1,394

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

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 CalCIS = California Climate Information System.

Totals **\$2,014** **\$2,101** **\$101** **\$2,000**

^a Based on early action amendments to 2020-21 budget, as well as 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes Greenhouse Gas Reduction Fund (GGRF).

^d Reflects a reduction of \$15 million dollars of General Fund, partially offset by \$14 million in Proposition 98 General Fund.

^e Includes a proposed fund shift to GGRF.

^f In addition to the amounts displayed, the Governor would continue to maintain the statutory continuous appropriation of \$200 million annually GGRF from 2024-25 through 2028-29 to support wildfire and forest resilience.

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

Governor's Proposal: Reduces \$15 Million. As shown in the figure above, the Governor's 2024-25 budget proposes to achieve \$15 million in General Fund savings by eliminating funding for the following two nature-based activity-related programs:

- **Wetlands Restoration at Redondo Beach.** The original package provided \$10 million for

CNRA to provide funding to the City of Redondo Beach to purchase a former power plant site on which the city would like to develop a regional park and restore historic wetlands. CNRA indicates that the city intended to use the funds to bid on the property at auction after the resolution of legal matters that are still pending. If the funding is eliminated as proposed, the city may not have sufficient funds to acquire the property, however, the timing of when the city might need the funds still is uncertain.

- **Regional Conservation Strategies.** The original package provided \$5 million for a WCB program created by AB 2087 (Levine), Chapter 455, Statutes of 2016, that supports the development of voluntary, nonregulatory regional planning processes. This program also previously received \$5 million in Proposition 68 funding in 2018. WCB expects the impact of the proposed General Fund elimination would be minimal because it still has remaining Proposition 68 funding for this same purpose.

After accounting for these reductions, the budget proposes to retain a total of \$1.4 billion for nature-based activities (89 percent of the original planned amount).

Nature-Based Activities: LAO Comments.

Legislature Could Consider Alternative and/or Additional Reductions From Unspent Current- and Prior-Year Funds. Based on the LAO's review of expenditure data, the LAO estimates that about \$400 million remains uncommitted from various prior- and current-year nature-based activity-related program appropriations that the Governor does not propose reducing. Given the significant amount of uncommitted funding in this area, to the extent the Legislature needs to identify alternative and/or additional solutions, it has multiple options to consider. Some examples include:

- **Various WCB Programs (\$102 Million).** These WCB programs support planning, acquisition, and restoration projects on natural and working lands. Currently, about \$102 million of the \$245 million originally provided for these programs remains uncommitted and could be considered for reduction. Such a reduction would mean fewer projects are completed. However, a significant amount of funding still would be retained, both in these programs as well as in other programs that support activities with similar objectives, such as CDFW's program to mitigate climate change impacts on wildlife and WCB's other programs. The LAO notes that WCB indicates that it plans to make additional awards for these programs in the coming months. Thus, if the Legislature would like to reduce funding for these programs, taking early action would maximize the amount of savings available.
- **WCB's Program to Protect Wildlife From Changing Conditions (\$100 Million).** WCB originally received \$353 million to protect wildlife from changing conditions. Of this amount, \$218 million has been committed to projects and the 2023-24 budget package reduced \$35 million. However, nearly \$100 million remains uncommitted and thus could be considered as a potential solution. As with WCB's other programs discussed above, additional reductions would result in fewer projects, but the board still would maintain significant funding for similar activities from other sources. WCB indicates that it plans to make additional awards totaling roughly \$30 million in the coming months, making this program another potential candidate for early action.
- **CNRA's Tribal Nature-Based Solutions Program (\$97 Million).** This is a new program aimed at helping facilitate access, co-management, and ancestral land return. While providing funding

to support tribes has merit in light of historical injustices, only about \$3 million of the \$100 million provided in 2022-23 or 2023-24 has been committed. Thus, the remaining \$97 million could potentially be considered for reduction given the severity of the state's budget problem. The LAO notes, however, that the administration indicates that it expects to make awards as soon as April 2024, so should the Legislature want to consider reducing the funding, it would be advisable to take early action. (The LAO notes that the budget also proposes to convert a temporary staff position that supports this program to permanent status. Should the program be eliminated, that position would no longer be needed, resulting in a small amount of ongoing savings.)

- **SCC's Coastal Acquisitions (\$49 Million).** This funding has been set aside for SCC to undertake acquisitions that help protect natural resources and provide for public access. Currently, roughly \$49 million of the \$50 million that was originally provided for this purpose remains uncommitted. SCC reports that it anticipates it ultimately would use the funding for a complex, significant acquisition opportunity which currently is in the appraisal phase.
- **Wetlands Restoration Program (\$13 Million).** The original package provided \$54 million for this CDFW program, which funds wetland and meadow restorations, and also supports a recently created Beaver Restoration Program. Of the \$54 million, roughly \$34 million remains uncommitted. CDFW anticipates awarding roughly \$21 million early this spring, leaving \$13 million the Legislature could reduce.
- **Wildlife Corridors (\$20 Million).** Of the \$42 million originally provided to CDFW for wildlife corridors, roughly \$20 million remains uncommitted and therefore could be considered for a budget solution. CDFW notes that it is reviewing proposals on a continuous basis, so the amount available for reduction would be dependent on when the Legislature takes action.
- **Climate Smart Land Management Program (\$7.5 Million).** This is a new program administered by DOC that aims to increase the capacity of state partners to support natural working lands and 30x30 goals. Roughly \$7.5 million of the \$16 million originally provided for this program remains uncommitted and DOC does not anticipate making awards until June or July 2024. Given the condition of the General Fund, the Legislature could make further reductions and use the first round of funding as a more limited pilot. It could then evaluate the outcomes of that funding before deciding whether it is worthy of future support.

COMMUNITY RESILIENCE

Recent Budget Agreements Provided \$2.2 Billion for Community Resilience. As shown in the figure below, recent budgets included \$2.2 billion for programs focused on helping communities address the causes and impacts of climate change. Funding was provided across 2021-22 through 2024-25. The funds support both previously existing and newly established programs. For example, the largest share of the funding is for a program established in 2017—through AB 617 (C. Garcia), Chapter 136, Statutes of 2017—that supports efforts to reduce pollution and improve air quality in highly impacted communities. The same is true for the Transformative Climate Communities Program, which began in 2018 and funds community-led development and infrastructure projects. The remaining programs displayed in Figure 11 were initiated with funding provided in the recent budget packages.

The 2023-24 budget revised the funding for several of these programs to save \$765 million General Fund through a combination of reductions and fund shifts. Specifically, the 2023-24 budget package included

\$515 million in reductions (24 percent), delayed \$50 million from 2023-24 to 2024-25, and shifted \$250 million for the AB 617 program from the General Fund to GGRF. After accounting for the reductions, the budget retained \$1.7 billion for community resilience activities across the multiyear period (76 percent of the original planned amount)—about \$1 billion from GGRF and \$607 million from the General Fund. As a separate but related action (not reflected in the figure), the budget doubled funding for the California Climate Action Corps program (from \$4.7 million to \$9.3 million per year beginning in 2023-24) and made the funding ongoing rather than ending in 2025-26 as originally planned.

Governor's Proposed Changes to Community Resilience Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reductions	Proposed Multiyear Total
AB 617	CARB	\$930 ^c	\$930 ^c	—	\$930 ^c
Transformative Climate Communities Program	SGC	420	215	—	215
Community Resilience Centers	SGC	270	110	—	110
Regional Climate Resilience Program	OPR	250	100	-\$75	25
Methane monitoring satellites	CARB	105 ^c	105 ^c	—	105 ^c
Community air monitoring	CARB	30 ^c	30 ^c	—	30 ^c
Climate Adaptation and Resilience Planning Grants	OPR	25	25	-5	20
Environmental Justice Initiative	CalEPA	25	25	—	25
Fifth Climate Assessment	Various	22	22	—	22
Regional Climate Collaboratives	SGC	20	20	-10	10
School ventilation upgrades (CalSHAPE)	CEC	20 ^c	20 ^c	—	20 ^c
Fluorinated Gas Reduction Incentive Program	CARB	15	15	—	15
California Climate Action Corps	OPR	15	15 ^d	—	15 ^d
High-GWP refrigerants	CARB	10 ^c	10 ^c	—	10 ^c
Vulnerable Communities Platform and CalAdapt Mapping	OPR	5	5	—	5
Wood stove replacements	CARB	5 ^c	5 ^c	—	5 ^c
Regional planning for lithium extraction	CEC	5	5	—	5
Totals		\$2,172	\$1,657	-\$90	\$1,567

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes Greenhouse Gas Reduction Fund.

