Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Jim Nielsen
Senator Henry Stern

Thursday, March 22, 2018
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 112

Consultant: Joanne Roy

PUBLIC COMMENT

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VOTE-ONLY CALENDAR

3900 Air Resources Board (ARB)

1. **Baseline Support Adjustment.** The Governor's budget proposes 3.0 permanent positions and $622,000 from various funds (including one-year funding for 3.0 temporary positions) in fiscal year (FY) 2018-19 and $417,000 ongoing to support increases in workload and to address audit-identified security deficiencies and meet the information technology needs of the growing agency. This will result in more efficient support for the board's divisions and program staff, as well as quicker response times to various control agencies.

2. **Carl Moyer Program Expansion (AB 1274).** The Governor's budget proposes resources for 3.0 permanent positions to be phased-in between FY 2018-19 and 2020-21 with ongoing costs of $428,000, $10 million in Local Assistance funding in FY 2018-19, and $25 million in Local Assistance funding in FY 2019-20 from the Air Pollution Control Fund (APCF) to align authority with revenue generated after the passage of AB 1274 (O'Donnell), Chapter 633, Statutes of 2017. AB 1274 will generate an increase in revenues each year due to a new smog abatement fee of $25, $21 of which will be directed to APCF and appropriated for the Carl Moyer Program. The new revenues generated by AB 1274 combined with existing fee revenues will sustain the proposed increase in Local Assistance.

3. **Fund Shift for Short-Lived Climate Pollutants.** The Governor's budget proposes to shift 5.0 positions and $1.415 million (including $545,000 in contracts) from APCF to the Cost of Implementation Account for continued support of the FY 2016-17 Short-Lived Climate Pollutant proposal.

   The FY 2016-17 Short-Lived Climate Pollutants proposal was approved and included in the FY 2016-17 enacted budget, however, timing issues with the adoption of this program into the Scoping Plan prompted the Legislature to establish a temporary fund source in APCF. With the inclusion of the Short-Lived Climate Pollutants in the Scoping Plan, this proposal requests to shift these resources to the Cost of Implementation Account on a permanent basis, as originally intended.

4. **Implementation of Low-Income Barriers Study Interagency Task Force (SB 350).** The Governor's budget proposes 2.0 permanent positions and $366,000 from the Cost of Implementation Account to implement transport access recommendations included in the Low-Income Barriers Study and co-lead the SB 350 Task Force. ARB's study identifies priority recommendations to address barriers low-income residents must overcome to access zero-emission and near-zero emission vehicles.

   The Task Force, comprised of 11 state agencies, is responsible for aligning multiple state-led clean transportation and energy programs and striving for ongoing agency action and accountability. ARB requires immediate and sustained staff resources to support the tasks associated with this lead role.

5. **School Bus Fleet Replacement.** The Governor's budget proposes $813,000 in one-time local assistance funding from the Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bond Act (Proposition 40, 2002). This newly-released funding will grant ARB the

budget authority necessary to expend its bond allotment which has recently increased due to lower-than-expected bond costs. This request will also provide the authority necessary to complete its Proposition 40 requirements and will benefit Californians by replacing older school bus fleets with cleaner vehicles.

The Legislature has appropriated $48,250,000 of the $49,063,000 that is earmarked in the bond for ARB. ARB used the funds to clean-up the emissions of older school buses through either replacements or retrofits through the Lower-Emission School Bus Program. To date, ARB has used all of its appropriated Proposition 40 funds and has spent over $200,000,000 additional funds from various programs.

Due to lower-than-expected bond costs, there are additional funds remaining in the bond. The amount requested represents the remaining balance of ARB's allotment of Proposition 40 bond funds.

Staff Recommendation. Approve all vote-only items as budgeted.

ISSUES FOR DISCUSSION

3900 Air Resources Board (ARB)

Overview

ARB has primary responsibility for protecting air quality in California. This responsibility includes establishing ambient air quality standards for specific pollutants, maintaining a statewide ambient air-monitoring network in conjunction with local air districts, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency, and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and other mobile sources and industrial sources established by ARB and local air pollution control districts. ARB also has the responsibility, in coordination with the Secretary of Environmental Protection, to develop measures to reduce greenhouse gas emissions to 1990 levels by 2020 and at least 40 percent below 1990 levels by 2030, pursuant to AB 32 (Núñez and Pavley), Chapter 488, Statutes of 2006, and SB 32 (Pavley), Chapter 249, Statutes of 2016.

The Governor's budget includes $425.5 million for support of ARB, which is a decrease of $1.16 billion from the current budget year estimate. This reduction is mainly be attributed to two factors:

- *Proposed FY 2018-19 Amount Does Not Include FY 2018-19 Greenhouse Gas Reduction Fund (GGRF) Proposal.* The Administration released its GGRF spending plan a couple of weeks after the release of the Governor's budget. Therefore, the FY 2018-19 amount shown in the table below does not include $792 million in GGRF to ARB that is part of the Governor's cap-and-trade proposal.

- *One-Time Spending for Southern California Lab in FY 2017-18.* The FY 2017-18 spending for ARB includes a one-time appropriation of $413 million for construction of a new testing lab in Southern California.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2016-17*	Estimated 2017-18*	Proposed 2018-19*
3500	Mobile Source	$206,737	$393,837	$288,792
3505	Stationary Source	$27,572	$40,539	$39,976
3510	Climate Change	$390,975	$728,567	$72,010
3515	Subvention	$75,668	$78,793	$10,111
3525	Zero/Near Zero Emission Warehouse Program	$-	$50,000	$-
3530	Community Air Protection	$-	$293,700	$14,604
9900100	Administration	$48,455	$53,938	$54,486
9900200	Administration - Distributed	$-48,455	$-53,938	$-54,486
Total Expenditures (All Programs)		**$700,952**	**$1,585,436**	**$425,493**

Issue 6 – Diesel Regulation Compliance Database

Governor's Proposal. The Governor's budget proposes $600,000 in one-time contract funding from the Motor Vehicle Account in FY 2018-19 to implement the provisions in SB 1 to develop a joint database with the Department of Motor Vehicles containing ARB's information regarding vehicles compliant with its Truck and Bus Regulation and other regulations and DMV's registration information.

Background. SB 1 (Beall), Chapter 5, Statutes of 2017, provides funding for transportation infrastructure. SB 1 also requires ARB to establish programs to reduce emissions from motor vehicles and to work with other state agencies on air quality and greenhouse gas-related elements in the bill. The proposed joint database would allow Department of Motor Vehicles to verify that a medium-duty or heavy-duty vehicle is compliant with or exempt from ARB's Truck and Bus Regulation before allowing registration.