^d 2023-24 budget agreement doubled the funding for this program and made it ongoing, which is not reflected here.

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

Governor's Proposal: Reduces \$90 Million General Fund. As shown in the figure above, the Governor proposes new General Fund reductions totaling about \$90 million across a few programs in the community resilience package. These include \$75 million from the regional climate resilience program, \$9.8 million from regional climate collaboratives, and \$5 million from the Climate Adaptation and Resilience Planning Grants Program. In a separate but related action (not reflected in the figure), the Governor proposes providing \$250 million from GGRF for an additional year of support for the AB 617 program in 2024-25.

Community Resilience: LAO Comments.

Proposal Captures Most Remaining General Fund but Legislature Could Consider Other Possible

Solutions. Based on LAO’s review of expenditure data, some additional funding in the community resilience package remains uncommitted and could be considered for reductions. These include:

- **Climate Adaptation and Resilience Planning Grants (\$10 Million).** Only \$10 million of the \$25 million provided for this program has been committed to date. While the Governor proposes reducing associated funding by \$5 million, an additional \$10 million would remain uncommitted. The administration currently is finalizing its guidelines for the next round of grants and expects to close applications and begin making awards in late spring or early summer.
- **Environmental Justice Initiatives (Between \$5 Million and \$15 Million).** The administration indicates that it is finalizing awards for the first round of these grants and expects to still have between \$5 million and \$15 million General Fund available for future grant cycles that would be initiated in the second half of 2024 or later. The Legislature could consider reducing the funding for these programs to achieve General Fund savings rather than moving forward with the next rounds of the grants.
- **Climate Action Corps Program (Up to \$9.3 Million Ongoing Annually).** The 2023-24 budget package doubled annual funding levels for this program and made it ongoing. The Legislature could consider lowering or eliminating the ongoing commitment. While taking such action ultimately would result in fewer individuals participating in these activities, scaling back a recently initiated program likely would be less disruptive than making reductions to longstanding ongoing programs—which could become necessary if the fiscal situation worsens and the Legislature is unable to identify sufficient budget solutions elsewhere. Additionally, federal funding supports a similar program.

COASTAL RESILIENCE

Recent Budget Agreements Included \$1.3 Billion for Coastal Resilience Activities. As shown in the figure below, recent budgets included \$1.3 billion across four years (2021-22 through 2024-25) for a variety of activities to increase coastal resilience and adapt to the effects of sea-level rise. The package included funding for SCC for projects to protect the coast (including coastal watersheds) from the effects of climate change (\$500 million), adapt to the effects of sea-level rise using nature-based approaches (\$420 million), and adapt infrastructure to the effects of sea-level rise (\$144 million). The package also included funding for the Ocean Protection Council (OPC) to support projects to protect and restore marine wildlife and ocean and coastal ecosystems (\$117 million) and to implement SB 1 (Atkins), Chapter 236, Statutes of 2021, which aims to support local governments in sea-level rise planning (\$102 million). The enacted 2023-24 budget reduced this overall funding by \$183 million, primarily in SCC’s coastal protection program.

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Governor's Proposed Changes to Coastal Resilience Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reductions	Proposed Multiyear Total
Protecting the coast from climate change	SCC	\$500	\$326	-\$171	\$155
Adapting to sea-level rise	SCC	420 ^c	420 ^c	-159	261 ^c
Adapting infrastructure to sea-level rise	SCC	144 ^d	135 ^d	-62	72 ^d
Protecting the ocean from climate change	OPC	117 ^e	117 ^e	-35	82 ^e
Implementing SB 1	OPC	102 ^d	102 ^d	-25 ^f	77 ^g
Adapting to sea-level rise in state parks	Parks	12	12	—	12
Totals		\$1,295	\$1,112	-\$452	\$660

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes \$80 million from the Greenhouse Gas Reduction Fund (GGRF).

^d Includes \$38 million from GGRF.

^e Includes \$17 million from Proposition 68 (2018) bond funds.

^f Governor proposes delaying \$27 million from 2023-24 to 2024-45 and shifting the fund source for \$37 million in 2024-25 from General Fund to GGRF.

^g Includes \$74 million from GGRF.

SCC = State Coastal Conservancy; OPC = Ocean Protection Council; SB 1 = Chapter 236 of 2021 (Senate Bill 1, Atkins); and Parks = Departments of Parks and Recreation.

Source: LAO

Governor's Proposal: Reduces \$452 Million and Shifts \$37 Million. The Governor's budget proposes to reduce General Fund support for SCC by \$392 million across its three programs and for OPC by \$60 million across its two programs. In addition, for OPC's implementation of SB 1, the proposed budget would delay \$27 million from 2023-24 to 2024-25 and shift the fund source for both that amount and the original \$10 million planned in 2024-25 from the General Fund to GGRF. Relative to the original package, the proposed changes would result in 51 percent of funding retained, or \$660 million of the original \$1.3 billion. Reduced funding would limit the number of projects SCC can fund and could affect its ability to draw down future federal funding that requires a state match. SCC indicates it would focus on managing previously authorized projects and advancing recently selected priority projects by completing environmental reviews and permits and potentially securing additional federal funds. SCC recently applied for \$150 million in federal funds and would be able to use its existing and retained funds for the required state match, but with the proposed reductions likely would not have sufficient matching funds to apply for future rounds of federal grants.

Coastal Resilience: LAO Comments.

Proposal Eliminates Nearly All Unspent Coastal Funding. The Governor's proposal would reduce a significant share (49 percent) of funding from the coastal resilience package—proportionally more than any other of the thematic packages. One rationale for this approach is that a significant amount of SCC's funding has not been spent, making it easier to pull back to help solve the state's significant budget deficit without halting particular projects or reneging on specific spending commitments. LAO notes that a key reason this magnitude of funding still is available is because the Governor had proposed reducing it in the 2023-24 budget, not because there is a lack of activities to pursue. During budget negotiations—which lasted through June 2023—SCC could not make plans to spend funds that might not materialize. The funds ultimately were restored in the final budget agreement because the Legislature viewed these activities as significant priorities. However, given that the funds have not yet been awarded for specific projects, approving these proposed reductions likely would be less disruptive than other

alternatives the Legislature may have to consider. In addition, based on the LAO's review of expenditure data, OPC has about \$20 million in uncommitted funds that the Legislature also could consider reducing.

SUSTAINABLE AGRICULTURE

Recent Budget Agreements Included \$1.2 Billion for Sustainable Agriculture. As shown in the figure below, past budgets committed a total of \$1.2 billion (\$916 million from the General Fund and \$268 million from various special funds) for a package of programs related to promoting sustainable agriculture. This funding was provided from 2021-22 through 2023-24. Almost half of the funding was provided to CARB to support (1) agricultural equipment upgrades and replacements that reduce greenhouse gas and air pollutant emissions (\$363 million) and (2) financial incentives to implement alternative practices to agricultural burning in the San Joaquin Valley (\$180 million). The remaining funds—\$641 million—were for a wide range of programs, mostly administered by CDFA. For example, \$170 million was provided for the Healthy Soils Program, which allocates grants to implement practices that improve soil health, sequester carbon, and reduce greenhouse gas emissions.

The 2023-24 budget made several changes to the package. This included scoring \$144 million in General Fund savings across various programs. Major reductions included \$25 million from the Climate Catalyst Fund, \$22 million from the Conservation Agriculture Planning Grants Program, and \$15 million from the Pollinator Habitat Program. The budget package also reduced \$65 million in General Fund from the Healthy Soils Program but partially backfilled it with \$50 million from GGRF, resulting in a net reduction of \$15 million. Overall, these actions resulted in a net reduction of \$94 million in total funding—maintaining \$1.1 billion, or 92 percent, of the previously approved funding levels.

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Governor's Proposed Changes to Sustainable Agriculture Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reductions	Proposed Multiyear Total
Agricultural diesel engine replacement and upgrades	CARB	\$363 ^{c,d}	\$363 ^{c,d}	—	\$363 ^{c,d}
San Joaquin Valley agricultural burning alternatives	CARB	180	180	—	180
Healthy Soils Program	CDFA	170 ^c	155 ^c	— ^e	155 ^c
Livestock methane reduction	CDFA	100 ^c	100 ^c	—	100 ^c
Farm to School Incubator Grant Program	CDFA	90	90	—	90
Conservation Agriculture Planning Grants Program	CDFA	39	18	—	18
Fresno-Merced Future of Food Innovation Initiative	CDFA	30	30	—	30
Pollinator Habitat Program	CDFA	30	16	—	16
Climate Catalyst Fund	Go-Biz	25	—	—	—
California Nutrition Incentive Program	CDFA	20	20	—	20
Healthy Refrigeration Grant Program	CDFA	20	20	-\$9	12
Transition to safer, sustainable pest management	CDFA	18	18	—	18
Farm to Community Food Hubs Program	CDFA	15	15	-14	1
Urban Agriculture Program	CDFA	12	12	—	12
Technical assistance for underserved farmers	CDFA	10	10	—	10
Farmer training and farm manager apprenticeships	CDFA	10	10	—	10
Methane reduction through cattle feed	CDFA	10 ^c	10 ^c	—	10 ^c
Research in GHG reductions	CDFA	10	5	—	5
Invasive Species Council	CDFA	10	5	—	5
Sustainable California Grown Cannabis Pilot Program	CDFA	9	1	—	1
Assessment of regulatory requirements for agriculture	CDFA	6	6	—	6
Integrated pest management technical assistance	CDFA/DPR	5	5	—	5
Canine blood bank	CDFA	1	1	—	1
Senior Farmers Market Nutrition Program	CDFA	1	1	—	1
Totals		\$1,184	\$1,090	-\$23	\$1,067

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes funding from the GGRF.

^d Includes funding from the Air Pollution Control Fund.

^e Governor proposes reducing General Fund by \$24 million in 2022-23 and backfilling with an equal amount from GGRF in 2024-25.

Note: Totals may not add due to rounding.

CARB = California Air Resources Board; CDFA = California Department of Food and Agriculture; Go-Biz = Governor's Office of Business and Economic Development; GHG = greenhouse gas; DPR = Department of Pesticide Regulation; GGRF = Greenhouse Gas Reduction Fund.

Source: LAO

Governor's Proposal: Reduces \$23 Million and Shifts \$24 Million. As shown in the figure above, the Governor proposes net reductions in General Fund support for two programs totaling \$23 million. Additionally, the proposal would revert \$24 million in General Fund provided to livestock methane reduction programs in 2022-23 and backfill the reduction with an equal amount from GGRF in 2024-25, resulting in no net programmatic funding impact. This will allow the state to both capture budget savings and still meet a matching requirement for federal funding (\$77 million) that CDFA recently received. Compared to the original 2022-23 agreement, the Governor's budget would retain \$1.1 billion, or 90 percent, of the originally approved funding levels for sustainable agriculture activities.

Sustainable Agriculture: LAO Comments.

Proposal Captures Most—but Not All—Available General Fund Savings From Uncommitted Prior-Year Funds. Based on the LAO's review of program expenditure data, apart from the Governor's proposals, most remaining sustainable agriculture funds have already been fully awarded to projects or

are expected to make final awards in the coming months. However, the LAO has identified one additional option the Legislature could consider for seeking additional or alternative savings:

- **Farm to School Incubator Grant Program (\$50 million).** This program provides funding to schools to purchase locally grown foods, coordinate educational opportunities, and further collaboration and coordination between schools and producers. Of the \$90 million the program was provided from the General Fund, CDFA has not yet solicited grant applications or made awards for roughly \$50 million. (The department plans to make grant awards from this funding later this spring.) Given that the program is still relatively new (it began in 2020-21) and has uncommitted funds, the Legislature could reduce this funding and allow the program to continue operating at a scaled-down level with fewer grants than originally intended. The Legislature may need to take early action to prevent the department from proceeding with its grant application and award process and eroding these potential savings.

CIRCULAR ECONOMY

Recent Budget Agreements Included \$468 Million for Circular Economy Activities. As shown in the figure below, past budgets provided a total of \$468 million (\$138 million from the General Fund and \$330 million from various special funds) for a package of programs related to promoting recycling and waste reduction. Funding was provided from 2021-22 through 2022-23. Circular economy funding went to nine programs, all of which are administered by the California Department of Resources Recycling and Recovery (CalRecycle). Roughly half of the funding (\$240 million) was to support local jurisdictions in implementing the organic waste requirements established by SB 1383 (Lara), Chapter 395, Statutes of 2016. Significant funding also was provided to support (1) the expansion of organics recycling infrastructure, such as composting facilities (\$105 million) and (2) the Recycling Market Development Zone (RMDZ) Loan Program, which provides loans to recycling businesses that prevent, reduce, or recycle recovered waste materials (\$50 million).

The 2023-24 budget made three changes to the package that resulted in a net reduction of \$24 million in total funding—maintaining \$444 million or 95 percent of the previously approved funding levels. These reductions—all of which were intended to be supported by the General Fund—included \$15 million from recycling feasibility grants, \$5 million from community composting opportunities, and \$4 million from the RMDZ Loan Program.

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Governor's Proposed Changes to Circular Economy Package

General Fund Unless Otherwise Noted (In Millions)

Program	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reduction	Proposed Multiyear Total
SB 1383 implementation grants	\$240 ^c	\$240 ^c	—	\$240 ^c
Organic waste infrastructure	105 ^c	105 ^c	—	105 ^c
RMDZ Loan Program	50	46	—	46
Co-digestion capacity	30 ^c	30 ^c	—	30 ^c
Recycling feasibility grants	15	—	—	—
Quality incentive payments	10 ^d	10 ^d	—	10 ^d
Compost Permitting Pilot Program	8	8	-\$7	1
Edible food recovery	5	5	—	5
Community composting opportunities	5	—	—	—
Totals	\$468	\$444	-\$7	\$437

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Includes funding from the Greenhouse Gas Reduction Fund.

^d Includes funding from the Beverage Container Recycling Fund.

SB 1383 = Chapter 395 of 2016 (SB 1383, Lara) and RMDZ = Recycling Market Development Zone.

Source: LAO

Governor's Proposal: Reduces \$7 Million. As shown in figure above, the Governor proposes to reduce General Fund for the Compost Permitting Pilot Program by \$7 million. This program has yet to announce when funding will be made available for grants. Ultimately, the proposed reduction would mean the program would not be able to provide local grants to support the siting and permitting of composting facilities. However, the remaining amount—about \$1 million—will support a research contract that will identify statewide best practices for permitting these types of facilities, which could make potential future program activities even more effective. CalRecycle indicates that it awarded that contract in December 2023. Assuming this reduction, the Governor's proposal would retain \$437 million, or 93 percent of the initially approved funding levels for sustainable agriculture activities.

Circular Economy: LAO Comments.

Proposal Targets Available Remaining Uncommitted Funds. The Governor's proposal largely captures the remaining uncommitted funds from the circular economy package. Based on available information, nearly all of the programs within this package have fully awarded funds to projects or are expected to make final awards in the coming months. The Governor's proposal incorporates the one notable exception, the Compost Permitting Pilot Program.

EXTREME HEAT

Recent Budget Agreements Included New Focus on Extreme Heat. The past few years represent the first time the state provided significant funding explicitly to mitigate the impacts of extreme heat—originally planned for a total of \$649 million from 2020-21 through 2023-24 (\$634 million General Fund and \$15 million GGRF). The figure below highlights these funding allocations. In some cases, the recent budget agreements created new programs such as the Extreme Heat and Community Resilience program within the Governor's Office of Planning and Research (OPR), which is a program aimed at boosting community-level preparation. The funding also supported some programs that existed previously but

were not explicitly focused on mitigating extreme heat, such as the Urban Greening, Urban Forestry, and Low-Income Weatherization programs. In addition, funding was 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.

The 2023-24 budget package saved \$303 million General Fund through a combination of making \$245 million in reductions and shifting \$58 million in expenditures from the General Fund to GGRF. The reductions included \$175 million from the Urban Greening program, \$40 million from the Extreme Heat and Community Resilience program, and \$30 million from the Urban Forestry program. The fund shifts from General Fund to GGRF included \$33 million for the Green Schoolyards program and \$25 million for the Extreme Heat and Community Resilience program.