Staff Recommendation. Approve as budgeted.

Issue 7 – Freight Regulations Reporting System to Improve Security and Increase Efficiency

Governor's Proposal. The Governor's budget proposes $1.08 million one-time Motor Vehicle Account in FY 2018-19 (including $450,000 in contract funding for initial development of an information technology project) to support implementation and enforcement of ARB's freight regulations to protect disadvantaged communities near ports and railyards. These requested resources are needed to develop, maintain, and support a replacement system for the current ARB Freight Equipment Registration Program with added functionality to meet recordkeeping and reporting requirements for a variety of freight regulations. The proposal would also implement efficiencies to offset the unavoidable costs of providing ongoing assistance to California businesses that must comply with those ARB freight regulations. Without a replacement reporting system, any failure of the outdated existing system (based on technology that is neither stable nor secure) would disrupt commerce in one of California's most important economic sectors by preventing some 223,000 drayage trucks that carry cargo from accessing ports and railyards.

Background. ***ARB Adopted Various Regulations to Reduce Air Pollution Near Seaports and Railyards.*** Drayage trucks, transport refrigeration units, cargo handling equipment, commercial harbor craft, and ocean-going vessels that move freight to, from, and throughout California are significant contributors of diesel particulate matter, nitrogen oxides, and other pollutants. In response, ARB adopted a number of regulations to control emissions of these vehicles and equipment.

For example, in 2004, ARB adopted the Transport Refrigeration Unit Air Toxic Control Measure to reduce diesel particulate matter, nitrogen oxide, and other pollutant emissions from transport refrigeration units. These units, powered by small diesel engines, chill and preserve temperature sensitive goods (like produce and pharmaceuticals) transported in trucks, trailers, shipping containers, and railcars. In 2006, ARB adopted the Drayage Truck Regulation to reduce emissions of diesel particulate matter and nitrogen oxide from heavy-duty trucks transporting freight to and from California's ports and intermodal rail yards. ARB has also adopted regulations for cargo handling equipment (cranes and yard trucks, etc.), commercial harbor crafts (tug boats, etc.), and ocean-going vessels (large container ships, bulk cargo ships, oil tankers, etc.)

These regulations all have registration and/or reporting requirements.

ARB Uses the Freight Equipment Registration Program to Automate Certain Information. Port and rail yard authorities and marine terminal operators receive data from incoming trucks on their compliance status of each truck. ARB verifies this information using the Freight Equipment Registration program and noncompliant trucks are denied access.

The Freight Equipment Registration program automates the registration of drayage trucks to monitor compliance, issue labels to trucks that meet the regulatory requirements, and provide information on each truck's compliance status. The system also automates the registration of over 168,000 trucks and trailers with transport refrigeration units operating in California.

The Freight Equipment Registration Program does not provide these functionalities for cargo handling equipment, commercial harbor craft, and ocean-going vessels.

The Freight Equipment Registration Program is on an Out-of-Date Information Technology System. The Freight Equipment Registration Program is a 15-year-old legacy system that utilizes technology that is increasingly becoming obsolete. To date, ARB has been unsuccessful in hiring new staff with the expertise needed to maintain the current program's software and system architecture. ARB contracts out the maintenance and support services at a high cost. Further, as the system continues to age, it is becoming more difficult to find contractors with the necessary skills and knowledge to maintain the system’s applications. The breakdown of this system would affect the movement of refrigerated freight and potentially slow down access of ports and rail yards for drayage trucks.

Staff Comments. ARB's efforts to reduce emissions and health risks associated with marine and rail operations require an immense amount of recordkeeping, reporting and monitoring. The requested resources would allow ARB to modernize the existing Freight Equipment Registration Program to improve reliability, efficiently monitor compliance, and support enforcement of its freight regulations.

Staff Recommendation. Approve as budgeted.

Issue 8 – Off-Road Vehicle and Aftermarket Parts Certification and Compliance

Governor's Proposal. The Governor's budget proposes 10 positions and $1.711 million from APCF (including $650,000 in contract funding in FY 2018-19 and $175,000 in ongoing annual contract funding) to strengthen and broaden its mobile source emission oversight program to cover all categories, including off-road, aftermarket parts and components. This Budget Change Proposal requests necessary positions and resources to help achieve emission reductions needed to meet our health-based air quality standards.

The Governor's budget proposal includes trailer bill language, which does the following:

- Authorizes ARB to adopt, by regulation, a process to create an annual schedule of fees for certification, audit, and compliance of off-road engines and equipment, aftermarket parts and emission control components, sold in the state.
- Creates the Certification Fund.

Background. ***Mobile Source Program (MSP).*** ARB is responsible for developing statewide programs and strategies to reduce the emission of smog-forming pollutants and toxics by mobile sources. The MSP operates the programs responsible for certifying engines for compliance with California clean air standards. Vehicles, engines, and components not certified by ARB cannot be sold in California. In addition, the MSP is responsible for ensuring engines, vehicles and components comply with all California clean air standards.

Aftermarket Parts. Specialty manufacturers produce a variety of aftermarket parts that can be added on to a vehicle after purchase to replace existing parts and/or to enhance the performance of the car. These include devices such as catalytic converters, exhaust headers, gas caps, filters, hoses, and others. Existing law requires that any device added to a vehicle or motorcycle must be approved by ARB to certify that it does not unduly reduce the vehicle's emissions controls. Existing law also prohibits tampering with a vehicle's pollution control devices. Therefore, the manufacturer must also obtain approval (an executive order (EO)) from ARB for an exemption to the anti-tampering law before the modification may be installed on any vehicle or motorcycle. Every EO part or modification has an assigned number that can be verified by smog check stations, Bureau of Automotive Repair Referee stations, or ARB.