Governor's Proposed Changes to Extreme Heat Package

General Fund Unless Otherwise Noted (In Millions)

Program	Department	Original Multiyear Total ^a	Revised Multiyear Total ^b	Proposed Reduction	Proposed Multiyear Total
Urban Greening Program	CNRA	\$250	\$75	— ^c	\$75 ^d
Extreme Heat and Community Resilience Program	OPR	175	135	-\$40 ^c	95 ^d
Urban Forestry Program	CalFire	60	30	—	30
Green Schoolyards Program	CalFire	50	50 ^e	—	50 ^e
Low Income Weatherization Program	CSD	50	50 ^d	—	50 ^d
Protections for vulnerable populations	CDPH, DIR, CDSS	28	28	— ^f	28
Community-based public awareness campaign	OPR	20	20	—	20
Farmworker Low-Income Weatherization Program	CSD	15 ^d	15 ^d	—	15 ^d
Animal Mortality Management Program	CDFA	1	1	—	1
Origin Inspection Program	CDFA	1	1	—	1
Totals		\$649	\$404	-\$40	\$364

^a Based on 2021-22 and 2022-23 budget agreements.

^b Based on 2023-24 budget agreement.

^c Proposes to shift funding from General Fund to the Greenhouse Gas Reduction Fund (GGRF).

^d Includes funding from GGRF.

^e An additional \$100 million for Green Schoolyards was provided through a budget control section, which is not reflected in the table.

^f Proposes to shift funding from General Fund to the Labor and Workforce Development Fund.

CNRA = California Natural Resources Agency; OPR = Governor's Office of Planning and Research; CalFire = California Department of Forestry and Fire Protection; 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

Governor's Proposal: Reduces and Shifts Funding. The Governor proposes to save about \$150 million General Fund through a combination of \$109 million in fund shifts and \$40 million in reductions. The proposed solutions include:

- **Extreme Heat and Community Resilience.** The proposal reduces the program by \$40 million and shifts the remaining \$70 million from General Fund to GGRF.
- **Urban Greening.** The proposal shifts \$24 million from General Fund to GGRF.
- **Protections for Vulnerable Populations.** The proposal shifts \$16 million from General Fund to the Labor and Workforce Development Fund.

Extreme Heat: LAO Comments.

Legislature Could Capture Additional Savings by Reducing Rather Than Shifting Funds. Through a combination of reductions and fund shifts, the Governor’s proposal eliminates nearly all of the uncommitted General Fund that was included as part of the extreme heat package. However, the Legislature could modify a couple of proposed solutions to further help the General Fund condition.

- **Urban Greening Program (\$24 Million).** Due to the proposed fund shift, the administration has paused evaluation of grant requests for this program. Because the funding has not yet been committed, the Legislature could consider reducing the funding rather than shifting it to GGRF. Doing so would free up GGRF that the Legislature could then use to backfill additional General Fund reductions elsewhere.
- **Extreme Heat and Community Resilience Program (\$95 Million).** None of the funding for this program has yet been committed. OPR plans to award \$20 million during a first round of grant funding sometime this summer. Given the budget condition, in addition to the Governor’s proposed \$40 million reduction and in lieu of the proposal to shift \$70 million to GGRF in 2024-25, the Legislature could consider eliminating all funding for the program. Doing so would save an additional \$25 million General Fund and also free up \$70 million in GGRF that could be used to backfill additional General Fund reductions elsewhere.

OTHER RECENT AUGMENTATIONS

Recent Budget Agreements Also Included One-Time Funding for Activities That Were Not Captured in the Thematic Packages. Outside of the thematic packages highlighted in this report, recent budgets also provided or planned to provide one-time funding for a variety of climate and resources-related activities. The figure below shows several of these non-package augmentations totaling \$2.7 billion, all from the General Fund. (The figure does not include a comprehensive list of all funding provided in recent budgets for environmental programs outside of the thematic packages, but rather just those the Governor is now proposing to modify as described below.) The largest of these augmentations include \$1 billion planned over three years to implement CERIP, \$500 million over three years to clean up brownfield sites, and \$477 million mostly over two years for a new Climate Innovation Program intended to support California companies in advancing climate technologies. (The 2023-24 budget package reduced originally planned funding for the Climate Innovation Program from \$525 million to \$477 million. That is the only revision that has been made thus far to originally planned funding for the programs reflected in the figure below.)

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Governor's Proposed Changes to Other Recent Augmentations

General Fund (In Millions)

Program	Department	Revised Multiyear Total ^a	Proposed Reductions	Proposed Multiyear Total
Clean Energy Reliability Investment Plan (SB 846)	CEC	\$1,000	— ^b	\$1,000
Brownfield cleanups	DTSC	500	— ^c	500
Climate Innovation Program	CEC	477 ^d	-\$475	2
Diablo Canyon Land Conservation and Economic Development (SB 846)	Various	160	— ^e	160
Urban Waterfront Program	Parks	154	-12	142
Outdoor Equity Program	Parks	115	-25	90
California Electric Homes Program	CEC	75	-6	69
California Nutrition Incentive Program	CDFA	35	-33	2
Enteric methane incentives	CDFA	25	-23	2
Pesticide Notification Network	DPR	10	-3	7
Totals		\$2,551	-\$578	\$1,974

^a Based on 2023-24 budget agreement.

^b Governor proposes delaying \$400 million from 2024-25 and \$400 million from 2025-26. The proposal would instead provide \$300 million in 2026-27 and \$500 million in 2027-28.

^c Governor proposes delaying \$175 million from previously appropriated funds—\$85 million until 2025-26 and \$90 million until 2026-27.

^d The 2023-24 budget reduced the original amount from \$525 million to \$477 million.

^e Governor proposes delaying \$150 million from 2024-25 until: 2025-26 (\$50 million), 2026-27 (\$50 million), and 2027-28 (\$50 million).

SB 846 = Chapter 239 of 2022 (Senate Bill 846, Dodd); CEC = California Energy Commission; DTSC = Department of Toxic Substances Control; Parks = Department of Parks and Recreation; CDFA = California Department of Food and Agriculture; and DPR = Department of Pesticide Regulation.

Source: LAO

Governor's Proposal: Reduces \$578 Million and Delays \$1.1 Billion to Later Years. To achieve General Fund savings, the Governor's budget proposes an overall spending reduction totaling \$578 million across the various activities shown in the figure, thereby retaining \$2 billion, or 77 percent, of the revised 2023-24 amounts. The proposal also includes several significant funding delays, totaling \$1.1 billion. This figure displays proposed reductions and resulting multiyear funding levels. Some key changes include:

- CERIP—Delay.** SB 846 (Dodd), Chapter 239, Statutes of 2022, included a plan to provide a total of \$1 billion to implement CERIP—\$100 million in 2023-24, \$400 million in 2024-25, and \$400 million in 2025-26. The budget proposes to delay \$800 million of this planned funding. Specifically, it would maintain \$100 million each in 2023-24 and 2025-26, and provide \$300 million in 2026-27 and \$500 million in 2027-28. The overall funding level would stay the same but stretch over a longer period of time.
- Brownfield Cleanups—Delay.** The Department of Toxic Substances Control (DTSC) received \$300 million in 2021-22, \$100 million in 2022-23, and \$100 million in 2023-24 for cleanup activities. The budget proposes to revert \$175 million from prior appropriations and delay providing it until 2025-26 (\$85 million) and 2026-27 (\$90 million). The overall funding level would stay the same but stretch over a longer period of time.
- Climate Innovation Program—Reduction.** The 2023-24 budget provided \$2 million in 2022-23 and planned to provide \$475 million over 2024-25 and 2025-26 for the Climate Innovation Program. The Governor's budget proposes to reduce all \$475 million in future spending, retaining just \$2 million.
- Diablo Canyon Land Conservation and Economic Development Plan—Delay.** SB 846

required CNRA to lead planning efforts for how to manage the conservation of Diablo Canyon lands and local economic development as the nearby nuclear power plant is decommissioned. SB 846 included intent language to provide \$10 million in 2022-23 and \$150 million in 2024-25 to support the plan. The budget proposes to keep the same overall funding level, but delay the \$150 million in 2024-25 and instead provide \$50 million in 2025-26, \$50 million in 2026-27, and \$50 million in 2027-28.

- **California Nutrition Incentive Program—Reduction.** The budget proposes to revert \$33 million of CDFA’s \$35 million appropriation in 2023-24 for the California Nutrition Incentive Program. While the reduction would not affect any of CDFA’s existing federal funding awards, it would affect CDFA’s ability to draw down future federal funds through the Gus Schumacher Nutrition Incentive Program, as the department was planning to use these funds to meet its state fund matching requirements.

Other Recent Augmentations: LAO Comments.

Legislature Could Consider Alternative and/or Additional Reductions. To the extent the Legislature needs to find alternative and/or additional solutions to those chosen by the administration, it has some options among the non-package augmentations. First, the Legislature could consider reducing rather than delaying some or all of the funding the Governor proposes shifting to a future year. Second, the Legislature could look at uncommitted balances in other non-package augmentations that the Governor has not targeted for solutions.

OTHER RESOURCES AND ENVIRONMENTAL BUDGET SOLUTIONS

Governor’s Proposals. In addition to the proposals above, the Governor’s budget includes other General Fund solutions in the resources and environmental sectors, such as:

- **SWRCB: Underground Storage Tank (UST) Cleanup Fund—Loan.** A budgetary loan of \$150 million, along with a one-year repayment deferral of an existing \$50.7 million budgetary loan, from the UST Cleanup Fund to the General Fund is proposed from resources not currently projected to be used for operational or programmatic purposes.
- **CalRecycle: California Beverage Container Recycling Fund (BCRF)—Loan.** A budgetary loan of \$125 million, along with a one-year repayment deferral of an existing \$25 million budgetary loan, from BCRF to the General Fund is proposed from resources not currently projected to be used for operational or programmatic purposes.
- **Parks: Outdoor Equity Grants Program—Reduction.** A reduction of \$25 million General Fund for outdoor environmental education and access programs through the Outdoor Equity Grants Program under AB 209 (Limon), Chapter 675, Statutes of 2019. The budget maintains \$90 million General Fund previously allocated for this program.
- **CNRA: Urban Waterfront Funding—Reduction.** A reversion of \$12.3 million General Fund for various projects in urban areas adjacent to rivers and waterways throughout the state. The budget maintains \$142 million General Fund previously allocated for this program.
- **DPR: Pesticide Notification—Reduction.** A reversion of \$2.6 million General Fund related to the Pesticide Notification Network previously appropriated in the 2021 Budget Act. The budget

maintains \$7.3 million previously allocated for this purpose.

Please note that some proposals included in the Governor's Climate Budget Solutions are not included in this hearing's discussion. They were either not part of the original Climate-Energy Packages or they are better suited to be heard in other subcommittees, such as proposals related to goods movement workforce training facility and active transportation.

Background. According to the LAO:

Recent Budgets Included Significant General Fund Augmentations for Climate, Natural Resources, and Environmental Protection. Combined, the 2021-22 and 2022-23 budget agreements included notable amounts of new spending for a wide variety of activities related to mitigating and responding to climate change, as well as for protecting and restoring natural resources and the environment. These budget packages also included agreements to provide additional funding in future years for a six-year total of about \$39 billion (2020-21 through 2025-26). Most of this funding was grouped into thematic packages, such as for ZEVs, wildfire and forest resilience, and water and drought-related activities. (Recent budgets also provided some additional augmentations for natural resources and environmental protection departments that we do not include in these totals. Additionally, this amount does not include some additional non-environmental funding that the administration sometimes includes in its "Climate Budget" totals.) The funding was spread across numerous departments and was primarily from the General Fund, but did include about \$6 billion from other funds, mostly GGRF and Proposition 98 (dedicated school funding for kindergarten through community college, used here for zero-emission school buses). In general, these augmentations were all for activities that were one time or limited term in nature, such as providing grants for local entities to construct infrastructure or carry out habitat restoration projects. Some of the augmentations provided funding for activities to be undertaken by state agencies, such as to secure additional electricity resources intended to ensure summer electric reliability.

General Fund Augmentations Represent Significant Departure From Historical Funding Trends. In most cases, the recent augmentations represent unprecedented levels of General Fund for these types of programs, many of which historically have been supported with special funds or bond funds. This anomalous General Fund spending was enabled by the significant tax revenue surpluses the state received (and expected to receive) over the past couple of years. Total annual funding (including both the recent one-time augmentations as well as baseline funds) for CDFA and the departments within CNRA and CalEPA, along with just the climate-specific funding provided to some additional departments through the thematic packages. In the years prior to 2021-22, spending on climate, natural resources, and environmental programs averaged around \$10 billion annually, and General Fund typically made up roughly one-third of the totals. In contrast, from 2021-22 through 2023-24, average annual funding levels for these departments more than doubled, with the General Fund contributing more than half of the funding. In some cases, this short-term infusion of new funding has allowed the state to expand previous programs or initiate new activities, while in others the state is providing General Fund support to continue existing activities that previously were supported with other fund sources.

Fiscal Downturn Led to Some Reductions and Modifications to Packages in 2023-24 Budget Agreement. To help address the General Fund shortfall that began materializing last year, the 2023-24 spending plan made a number of revisions—including reductions and delays—to the thematic packages agreed to in earlier budget deals. Specifically, the budget included General Fund reductions to the climate funding packages totaling \$8.7 billion across 2021-22 through 2023-24, although it backfilled about \$2 billion of that amount by shifting costs to other fund sources (particularly GGRF). Because the spending plan achieved some of those General Fund savings by delaying funding to future years and also

anticipated additional out-year GGRF backfills, the planned net programmatic reduction from these packages across the multiyear period was only \$2.8 billion. That is, the budget agreement intended to maintain \$36 billion from a combination of funding sources (93 percent of the original total) from 2020-21 through 2026-27 for specified climate-related and natural resources activities.

Revised Recent and Planned Augmentations to Climate, Resources, and Environmental Programs

(In Millions)^a

Thematic Area	2021-22 ^b	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Zero-Emission Vehicles	\$3,351	\$2,168	\$847	\$1,407	\$1,406	\$906	\$10,085
Drought and Water Resilience	5,244	1,145	587	584	554	17	8,131
Energy	2,245	2,193	1,333	539	621	51	6,982
Wildfire and Forest Resilience	1,478	620	669	—	—	—	2,767
Nature-Based Activities	106	1,016	286	1	—	—	1,409
Community Resilience	202	745	340	50	—	—	1,337
Coastal Resilience	19	431	653	10	—	—	1,112
Sustainable Agriculture	670	328	53	—	—	—	1,052
Circular Economy	198	245	—	—	—	—	443
Extreme Heat	80	128	197	—	—	—	404
Other ^c	579	127	295	675	875	—	2,551
Totals	\$14,172	\$9,146	\$5,260	\$3,266	\$3,456	\$974	\$36,273

^a Reflects 2023-24 budget agreement. Includes roughly \$28 billion from the General Fund and \$8.3 billion from other fund sources, including the Greenhouse Gas Reduction Fund and Proposition 98.

^b Also includes \$520 million provided in 2020-21, mostly for wildfire and forest resilience activities.

^c Includes funding for various environmental-related programs not incorporated in thematic packages, including to implement the Clean Energy Reliability Investment Plan, brownfields cleanup, and the Climate Innovation Program.

State Faces a Multiyear, Multibillion-Dollar Budget Problem. Due to a deteriorating revenue picture relative to expectations from June 2023, both the LAO and the administration anticipate that the state faces a significant multiyear budget problem. A budget problem—also called a deficit—occurs when funding for the current or upcoming budget is insufficient to cover the costs of currently authorized services. Estimates of the magnitude of this shortfall differ based on how “baseline” spending is defined—the administration estimates a \$38 billion problem whereas in January the LAO estimated that the Governor’s budget addresses a \$58 billion problem—as well as somewhat different revenue projections. Regardless of these distinctions, it is clear that the state faces the task of “solving” a substantial budget problem. Moreover, both the LAO and the administration estimate that, based on current revenue forecasts, the state will face significant operating deficits in subsequent fiscal years.

The Governor proposes to address the 2024-25 budget problem through a combination of strategies, including relying on reserves and reducing recent one-time spending commitments. Given that the climate, resources, and environmental policy areas were the largest categories for recent one-time investments, the Governor targets these programs for a notable share of these spending solutions. Under the administration’s projections, even after adopting the Governor’s proposals, the state still would face operating deficits of \$37 billion in 2025-26, \$30 billion in 2026-27, and \$28 billion in 2027-28.