All aftermarket parts sold in California belong to one of the following four groups:

a) *Replacement Parts.* Replacement parts include things like carburetors, distributers, fuel injection systems, and fuel tanks. Typically, these are parts on a vehicle that wear out with use and must be replaced during the lifetime of the vehicle. When a replacement part does not meet the original factory specifications it requires an Executive Order to be legal for street use.

b) *Legal Add-On or Modified Parts (Executive Order Parts).* These parts alter a vehicle from its original equipment manufacturer configuration and are typically added on for safety or performance enhancement. Safety devices include antitheft devices; performance enhancers include air intake systems that cool an engine to increase horsepower or superchargers that increase air pressure in the engine allowing it to burn more fuel to increase power.

c) *Competition or Racing Use Only Parts*. These parts may only be sold and installed on vehicles that are exclusively used for competition off public highways and roads. These parts replace or otherwise interfere with the operation of an emission control device, such as a catalytic converter or oxygen sensor.

d) *Catalytic Converters*. Catalytic converters, as their name implies, catalyze (i.e., cause or accelerate) the conversion of toxic gases created during the combustion of fuel into less harmful ones. Catalytic converters can decrease the performance of an engine so some people chose to replace the catalytic converter that comes installed on a car with a more expensive one that reduces performance less.

Executive Orders (EOs). ARB currently issues over 3,500 EOs annually. This is an increase from the 2,200 EOs issued by ARB in 2001. The complexity and types of products requiring certification has also expanded. ARB issues EOs for all types of engines, including not just for automobiles and heavy-duty trucks but also for large off-road equipment and small lawn mower engines, evaporative systems, and aftermarket components that are used in automobiles and in trucks. Increasing numbers of vehicles and equipment include complex emissions control systems such as plug-in hybrid technology, diesel particulate filters and selective catalytic reduction.

EO Compliance and Confirmation Testing. ARB verifies the information provided by the manufacturer with pre-sale audits and confirmation emissions testing to validate the product as described is what is sold. Confirmation includes testing vehicles, engines, and components before an EO is issued to confirm test data provided by manufacturers. This confirmation mission testing can include in-use testing using Portable Emission Measurement Systems, and/or using special operating cycles in the lab that replicate road conditions encountered in normal driving to identify defeat devices. After the product is sold, continued compliance with emission standards are double-checked through a variety of in-use programs and real-time monitoring systems. In-use emissions testing and warranty activities help confirm engine durability and emissions after sale meet the limits set in the regulations. In the event any of these activities reveal anomalies or the products fail to meet requirements, ARB may deny the EO or issue a notice of violation.

Staff Comments. In regards to the proposed trailer bill language, providing ARB with fee authority would help offset the cost of certification, audit, and compliance of off-road engines and equipment, aftermarket parts and emission control components. However, these parts vary in complexities and therefore their associated workload. The Subcommittee may wish to consider including language to ensure ARB considers this during the regulatory process. Further, current law includes a fee cap for certification of new on-road vehicle and engines with an annual consumer price index adjustment. The Subcommittee may also wish to include an analogous fee cap for off-road engines and equipment, aftermarket parts and emission control components.

Staff Recommendation. Approve BCP as budgeted. Hold open TBL.

Greenhouse Gas Reduction Fund (GGRF)

Overview

The current year budget allocates an estimated $2.6 billion in cap-and-trade revenues. Consistent with current law, about $1 billion is estimated to be continuously appropriated to certain transportation and housing programs (this amount will likely be higher due to increased auction revenues during the fiscal year).

The budget plan allocates an additional $1.6 billion to various programs, including programs intended to reduce emissions from vehicles and heavy duty equipment, forestry and fire prevention activities, and projects to reduce emissions from agricultural activities.

Background. ***General Background.*** As of February 2018, ARB has conducted eight California-only and 14 Joint California-Québec cap-and trade auctions. The February 2018 auction will generate about $725 million (Although the money has not officially been collected yet, the results of the auction are known). To date, approximately $7.175 billion has been generated by the cap-and-trade auctions and deposited into GGRF.

State law specifies that the auction revenues must be used to facilitate the achievement of measurable greenhouse gas (GHG) emissions reductions and outlines various categories of allowable expenditures. Statute further requires the Department of Finance, in consultation with ARB and any other relevant state agency, to develop a three-year investment plan for the auction proceeds, which are deposited in GGRF. ARB is required to develop guidance for administering agencies on reporting and quantifying methodologies for programs and projects funded through GGRF to ensure the investments further the regulatory purpose of AB 32 (Núñez and Pavley), Chapter 488, Statutes of 2006, of limiting greenhouse gas (GHG) emissions statewide to 1990 levels by 2020.

Proceeds from cap-and-trade auctions provide an opportunity for the state to invest in projects that help California achieve its climate goals and provide benefits to disadvantaged communities. Several bills in 2012, one in 2014, and one in 2016 provide legislative direction for the expenditure of auction proceeds including SB 535 (de León), Chapter 830, Statutes of 2012, AB 1532 (J. Pérez), Chapter 807, Statutes of 2012, SB 1018 (Committee on Budget and Fiscal Review), Chapter 39, Statutes of 2012, SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, and AB 1550 (Gomez), Chapter 369, Statutes of 2016.

These statutes also require a state agency, prior to expending any money appropriated to it by the Legislature from GGRF, to prepare a description of: 1) Proposed expenditures; 2) How they will further the regulatory purposes of AB 32; 3) How they will achieve specified GHG emission reductions; 4) How the agency considered other objectives of that act; and, 5) How the agency will document expenditure results.

Brief Legal History of Cap-And-Trade Auction Revenue. Regulatory fees established prior to 2010 (due to Proposition 26) are subject to the Sinclair Paint test, which helps determine whether a levy is a fee or a tax. The Sinclair Paint test is a two-part test: 1) nexus; and, 2) proportionality. The Sinclair Paint test nexus component requires that a clear nexus must exist between an activity for which a fee is used and the adverse effects related to the activity for which the fee is used and the adverse effects related to the activity on which that fee is levied. The Sinclair Paint test proportionality component requires those burdened with a fee proportionally benefit from the fee.

The FY 2013-14 Budget analysis of cap-and-trade auction revenue by LAO noted that, based on an opinion from the Office of Legislative Counsel, the auction revenues should be considered "mitigation" fee revenues, subject to the Sinclair Paint test. LAO concluded, based on the opinion, that in order for their use to be valid as mitigation fees, revenues from the cap-and-trade auction must be used to mitigate GHG emissions or the harms caused by GHG emissions.

In 2012, the California Chamber of Commerce filed a lawsuit against ARB claiming that cap-and-trade auction revenues constitute an illegal tax revenue. In November 2013, a Sacramento Superior Court declined to hold the auction a tax, concluding that it is more akin to a regulatory fee.

In February 2014, the plaintiffs filed an appeal with the 3rd District Court of Appeal in Sacramento. Arguments were heard before the appellate court in January of 2017. On April 6, 2017, the appellate court issued a ruling that again declined to hold that the cap-and-trade auctions a tax.

The appellate court ruled that ARB did not exceed its authority in creating the cap-and-trade program, stating that "the Legislature gave broad discretion to the Board to design a distribution system, and a system including the auction of some allowances did not exceed the scope of legislative delegation. Further, the Legislature later ratified the auction system by specifying how to use the proceeds derived therefrom."

The appellate court also stated clearly "that the auction sales do not equate to a tax" explaining that "the hallmarks of a tax are: 1) that it is compulsory; and 2) that the payor receives nothing of particular value for payment of the tax, that is, the payor receives nothing of specific value for the tax itself. Contrary to plaintiffs' view, the purchase of allowances is a voluntary decision driven by business judgements as to whether it is more beneficial to the company to make the purchase than to reduce emissions…these twin aspects of the auction system, voluntary participation and purchase of a specific thing of value, preclude a finding that the auction system has the hallmarks of a tax."

Going further than the superior court, the appellate court also found that "the purchase of emissions allowances, whether directly from the Board at auction or on the secondary market, is a business driven decision, not a governmentally compelled decision [and] unlike any other tax…the purchase of an emissions allowance conveys a valuable property interest – the privilege to pollute California's air – that may be freely sold or traded on the secondary market."

As a result, the appellate court found that "the Sinclair Paint test is not applicable to the cap-and-trade program], because the auction system is unlike other governmental charges that may raise the "tax or fee" question resolved thereby. The system is the voluntary purchase of a valuable commodity and not a tax under any test."

Effect of AB 398 on Cap-and-Trade Auction Revenue. On July 25, 2017, Governor Brown signed AB 398 (E. Garcia), Chapter 135, Statutes of 2017, which, among other things, extended authorization for ARB to utilize the cap-and-trade program to reduce GHG emissions after December 31, 2020.

There have been questions about whether or not AB 398, which was passed by a two-thirds vote by the Legislature, had any impact on the current cap-and-trade program set to expire December 31, 2020, and the revenues it generates. In the formal opinion of Legislative Counsel, AB 398 did not immediately change the character of cap-and-trade revenue.

Specifically, Legislative Counsel determined that the revenues generated through December 31, 2020 by the current cap-and-trade program continue to be subject to a trust and, therefore, must continue to be appropriated in a manner that is reasonably related to GHG emissions reductions through December 31, 2020.

The Governor's Budget Proposal on Climate Change: Four Initiatives. The Governor's Budget proposes four initiatives to increase GHG emission reductions as well as a Cap-and-Trade Expenditure Plan (Issue 9). The initiatives are as follows:

1) *Zero-Emission Vehicle Investment Initiative*. The Administration proposes a new eight-year initiative to accelerate sales of zero-emission vehicles (ZEVs) through vehicle rebates and infrastructure investments, and the Governor is issuing Executive Order B-48-18, setting a new ZEV target of five million ZEVs in California by 2030. The new ZEV initiative will provide a total of $2.5 billion over eight years and, when combined with private investment, is proposed to meet and exceed the goal of 1.5 million ZEVs on California roadways by 2025, and provide a foundation for getting to the Governor's goal of five million ZEVs by 2030. This initiative includes:

   - *Expanding Alternative Fuel Infrastructure*: $235 million for the California Energy Commission accelerate investments in the statewide network of hydrogen and electric charging stations.

   - *Continuing Clean Vehicle Rebates*: $200 million of cap-and-trade funding for ARB to provide rebates to California residents for the purchase or lease of new light-duty ZEVs and plug-in hybrids, including $25 million for incentives for low-income consumers.

2) *Sequestration and Resilience Initiative.* The Administration proposes a series of actions to increase carbon sequestration and storage and improve resilience. To define the state's efforts to manage natural and working lands, the Administration proposes the adoption of targets for reduction of GHG emissions from these lands. By September 2018, ARB, working with the Natural Resources Agency and the California Department of Food and Agriculture, will evaluate and present initial targets. The Administration has also convened an expert group to identify how to protect, restore, and maintain California's native plants and biodiversity to protect habitat and contribute to the state's climate goals. In addition, the Administration is developing a Forest Carbon Plan, which will serve as a road map to firmly establish California's forests as a more resilient and reliable long-term carbon sink.

   In recent years, the Administration has invested in landscape-scale healthy forest management projects. The forest health grant program promotes reforestation, fuel reduction, pest management, conservation, and biomass utilization to increase forest health, increase carbon storage in forests, reduce wildfire emissions and protect upper watersheds, where much of the state's water supply originates. The following additional investments are proposed for the budget year:

   - *Healthy and Resilient Forests*: $160 million of cap-and-trade funding for the Department of Forestry and Fire Protection to support forest improvement, fire prevention, and fuel reduction projects. In recognition of tree mortality impacting the state's forestland and climate change continuing to lengthen the wildfire season, this proposal will fund projects to reduce fuel loads, decreasing the intensity of wildfires and potential impacts to watersheds and communities.

   - *Local Fire Response*: $25 million of cap-and-trade funding for the Office of Emergency Services to fund additional fire engines for the statewide mutual aid system. In response to the unprecedented fire conditions and a longer wildfire season, this proposal is proposed to enhance the state's ability to deploy resources to emergency response agencies during a wildfire incident.

3) *California Integrated Climate Investment Program.* Existing financing models are unable to provide capital at the necessary speed and scale to meet the climate challenge. To address this need, the Administration proposes the following additional funding:

- *California Integrated Climate Investment Program*: $20 million of cap-and-trade funding for the California Infrastructure and Economic Development Bank (IBank) to provide seed funding to accelerate private sector investments in California infrastructure projects that reduce GHG emissions and improve climate resilience. With the establishment of the program, the Administration will also convene an advisory group of leading experts to develop advanced funding pathways and a better pipeline of investable projects, creating new markets for California businesses. The program will initially provide financing for innovative infrastructure projects that reduce GHG emissions and improve climate resilience through IBank's California Lending for Energy and Environmental Needs Center.