LAO Assessment. Vast Majority of Intended Multiyear Funding Would be Maintained. Responding to the causes and impacts of climate change presents significant challenges for California and has therefore been a clear priority of both the administration and the Legislature in recent years. Indeed, the resources and environmental policy areas received the largest proportional share of discretionary one-time General Fund spending from recent budget surpluses. The Governor’s budget largely sustains this

commitment. Even with the Governor's proposed budget adjustments, the majority of the spending and activities included in recent budget agreements would continue. Specifically, the proposal would sustain \$33.7 billion, or 86 percent of the total original intended amounts.

Even these reduced amounts still would represent significant augmentations compared to historical levels for most of these programs. Moreover, even with the Governor's proposed reductions, funding levels for climate and resources-related activities would remain at levels that are roughly comparable to those that were in place in 2019-20, before the unprecedented increases that have occurred over the last couple of years. This can give the Legislature confidence that even at moderately reduced spending levels such as those proposed by the Governor, the state can continue to make significant progress on its climate and environmental goals. However, the proportion of funding proposed to be maintained—and therefore the relative magnitude of the activities that could continue being implemented—does vary by thematic package. For example, the Governor proposes maintaining essentially all of the total intended funding for ZEV programs, but only about half for coastal resilience activities.

Given State Budget Shortfall, Overall Proposed Approach Has Several Merits. The magnitude of the General Fund problem means that the Legislature faces difficult choices in developing its budget this year. Within this context, the LAO finds a number of redeeming qualities in the Governor's proposal. Specifically, it:

- *Continues to Fulfill Most State Objectives.* As noted, even with the Governor's proposed reductions, the vast majority of multiyear funding and activities included in recent budget agreements would be sustained.
- *Focuses Reductions on Recent One-Time Augmentations.* Pulling back one-time expenditures is less disruptive than making reductions to ongoing base programs.
- *Does Not Reduce Funding That Has Already Been Committed to Specific Projects or Grantees.* Sustaining committed funding avoids creating challenges for local grantees and project sponsors that may other financing, or initiated construction.
- *Utilizes Other Available Funds to Sustain Numerous Programs.* The strategy of using GGRF to backfill many General Fund reductions allows the state to both achieve savings and maintain planned activities.
- *Eliminates Most Unappropriated General Fund Planned for Budget Year and Future.* Pulling back on plans to provide funding that had been scheduled for 2024-25 or future years is among the least disruptive reductions the state can make, in that administering departments should not yet have proceeded in making grant solicitations or initiating projects.

Reducing Remaining General Fund From 2024-25 and Out-Years Could Be Less Disruptive Than Some Other Alternatives. While the Governor's proposal eliminates most of the General Fund that past budget agreements had planned for but not yet provided, it leaves some in place. Specifically, the proposal would maintain about \$380 million of General Fund spending planned for 2024-25 (including \$200 million for drinking and wastewater infrastructure projects and about \$160 million for several energy programs). Moreover, the Governor sustains plans to provide about \$930 million from the General Fund in 2025-26 (including \$500 million for water storage projects, over \$300 million for energy programs, and \$100 million to implement portions of CERIP). Because these funds have not yet been appropriated and departments do not have the legal authority to spend them, the Legislature should have some certainty that they have not yet been awarded or committed for specific projects. As such, avoiding

appropriating this budget-year and out-year funding in the first place could be less disruptive for departments and other entities than retracting existing funding. Moreover, avoiding incorporating one-time expenditures into out-year spending plans would help address the projected future budget deficit and avoid setting spending expectations that may be hard to keep.

Proposed Delays Complicate Future Budget Situation. While the Governor eliminates most of the unappropriated General Fund planned for 2024-25, some of this funding is only temporarily reduced. Specifically, the Governor proposes delaying a total of \$1.7 billion in General Fund expenditures to future years. (This consists of \$1.1 billion affecting the 2024-25 budget window and an additional \$635 million from 2025-26.) While these delays provide short-term savings and might preserve intended activities over the longer term, they also exacerbate future budget problems by increasing out-year General Fund spending commitments. Specifically, the delays result in higher planned spending of \$315 million in 2025-26, \$665 million in 2026-27, and \$750 million in 2027-28. As noted above with regard to the out-year planned funding the Governor proposes to maintain, building a multiyear spending plan that incorporates this delayed funding sets expectations for potential projects and grantees that may be hard to keep given projected out-year budget deficits. The LAO estimates that state revenues in the out-years would need to exceed the administration's forecast by roughly \$50 billion per year in order to sustain the total amounts of spending proposed by the Governor's budget across all policy areas. Moreover, state priorities may shift in the coming years—based both on the revenue picture but also evolving circumstances such as potential floods or droughts, policy changes at the federal level, or other unforeseen events—and avoiding overcommitting out-year funds would help preserve legislative flexibility to respond.

Legislature Could Pursue Alternative Approach for Prioritizing GGRF in Current and Budget Years. While the Governor's approach of using GGRF to backfill General Fund reductions and sustain certain activities has merit, the Legislature could adopt this same strategy in a somewhat different way to align with its priorities. Specifically, it could achieve the same amount of savings as the Governor through directing GGRF funds to backfill a different mix of General Fund reductions. For example, even the Governor proposes directing a total of \$1.3 billion from GGRF to backfill all the proposed General Fund reductions to the ZEV package, but only \$37 million to sustain a mere 8 percent of the proposed reductions to coastal resilience activities. Based on its highest priorities, the Legislature could choose a different allocation. The Legislature has flexibility around how it is able to direct GGRF revenues because the program was authorized in a way that is akin to a tax, meaning the funds can legally be used for broad purposes. Historically, the state has used GGRF for a wide range of environmental programs (along with programs in other policy areas such as transportation and housing).

Extensive Reliance on Out-Year GGRF Makes Assumptions About Future State Priorities and Revenues. While the state dedicates a share of annual GGRF revenues to recurring ongoing activities (such as the high-speed rail project, sustainable housing and transit programs, and forest health activities), it generally has maintained about 35 percent for discretionary spending decisions agreed upon by the Legislature and Governor as part of each year's budget negotiations. The 2023-24 budget package broke with historical practice somewhat by including plans to dedicate a notable share of out-year discretionary GGRF revenues for specific purposes rather than deferring that decision to future legislative and administration negotiations. Specifically, the agreement planned to dedicate \$600 million from discretionary GGRF annually for three years beginning in 2024-25 to backfill General Fund reductions within the ZEV package. As noted above, the Governor's proposal maintains these plans and adds an additional out-year GGRF commitment of \$600 million in 2027-28 resulting from a proposed delay of some planned ZEV package spending. This would commit a total of \$1.8 billion (\$600 million per year) in future GGRF revenues from 2025-26 through 2027-28. While this approach allows the state to maintain long-term intended ZEV spending plans and save General Fund, it does raise two key

concerns.

First, the Legislature might benefit from preserving additional flexibility around how it wants to dedicate future GGRF funds. Specifically, given the projected budget deficits in the coming years, the Legislature could face some very difficult choices around its expenditures—including a potential need to reduce General Fund support for core ongoing programs. In such a case, the Legislature could find that it has higher priorities for GGRF revenues than sustaining planned one-time program expansions. While nothing precludes it from revisiting these spending intentions in a future year, leaving them in its multiyear spending plan for now could set unrealistic expectations and make redirecting the funds in the coming years more challenging. In contrast, holding off on making spending commitments until it has more information about the budget situation it faces in each given fiscal year would preserve more flexibility for the Legislature to target available discretionary GGRF funds to its pressing and emerging priorities.

Second, considerable uncertainty exists around how much GGRF revenue will be available in future years. Historically, GGRF revenues have experienced significant volatility. A precipitous drop in GGRF revenues could jeopardize not only these planned out-year ZEV expenditures but also other longstanding state priorities for which the state has historically relied upon this funding source—raising further questions about the wisdom of committing these additional funds so many years in advance.