4) *California Climate Change Technology and Solutions Initiative.* This initiative is meant to help bridge the gap to new technologies, modeling and analysis, leading to deeper GHG emission reductions and greater resilience statewide. Specifically, the Administration proposes additional investments in climate and clean energy research, as follows:

- *California Climate Change Technology and Solutions Initiative*: $35 million of cap-and-trade funding for the Strategic Growth Council for research and development of innovative technologies and other solutions to maximize GHG reductions and prepare the state for a changing climate. This proposal is meant to support these priorities by funding activities to: (1) advance the deployment of transformative technologies to reduce GHG emissions, (2) prepare for a changing climate, (3) integrate the social and equity dimensions of climate policies, and (4) support the development of advanced climate data partnerships and initiatives. This funding will also support a new research initiative focused on climate policy impacts on California's economy. The initiative will include labor market analysis, economic modeling, case studies on just transition, and a toolkit on community re-investment. These investments are meant to assist in easing the transition of workers and communities impacted by economic disruption.

In addition to the four initiatives above, the Administration proposes a Cap-and-Trade Expenditure Plan. *(Please see Issue 9, beginning on the following page, for a more detailed discussion on the Cap-and-Trade Expenditure Plan.)*

Issue 9 – Cap-and-Trade Expenditure Plan

Governor's Proposal. The Governor's budget proposes a total of $2.8 billion in cap-and-trade expenditures for FY 2018-19. This plan includes: 1) $1.4 billion in continuous appropriations; 2) $150 million in other existing spending commitments; and, 3) $1.25 billion in new spending (also known as discretionary spending).

The plan assumes $2.7 billion in auction revenue in FY 2017-18 and $2.4 billion in FY 2018-19. The $370 million difference between the proposed expenditures ($2.8 billion) and estimated revenue ($2.4 billion) in FY 2018-19 would largely be paid from the projected fund balance at the end of FY 2017-18.

Similar to the current year, the Administration takes certain allocations "off the top" before determining continuous appropriations. Specifically, the plan allocates $117 million to AB 398-related actions—$28 million to backfill the State Responsibility Area (SRA) Fire Prevention fee suspension and an estimated $89 million transfer to the General Fund to backfill the manufacturing exemption. (A $50 million fund balance in the SRA Fire Prevention Fund would cover the additional SRA costs on a one-time basis.) The 60 percent total continuous appropriation percentages would be applied to about $2.3 billion—$2.4 billion in annual revenue minus $117 million for AB 398-related actions.

In addition to supporting several of the Administration's climate initiatives, the proposed plan provides additional investments in other programs that are intended to be consistent with the expenditure priorities specified in AB 398 and the statutory requirements regarding allocation of at least 35 percent of expenditures to benefit disadvantaged and low-income communities.

The Cap-and-Trade Expenditure Plan includes the following general categories of spending for the $1.25 billion in discretionary spending:

- *Air Toxic and Criteria Air Pollutants:* $255 million to fund actions to reduce air toxic and criteria pollutants.
- *Low Carbon Transportation:* $460 million to fund programs that will reduce emissions in the transportation sector.
- *Climate Smart Agriculture*: $145 million to fund agricultural equipment upgrades, energy efficiency, and the Healthy Soils Program.
- *Healthy Forests*: $185 million to fund forest management and local fire response.
- *Short-Lived Climate Pollutants*: $119 million to fund methane reduction and waste diversion.
- *Integrated Climate Action: Mitigation & Resilience*: $51 million to fund programs that integrate mitigation actions with resilience benefits, including Transformative Climate Communities and Energy Corps.
- *Climate and Clean Energy Research*: $35 million to fund the California Climate Change Technology and Solutions Initiative.

For a further breakdown of the Cap-and-Trade Expenditure Plan, please refer to the chart on the following page, which also provides a comparison of spending between the current year and budget year.

Cap-and-Trade Expenditure Plan

(In Millions)

Program	Department/Agency	2017-18	Proposed 2018-19
Continuous Appropriations[a]		**$1,572**	**$1,369**
High-speed rail	High-Speed Rail Authority	$655	$571
Affordable housing and sustainable communities	Strategic Growth Council	524	456
Transit and intercity rail capital	Transportation Agency	262	228
Transit operations	Department of Transportation	131	114
Other Existing Spending Commitments		**$153**	**$152**
Manufacturing sales tax exemption backfill	N/A	$43	$89
Various administrative costs	Various agencies	30	35
SRA fee backfill	CalFire/Conservation Corps	80	28
Discretionary Spending		**$1,456**	**$1,250**
Mobile Source Emissions			
Local air district programs to reduce air pollution	Air Resources Board	$250	$250
Clean Vehicle Rebate Project	Air Resources Board	140	175
Freight and heavy-duty vehicle incentives	Air Resources Board	320	160
Low-income, light-duty vehicles and school buses	Air Resources Board	100	100
Low-carbon fuel production	Energy Commission	—	25
Forestry			
Forest health and fire prevention	CalFire	200	160
Local fire prevention grants	Office of Emergency Services	25	25
Urban forestry	CalFire	20	—
Agriculture			
Agricultural equipment	Air Resources Board	85	102
Methane reductions from dairies	Food and Agriculture	99	99
Incentives for food processors	Energy Commission	60	34
Healthy Soils	Food and Agriculture	—	5
Agricultural renewable energy	Energy Commission	6	4
Other programs			
Climate and energy research	Office of Planning and Research	11	35
Transformative Climate Communities	Office of Planning and Research	10	25
Waste diversion	CalRecycle	40	20
Integrated Climate Investment Program	Go-Biz	—	20
Energy Corps	Conservation Corps	—	6
Technical assistance to community groups	Air Resources Board	5	5
Urban greening	Natural Resources Agency	26	—
Natural lands climate adaptation	Wildlife Conservation Board	20	—
Low income weatherization and solar	Community Services and Development	18	—
Wetland restoration	Department of Fish and Wildlife	15	—
Coastal climate adaptation	Various agencies	6	—
Totals		**$3,181**	**$2,771**

[a] Continuous appropriations based on Governor's revenue estimates of $2.7 billion in 2017-18 and $2.4 billion in 2018-19.

SRA = State Responsibility Area; CalFire = California Department of Forestry and Fire Protection; CalRecycle = California Department of Resources Recycling and Recovery; and Go-Biz = Governor's Office of Business and Economic Development.

**Source: Legislative Analyst's Office*

More specifically, the Governor's budget proposal for the Cap-and-Trade expenditure plan includes the following:

1) ***California Infrastructure and Economic Development Bank (IBank): California Integrated Climate Investment Program.*** The Governor's budget proposes that Item 0509-001-3228 be added in the amount of $20 million from GGRF for IBank to provide seed funding to accelerate private sector investments in California infrastructure projects that reduce GHG emissions and improve climate resilience. With the establishment of the program, the administration will also convene an advisory group of leading experts to develop advanced funding pathways and a better pipeline of investment projects, creating new markets for California businesses.

2) ***Strategic Growth Council/Office of Planning and Research:***

    a) ***California Climate Change Technology and Solutions Initiative.*** The Governor's budget proposes that Item 0650-001-3228 be increased by $35 million for research and development of innovative technologies and other solutions to maximize GHG emission reductions and prepare the state for a changing climate. This proposal supports these priorities by funding activities to: (1) Advance the deployment of transformative technologies to reduce GHG emissions; (2) Prepare for a changing climate; (3) Integrate the social and equity dimensions of climate policies; and, (4) Support the development of advanced climate data partnerships and initiatives.

       Additionally, this funding will also support a new research initiative focused on climate policy impacts on California's economy. The initiative will include labor market analysis, economic modeling, case studies on just transition, and a toolkit on community re-investment. These investments will assist in easing the transition of workers and communities impacted by economic disruption.

    b) ***Transformative Climate Communities.*** The Governor's budget proposes that Item 0650-101-3228 be added in the amount of $25 million to support neighborhood-level transformative projects that reduce GHG emissions, increase resilience, and provide local economic and health benefits to disadvantaged communities. This program provides funding for a combination of community driven climate projects, such as transit-oriented development, water-energy efficiency installations, and urban greening, in a single neighborhood.

3) ***Office of Emergency Services (OES):***

    a) ***Local Fire Response.*** The Governor's budget proposes that Item 0650-101-3228 be added in the amount of $25 million to support neighborhood-level transformative projects that reduce GHG emissions, increase resilience, and provide local economic and health benefits to disadvantaged communities. This program provides funding for a combination of community driven climate projects, such as transit-oriented development, water-energy efficiency installations, and urban greening, in a single neighborhood.

       This funding would support the purchase of 110 additional fire engines in 2018-19, and six positions and other resources to maintain and fuel the additional engines in 2018-19 and ongoing.

4) ***California Conservation Corps: Energy Corps.*** The Governor's budget proposes that Item 3340-001-3228 be increased by $6 million and 27 positions to continue the Energy Corps Program, which provides job training and work experience to young adult corps members through the completion of energy and water conservation audits and projects in public buildings. Beginning in FY 2013-14, the Energy Crop was supported by funding from the Clean Energy Jobs Act (Proposition 39), which expires in FY 2018-19.

5) ***California Energy Commission.*** The Governor's budget proposes that Items 3360-001-3228 and 3360-101-3228 be added in the amounts of $25 million and $38 million respectively for the following purposes:

   a) ***Low Carbon Fuel Production.*** $25 million to provide incentives for in-state biofuels production in support of the Low Carbon Fuel Standard. This proposal will invest funds in the construction and demonstration of commercial scale biofuel production facilities, including the production of gasoline substitutes such as ethanol, diesel substitutes such as biodiesel and renewable diesel, and gaseous fuels such as biomethane. These types of projects produce fuels that result in up to 165 percent lower carbon emissions compared to petroleum diesel and gasoline.

   b) ***Agricultural Energy Efficiency Program.*** $34 million for grants that reduce energy costs, increase efficiency, and reduce GHG emissions in the food processing sector. Funded technologies will be reliable, have potential for broad sector adoption and help contribute to meeting the state's energy efficiency and GHG emission reduction goals.

   c) ***Renewable Energy.*** $4 million to provide grants for the installation of cost-effective on-site renewable energy for agricultural operations located in disadvantaged communities.

6) ***Department of Forestry and Fire Protection (CalFire): Healthy and Resilient Forests.*** The Governor's budget proposes that Item 3540-001-3228 be added in the amount of $160 million and 19 positions to support forest improvement, fire prevention, and fuel reduction projects and that Item 3340-001-0318 be increased by $5 million to reflect reimbursements from CalFire to the California Conservation Corps for implementation of forest health projects.

   In recognition of tree mortality impacting the state's forestland and climate change continuing to lengthen the wildfire season, CalFire will fund projects that reduce fuel loads, decreasing the intensity of wildfires and potential impacts to watersheds and communities.

7) ***Air Resources Board (ARB):*** The Governor's budget proposes that Items 3900-101-3228 and 3900-102-3228 be added in the amounts of $592 million and $200 million respectively for the following purposes:

   a) ***Agricultural Diesel Engine Replacement and Upgrades.*** $102 million to provide incentives for farmers and agricultural businesses to replace existing diesel, agricultural vehicles and equipment with the cleanest available diesel or advanced technologies. Emissions from agricultural equipment are a significant source of air pollution, especially in the San Joaquin Valley, and reducing these emissions is critical for meeting federal ozone and particulate matter air quality standards.

b) ***Clean Trucks, Buses, and Off-Road Freight Equipment.*** $160 million to provide incentives for zero emission trucks, transit buses, and zero-emission freight equipment in the early stages of commercialization. These funds will also be available for the Carl Moyer Program, which will offset the redirection of tire fee revenue to support the Department of Fish and Wildlife.

c) ***Enhanced Fleet Modernization and Other Equity Programs.*** $75 million to provide equity-focused investment that increase access to clean transportation for low-income households and disadvantaged communities. Specific projects include voluntary car scrap and replace, car sharing, van pools, and rural school bus replacement.

d) ***AB 617 Community Air Protection.*** $250 million to provide grants for early incentive actions to reduce both stationary and mobile source emissions in communities identified as heavily impacted by air pollution. Pursuant to AB 617 (C. Garcia), Chapter 136, Statutes of 2017, ARB will identify at-risk communities and key measures to reduce neighborhood pollution. This proposal provides funding to strategically reduce both criteria and toxic emissions in the identified communities.

e) ***Technical Assistance to Community Groups.*** $5 million for Community Assistance and Innovative Resources Grants to provide technical assistance grants to community-based organizations to participate in the AB 617 process, including the development of community emission reduction plans.

f) ***Clean Vehicle Rebate Project.*** $200 million to provide rebates to California residents for the purchase or lease of new light-duty zero-emission vehicles (ZEVs) and plug-in hybrids, including $25 million for incentives for low-income consumers. This proposal will provide $200 million annually through 2025, reflecting the state’s commitment to achieve its ZEV target. As the number of ZEVs purchased increases over time, ARB will revise the program’s income eligibility requirements to target moderate and low-income consumers that are most influenced by the availability of the rebates.