Data Indicate Significant Amount of Appropriated Funding Has Not Yet Been Committed by Administering Departments. Of the General Fund appropriated for the thematic packages from 2021-22 through 2023-24, the LAO estimates that over \$4 billion remains uncommitted. (This typically means that it has not yet been dedicated to specific projects or activities.) Of this total, the LAO estimates that the Governor is proposing solutions—including reductions, delays, and fund shifts—affecting under \$3 billion. This leaves over \$1 billion in uncommitted prior- and current-year appropriated funding that has not been proposed for a General Fund solution. The Legislature could reduce some of this funding and achieve General Fund savings as additions or alternatives to the Governor's proposals, in most cases without major disruptions to specific programs or projects.

Governor Gives Precedence to Administration's Initiatives Over Legislative Priorities. The administration's choices regarding which programs to preserve and which to propose for reductions largely reflect the Governor's priorities. Specifically, many of the proposed cuts are to programs for which the Legislature advocated during budget negotiations, rather than those that were initially proposed by the Governor. For example, the Governor proposes cutting \$452 million from the multiyear budget agreement for coastal resilience activities—proportionally more than any other of the thematic packages—much of which was originally added by the Legislature. The Governor also proposes cutting several other programs that the Legislature augmented as priorities during previous budget negotiations, such as watershed climate resilience projects (\$126 million proposed reduction), addressing per- and polyfluoroalkyl substances (\$102 million proposed reduction), the Outdoor Equity Grant Program (\$25 million proposed reduction), and the Urban Waterfront Program (\$12.3 million proposed reduction). Notably, at the same time, the Governor proposes to maintain uncommitted funding for a number of the administration's priorities, such as for water storage projects (\$500 million proposed to retain), water resilience projects (\$228 million), and coastal acquisitions (\$49 million). To the extent the Legislature's priorities differ from the Governor's, it could select a different mix of programs for funding reductions.

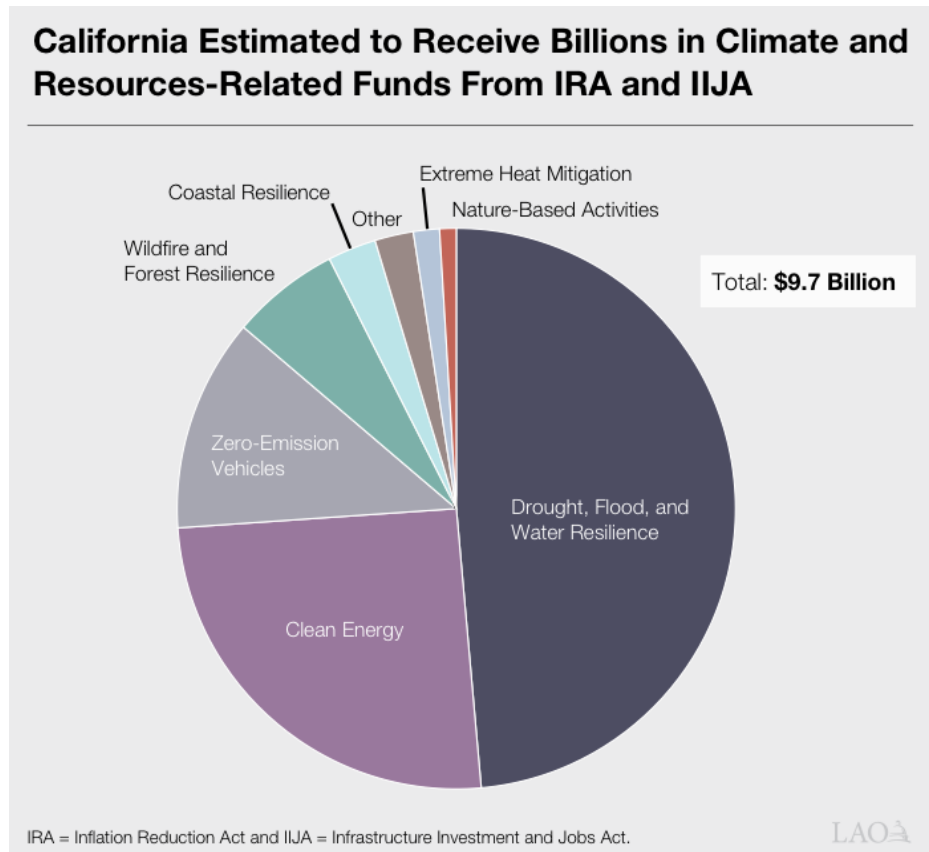
The LAO also notes that the administration has considerable control over the pace at which programs are administered. For example, the LAO understands that the administration has suspended grant solicitations for certain programs due to funding uncertainty—thus likely contributing to higher uncommitted amounts available for potential reduction—whereas others proceeded in their solicitations

without interruption.

Administration Plans to Commit More Funding to Specific Projects in Coming Months. Departments in charge of administering the funding provided through recent budgets indicate that some programs expect to commit additional funds soon by making further grant awards within the next few months. For example, the administration indicates it expects to make some grant awards in spring 2024 for water resilience projects (\$228 million currently uncommitted), transmission financing (\$200 million currently uncommitted), the Wildlife Conservation Board’s various nature-based solutions programs (affecting \$73 million of the \$100 million currently uncommitted), and funding to protect salmon (affecting \$30 million of the \$35 million currently uncommitted). After those grant awards are made, grantees will reasonably expect that funding is forthcoming and take steps such as entering into contracts and initiating construction activities. At that point, the Legislature will lose the option of reverting the associated funding and capturing savings without causing significant disruptions. As such, for some programs, the Legislature may want to consider taking early action to make funding reductions ahead of the June budget deadline to ensure departments do not proceed with their current plans to commit unspent funds (and erode potential savings). As noted above, the LAO thinks these amounts could total over \$1 billion.

Entities in California Are Receiving Significant Federal Funds for Climate- and Environmental-Related Activities. Recent federal legislation, including the Infrastructure Investment and Jobs Act (IIJA) and Inflation Reduction Act (IRA), have provided large increases in funding for various climate- and environmental-related activities. The LAO estimates that, thus far, entities in California—including state agencies and departments, local governments, tribes, private companies, and nongovernmental organizations—have received commitments totaling roughly \$9.7 billion from IIJA and IRA to support a wide range of climate- and environmental-related activities. Some of the program areas slated to receive the most funding include drought and water resilience (much of which is for drinking water-related projects), clean energy, ZEVs, and wildfire and forest resilience. Additionally, many federal agencies have not yet allocated all of their IIJA and IRA funding, so entities in California will have the opportunity to compete for—and potentially secure—additional funding in the near future.

(Continued on next page)



Source: LAO

Notably, many of the federally funded activities are broadly similar to those supported by the state's programs. However, typically they do not provide an identical dollar-for-dollar replacement for state funds, as they may have different eligibility criteria or allowable uses. For example, in some cases, federal programs also require a local funding contribution, which can result in higher barriers to access than some state programs. Despite these program differences, the availability of billions of dollars of federal funds to support climate- and environmental-related activities will ensure that even with recent and proposed reductions to state funding, significant support still is available for many of the same broad purposes planned for in recent state budgets. This consideration may be particularly important if the Legislature finds it needs to make additional reductions to General Fund-supported programs. For example, it could identify program areas where state entities are receiving significant infusions of federal funds (such as drinking water and ZEVs) and evaluate whether it could make additional reductions to proposed state funds and still make notable progress toward achieving its priorities.

Information on Program Effectiveness Is Limited. Ideally, the Legislature's decisions around which programs to sustain or reduce could be informed by evidence regarding which activities are most effective at limiting the magnitude and impacts of climate change. Unfortunately, such data are not widely available. In some cases, this is because activities funded by recent budgets are being attempted for the first time. Even for most previously funded programs, however, such outcome data are not regularly collected or tracked. The lack of such information also impedes the Legislature's longer-term decisions, such as regarding which programs should be prioritized for future funding investments. Moreover, future decisions would benefit from information about the process of implementing the recent unprecedented level of funding, including the design of and demand for specific programs, as well as successes and challenges for both administering departments and project sponsors.

LAO Recommendations. While the LAO has identified some advantages to the Governor’s overall approach, the administration’s proposals do not represent the only set of options for addressing the budget problem. The Legislature could make changes to (1) reflect its priorities (such as by making alternative reductions or fund shifts), (2) avoid growing out-year budget deficits (such as by limiting the use of funding delays), and (3) include a higher level of budget solutions (such as by making additional reductions to unspent prior- or current-year funds). The LAO’s overarching recommendations to the Legislature for crafting climate, resources, and environmental budget solutions are summarized in the figure below.