8) ***Department of Resources, Recycling, and Recovery (CalRecycle): Waste Diversion.*** The Governor’s budget proposes that Item 3970-101-3228 be added in the amount of $20 million to provide financial incentives for infrastructure facilities that divert waste form landfills, which will reduce methane emissions. Projects include composting, anaerobic digestion, and fiber, plastic, and glass recycling facilities.

9) ***Department of Food and Agriculture.*** The Governor’s budget proposes that Item 8570-101-3228 be added in the amount of $104 million for the following purposes:

a) ***Methane Reduction.*** $99 million for the Dairy Digester Research and Development Program and Alternative Manure Management Program to reduce methane emissions. Methane is 25 times more potent as a GHG compared to carbon dioxide. The Dairy Digester Research and Development Program offers grants to dairies to capture methane to be used for transportation fuels and clean energy production. The Alternative Manure Management Program provides financial incentives to dairy farms to implement non-digester manure management programs to reduce methane emissions.

b) ***Healthy Soils Program.*** $5 million to provide financial incentives to farmers to implement conservation agriculture management practices that sequester carbon, reduce GHG emissions, and improve soil health. This program is the first in the world to directly relate agricultural management practices to quantitative GHG emission reductions and promote the development of healthy soils on California's farmlands and ranchlands.

10) ***Control Section 15.14.*** The Governor's budget proposes that Control Section 15.14 be added to:

a) Authorize the Department of Finance to proportionally reduce appropriations from GGRF upon determination that cap-and-trade proceeds are not available to sufficiently support non-exempted appropriations;
b) Exempt new programs from the Administrative Procedure Act; and,
c) Specify that GGRF supporting the manufacturing tax credit is considered "off-the-top" for purposes of calculating the continuous appropriations.

Background. ***State Law Establishes 2020 and 2030 GHG Limits.*** The Global Warming Solutions Act of 2006 (AB 32 (Núñez and Pavley), Chapter 488, Statutes of 2006), established the goal of limiting greenhouse gas (GHG) emissions statewide to 1990 levels by 2020. Subsequently, SB 32 (Pavley), Chapter 249, Statutes of 2016, established an additional GHG target of reducing emissions by at least 40 percent below 1990 levels by 2030. ARB is required to develop a Scoping Plan, which identifies the mix of policies that will be used to achieve the emission targets and update the plan periodically.

AB 398 Extended Authority to Implement Cap-and-Trade From 2020 to 2030. One policy the state uses to help ensure it meets these GHG goals is cap-and-trade. AB 32 authorized ARB to implement a market-based mechanism, such as cap-and-trade, through 2020. AB 398 (E. Garcia), Chapter 135, Statutes of 2017, extended ARB's authority to operate cap-and-trade from 2020 to 2030 and provided additional direction regarding certain design features of the post-2020 program.

Cap-and-Trade Designed to Limit Emissions at Lowest Cost. The cap-and-trade regulation places a "cap" on aggregate GHG emissions from large GHG emitters, such as large industrial facilities, electricity generators and importers, and transportation fuel suppliers. Capped sources of emissions are responsible for roughly 80 percent of the state's GHGs. To implement the program, ARB issues a limited number of allowances, and each allowance is essentially a permit to emit one ton of carbon dioxide equivalent. Entities can also "trade" (buy and sell on the open market) the allowances in order to obtain enough to cover their total emissions.

From a GHG emissions perspective, the primary advantage of a cap-and-trade regulation is that total GHG emissions from the capped sector do not exceed the number of allowances issued. Some entities must reduce their emissions if the total number of allowances available is less than the number of emissions that would otherwise occur. From an economic perspective, the primary advantage of a cap-and-trade program is that the market sets a price for GHG emissions, which creates a financial incentive for businesses and households to implement the least costly emission reduction activities.

Some Allowances Auctioned, Some Given Away for Free. About half of the allowances are allocated for free to certain industries, and most of the remaining allowances are sold by the state at quarterly auctions. Of the allowances given away for free, most are given to utilities and natural gas suppliers. ARB also allocates free allowances to certain energy-intensive, trade-exposed industries based on how much of their goods (not GHG emissions) they produce in California. This strategy is intended to minimize the extent to which emissions are shifted out of state because companies move their production of goods out of California in response to higher costs associated with the cap-and-trade regulation. The allowances offered at auctions are sold for a minimum price—set at $14.53 in 2018—which increases annually at five percent plus inflation.

State Revenue Generally Used to Facilitate GHG Reductions. The state collected about $6.5 billion in cap-and-trade auction revenue from 2012 through 2017. Money generated from the sale of allowances is deposited in GGRF. Various statutes enacted over the last several years direct the use of auction revenue. For example, AB 1532 (Perez), Chapter 807, Statutes of 2012, requires auction revenues be used to further the purposes of AB 32. Under state law, revenues must be used to facilitate GHG emission reductions in California and, to the extent feasible, achieve other goals such as improving local air quality and lessening the effects of climate change on the state (also known as climate adaptation).

Current Law Allocates Over 60 Percent of Annual Revenue to Certain Programs. Under current law, annual revenue is continuously appropriated as follows: 1) 25 percent for the state's high-speed rail project; 2) 20 percent for affordable housing and sustainable communities grants (with at least half of this amount for affordable housing); 3) 10 percent for intercity rail capital projects; and, 4) Five percent for low carbon transit operations. In addition, AB 398 and subsequent budget legislation created the following ongoing GGRF allocations:

- ***Backfill Revenue Loss from Expanded Manufacturing Sales Tax Exemption.*** Assembly Bill 398 extended the sunset date from December 31, 2022 to July 1, 2030 for a partial sales tax exemption for certain types manufacturing and research and development equipment (hereafter referred to as the "manufacturing exemption"). It also expanded the manufacturing exemption to include equipment for other types of activities, such as certain electric power generation and agricultural processing, through July 1, 2030. The bill, as amended by subsequent budget legislation, also directs the Department of Finance (DOF) to annually transfer cap-and-trade revenue to the General Fund to backfill revenue losses associated with these changes.
- ***Intent to Backfill Revenue Loss from Suspension of State Fire Prevention Fee.*** Assembly Bill 398 suspended the state fire prevention fee from July 1, 2017 through 2030. The fee was previously imposed on landowners in State Responsibility Areas (SRAs), and the money was used to fund state fire prevention activities in these areas. The bill also expressed the Legislature's intent to use cap-and-trade revenue to backfill the lost fee revenue and continue fire prevention activities. Subsequently, the FY 2017-18 budget provided $80 million from the GGRF to backfill lost SRA fee revenue.