Summary of Overarching Recommendations for Crafting Climate, Resources, and Environmental Budget Solutions

- ✓ **Maximize General Fund Savings by Reducing Significant One-Time Spending From Climate Packages.**
- ✓ **Identify Alternative and/or Additional Budget Solutions Depending on Legislative Priorities and the Evolving General Fund Condition.**
- ✓ **Consider Taking Early Action to Halt Program Spending in the Current Year and Capture Associated Savings.**
- ✓ **Use the Greenhouse Gas Reduction Fund to Help Sustain the Highest Legislative Priorities.**
- ✓ **Minimize Out-Year Commitments for Both the General Fund and the Greenhouse Gas Reduction Fund.**
- ✓ **Conduct Robust Oversight of Spending and Outcomes, and Consider Whether Additional Program Evaluations Might Be Worthwhile.**

Source: LAO

Maximize General Fund Savings by Reducing Significant One-Time Spending From Climate Packages. The LAO recommends the Legislature adopt a budget that includes significant General Fund savings from climate, resources, and environmental programs—at least as much as the Governor. While this could entail making reductions to some programs the Legislature believes are important, the vast majority of the unprecedented recent investments still would be sustained. Maximizing spending reductions from one-time funds will allow the Legislature to minimize the use of other budget tools—like reserves—that likely will be needed to address deficits in future years. Moreover, the Legislature faces some urgency in making these changes, as this strategy will not be as readily available as time passes—once one-time funds are spent, they no longer are available to pull back, leaving fewer (and often more disruptive) options for balancing the budget, such as making cuts to ongoing programs.

Identify Alternative and/or Additional Budget Solutions Depending on Legislative Priorities and the Evolving General Fund Condition. The LAO thinks that generating at least the same magnitude of General Fund solutions from climate, resources, and environmental programs as the Governor will be important to solving the budget problem. However, the LAO recommends the Legislature modify the Governor’s proposals to reflect its priorities. To the degree some of the Governor’s proposed program reductions represent important efforts for the Legislature, it could opt to sustain that funding and instead find a like amount of savings by making alternative reductions, such as to programs with uncommitted funds. Besides finding alternative reductions, the LAO recommends the Legislature also begin identifying options for potential additional budget solutions from climate, resources, and environmental programs. Further reductions to this one-time spending could prove helpful in a number of potential scenarios, such as if (1) the budget condition worsens (current LAO revenue projections suggest this is likely); (2) the Legislature wants to reject some of the Governor’s proposed General Fund budget

solutions in other policy areas (such as to human services programs); (3) the Legislature wants to “make room” to fund some of its key priorities, which could include support to implement recently chaptered legislation (which the Governor’s budget does not fund); and/ or (4) the Legislature determines that some of the solutions included in the Governor’s proposal may not yield the anticipated savings. While this process will be challenging, taking the time to consider, research, and select potential options over the spring will better prepare the Legislature to make decisions in May and June when it will not have much time to gather information before the budget deadline.

Consider Taking Early Action to Halt Program Spending in the Current Year and Capture Associated Savings. To the degree the Legislature identifies uncommitted funding from prior- and current-year appropriations it feels are good candidates for making reductions, it may want to act on them ahead of the June budget package. This will help ensure that departments do not proceed in making grant awards (eroding the potential savings) and that the funds can be captured without causing undue disruptions. As noted above, the LAO thinks the total amount of additional prior- or current-year unspent funds could total over \$1 billion. The Governor already has proposed a package of early action budget items to which the Legislature could add, but this likely will require identifying and acting upon the target programs within the next month or two. The Legislature also could consider directing the administration to temporarily pause all spending of uncommitted prior- and current-year funding from these packages to preserve its options as it gets a better sense of the revenue picture and deliberates its budget package this spring. However, the LAO notes that the administration’s compliance with such direction may be difficult to enforce.

Use GGRF to Help Sustain Highest Legislative Priorities. The LAO recommends the Legislature adopt the Governor’s overall strategy of using GGRF to help backfill General Fund reductions for certain programs. This approach allows the state to achieve necessary budget savings while continuing important activities. However, the LAO recommends the Legislature adopt a GGRF spending package that preserves funding for its highest-priority activities, which may represent a different mix from that proposed by the Governor. For example, instead of prioritizing GGRF to sustain all of the original intended funding for ZEV activities, the Legislature could redirect some of those funds to sustain some additional funding for other program areas proposed for deeper reductions, especially given the significant amount of federal funds available for ZEVs.

Minimize Out-Year Commitments for Both General Fund and GGRF. As noted, the Governor proposed delaying about \$1.7 billion in General Fund spending for climate, resources, and environmental programs to future years, sustains over \$900 million in General Fund planned for 2025-26, and also commits \$1.8 billion in out-year GGRF for maintaining intended multiyear spending levels in the ZEV package. While this approach might preserve funding over the longer term, it also exacerbates future budget problems. Given the out-year budget forecast, we recommend that—for now—the Legislature consider both reducing planned out-year funding that has not yet been appropriated, and reducing rather than delaying expenditures and revisiting them in a future year when it has a better sense of its available fiscal resources and highest spending priorities for both the General Fund and GGRF. This would help avoid both worsening out-year budget deficits and creating spending expectations the state may not be able to fulfill.

Conduct Robust Oversight of Spending and Outcomes, and Consider Whether Additional Program Evaluations Might Be Worthwhile. The LAO recommends the Legislature conduct both near-term and ongoing oversight of how the administration is implementing—and local grantees are utilizing—funding from the recent budget augmentations. In particular, the LAO recommends the Legislature track: (1) how the administration is prioritizing funding, especially within newly designed programs; (2) the levels of demand and over- or under-subscription for specific programs; (3) any barriers to implementation that

departments or grantees encounter; and (4) the impacts and outcomes of funded projects. The Legislature has a number of different options for conducting such oversight, all of which could be helpful to employ given that they would provide differing levels of detail. These include requesting that the administration report at spring budget hearings, requesting reports through supplemental reporting language, and adopting statutory reporting requirements (such as those typically included for general obligation bonds). Additionally, to the degree it might want more intensive external program evaluations for certain high-priority programs to help assess their effectiveness, the Legislature could consider adopting language that directs the administration to set aside a portion of provided funding to contract with researchers to conduct more in-depth studies.

LAO Conclusion. The unprecedented levels of funding the state provided in recent years represent a significant commitment to addressing the causes and impacts of climate change, as well as pursuing numerous other state environmental goals. These augmentations were enabled by the large General Fund surpluses the state received—and expected to receive—over the past few years. Given the change in the state’s overall fiscal condition, reducing this spending correspondingly is both reasonable and necessary—particularly for expenditures that were planned when the state had a different General Fund outlook but that have not yet been implemented. Scaling back these spending intentions will require the Legislature to make difficult choices, particularly since certain constituencies were anticipating receiving funds for local projects. However, the Legislature can modify the Governor’s proposals to craft a budget package that both achieves required General Fund solutions and sustains its highest-priority activities. Moreover, the level of funding that already has been expended—and therefore cannot be reduced—still will be exceptional by historical standards. These commitments, combined with the significant amount of new federal funding flowing into the state for similar activities, should provide the Legislature and public with some comfort that the state can continue to make notable progress in pursuing its climate and environmental goals despite the modifications necessitated by the budget downturn.

Staff Comments. The LAO’s assessment on the climate, resources, and environment solutions included in this agenda was based on its deficit estimate of \$58 billion in January 2024. In contrast, the Governor’s budget presumes an estimated shortfall of \$38 billion. According to the LAO, the differences between these two estimates are due to different interpretations of baseline spending as well as different revenue projections. For the latter, revenue collection data throughout the spring will help inform the LAO and the administration determine more accurately the magnitude of the budget deficit. Most recently, on February 20, 2024, LAO provided a deficit update, which estimates the budget problem growing by \$15 billion based on its most recent revenue forecast. The LAO’s update would expand the LAO’s \$58 billion estimated deficit to a total of \$73 billion. The administration will provide an updated estimate of the shortfall in the May Revision. Given this budget context, the Legislature will want to seriously consider and assess all of the Governor’s proposed budget solutions as discussed above, as well as any additional budget solutions that may become necessary if the budget condition worsens in the coming months.

Staff Recommendation. Hold open.