Past budgets have also allocated about $30 million ongoing to various agencies—primarily ARB—to administer GGRF funds and other air quality activities.

Legislative Analyst's Office (LAO). ***Proposal Similar to FY 2017-18 Spending Plan.*** The FY 2018-19 proposal would fund many of the same programs that received funding in the FY 2017-18 budget. The most significant differences in the FY 2018-19 proposal include:

- ***Less Funding for Freight and Heavy-Duty Vehicle Incentives.*** The proposal includes $160 million for freight and heavy-duty vehicles, or half of what was provided in FY 2017-18. This represents the largest year-over-year decrease in funding for any program.

- ***Provides $20 Million for Integrated Climate Investment Program.*** The plan provides $20 million to the Governor's Office of Business and Economic Development for the Integrated Climate Investment Program, which will provide funding through the existing California Lending for Energy and Environmental Needs Center. This program provides financing for private sector infrastructure projects intended to reduce GHG emission and improve climate resilience, such as energy efficiency and water conservation. The administration also intends to explore ways to develop new financing mechanisms for similar types of projects.

- ***Expands and Modifies Climate Change and Energy Research Program.*** The proposal includes $35 million for the Office of Planning and Research to provide grants for research and development of innovative GHG reduction and climate adaptation technologies. This amount is $24 million more than was provided in FY 2017-18. In addition, the Administration intends to focus on technologies that are in earlier stages of research and development.

- ***Backfills Certain Special Funds That Are Used for Other Activities.*** The plan includes $25 million for CEC to support low-carbon fuel production, which is currently funded through the Alternative and Renewable Fuel Vehicle Technology Fund (ARFVTF). It also provides $26 million to ARB for the Carl Moyer Program (included as part of the grants for local air pollution reductions), which is currently funded through the Air Pollution Control Fund (APCF). These allocations do not reflect a net change in spending for these activities. Instead, they backfill the special funds that previously supported these activities because the administration proposes to redirect these special funds to other purposes. Specifically, the administration proposes to redirect ARFVTF resources to fund additional ZEV infrastructure and APCF resources to address the structural shortfall in the Fish and Game Preservation Fund.

Includes $232 Million in New Multiyear Funding Commitments. Most of the proposed discretionary expenditures are one time, but some programs would receive multiyear funding. These multiyear programs are: (1) $200 million annually over eight years to continue light-duty ZEV rebates, including $175 million for the Clean Vehicle Rebate Project and $25 million for incentives for light-duty vehicles for low-income consumers; (2) about $26 million for the Carl Moyer Program backfill through at least 2023; and (3) $6 million annually to the California Conservation Corps (CCC) to continue energy efficiency activities in the Energy Corps program. The Proposition 39 (2012) revenue transfers to the CCC for the Energy Corps program expire in 2017-18.

Governor's Plan Spends Almost All of Estimated Available Funds. The Governor's plan spends nearly all of the funds it estimates will be available through FY 2018-19, leaving a fund balance of about $20 million at the end of the budget year. To address the risk that actual revenue is lower than estimated and ensure fund solvency, the Administration proposes budget bill language that gives the Department of Finance authority to proportionally reduce most FY 2018-19 discretionary allocations if auction revenues are not sufficient. The proposal also specifies that DOF could not reduce allocations to programs administered by ARB, healthy forests, and the Energy Corps program.

LAO Recommendations. ***Ensure Allocations and Legislative Direction Are Consistent with Legislative Priorities.*** LAO recommends the Legislature allocate funds to programs that are likely to achieve its highest priority policy goals, which could include GHG reductions, as well as such things as local air pollution reductions and/or climate adaptation. The Legislature will also want to ensure the statutory direction for GGRF spending aligns with the primary policy goals of each program. This would help ensure that departments structure programs and prioritize projects that help achieve the Legislature's goals most effectively.

Direct Administration to Report on Key Program Information. LAO recommends the Legislature direct the Administration to report at budget hearings on a variety of issues, including (1) The expected outcomes associated with each program that would receive funding in the budget, such as estimated overall costs and benefits; (2) The outcomes that existing programs have accomplished so far; and (3) How new programs will be structured, including the process and criteria that will be used to select projects. This information would help the Legislature evaluate the extent to which the plan achieves its goals effectively.

Consider Options to Ensure Solvency as Additional Revenue Information Becomes Available. LAO recommends the Legislature re-evaluate the overall amount of cap-and-trade allocations over the next few months as more information about auction revenue becomes available. Although FY 2018-19 revenue will continue to be subject to uncertainty, the Legislature will have additional information about FY 2017-18 revenue and it could adjust its spending plan accordingly. If revenue expectations at that time are consistent with the Governor's estimates (or lower), the spending plan would leave almost no fund balance at the end of FY 2018-19. In this scenario, the Legislature might want to consider options to mitigate against downside revenue risk. For example, the Legislature could allocate less money in FY 2018-19. Alternatively, it could adopt an approach similar to the one proposed by the administration, which designates that certain programs are guaranteed funding, and the amount provided to the remaining programs would depend on whether sufficient revenue is collected. If the Legislature adopts this strategy, it will want to ensure that guaranteed funding goes to programs that are the highest legislative priorities.

OES: Local Fire Response: California's Fire and Rescue Mutual Aid System: Additional Information Should Be Provided to Support Future Requests, If Any. According to LAO, it is unclear if OES' budget year request will fully address the unmet need for fire engines, and, if not, whether the department will request additional resources in the future. To the extent that the department does come forward with future requests, it would be important for the Legislature to have additional information at that time on what the Administration's long-term plan is expanding OES' fire engine fleet, including information such as: (1) What are the state's goals for fire response? For example, is the state's goal to have some/all fire requests filled in the most severe year for wildfires? In the average year?, (2) What role should OES' engines vs. other resources at the local, state, out-of-state, and federal level play in meeting these goals?, (3) What current resources are available at the local, state, out-of-state, and federal level?, (4) What level of additional state resources, if any, are needed to meet the state's goals for fire response?, and (5) What is the administration's long-term plan for requesting those resources? This type of information would be important for the Legislature to have in order to determine how much future funding to allocate to OES fire engines vs. other state priorities.

Staff Recommendation. Hold open.