

Senator Josh Becker, Chair  
Senator Brian Dahle  
Senator Mike McGuire



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

Consultant: Eunice Roh

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## VOTE-ONLY

### 3900 STATE AIR RESOURCES BOARD

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

**Governor’s Proposal.** The Governor’s Budget includes \$1.9 million from the Air Pollution Control Fund in 2023-24 and \$1.1 million ongoing for 5 permanent positions to operate, audit, and maintain the monitoring stations and equipment for CARB’s ozone monitoring program. This request includes \$128,000 ongoing for operational costs and \$787,000 in one-time funding for equipment and supplies. These resources are needed to expand the ozone monitoring program to comply with federal requirements. In 2021, the San Joaquin Valley Core Based Statistical Area reached the one million

population milestone that triggers the mandated US EPA requirement for Photochemical Assessment Monitoring Stations (PAMS) monitoring. This mandate requires monitoring agencies to develop and implement PAMS as part of their existing State Implementation Plan (SIP) monitoring network in ozone non-attainment areas classified as serious, severe, or extreme. Federal funds are no longer available for the implementation or operation of this program. If the state does not implement this program, California could risk losing highway funds and jeopardize funding for CARB's other monitoring programs since federal funding is based on California's compliance with federal statutory requirements. This request is to establish a Photochemical Assessment Monitoring Stations (PAMS) program in San Joaquin Valley and add two new monitoring stations in Eastern Kern County and Western Nevada County, both of which are ozone non-attainment areas. Implementation of the PAMS program into CARB's air monitoring network requires the addition of 5 full time staff (1 Staff Air Pollution Specialist, 3 Air Pollution Specialists, and 1 Associate Government Program Analyst), equipment, and contracts to develop and operate monitoring sites to meet the federal requirements.

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

**Governor’s Proposal.** The Governor’s Budget requests \$211,000 ongoing from the Greenhouse Gas Reduction Fund for one permanent position to implement Chapter 354, Statutes of 2022 (AB 2700). AB 2700 requires CARB to collaborate with CEC to annually provide MHD fleet data for on-road and off-

road vehicles, already being collected by CARB, so that CEC can share that data with electrical corporations and local publicly owned electric utilities to help inform electrical grid planning efforts. It also requires CARB to enter into a data sharing agreement with CEC. The requested position would coordinate with CARB program points of contact and CEC, use their expertise in MHD ZEVs and the associated CARB regulatory programs to develop a streamlined process for data collection, align data on existing regulations, and provide input for alignment on future regulations.

**Staff Recommendation.** Approve as budgeted.

## 8570 DEPARTMENT OF FOOD AND AGRICULTURE

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

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

**Staff Recommendation.** Approve as budgeted.

### Issue 10: Emergency Management Program Resources

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

and the department reports both programs (OCal and CAP) will generate revenue for the Cannabis Control Fund to offset the requested amount.

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

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

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

**Staff Recommendation.** Approve as budgeted.

#### **Issue 16: Weights and Measures Oversight and Services**

**Governor’s Proposal.** The Governor’s Budget requests \$811,000 from the Department of Food and Agriculture Fund in 2023-24, \$714,000 in 2024-25 and ongoing, and four permanent positions to



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

**Staff Recommendation.** Approve as budgeted.

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## DISCUSSION ITEMS

### 3900 STATE AIR RESOURCES BOARD

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

##### **Governor's Proposal.**

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

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

(In Millions)

### Continuous Appropriations

High-Speed Rail Project	\$526
Affordable Housing and Sustainable Communities Program	421
Transit and Intercity Rail Capital Program	210
Healthy and Resilient Forests	200
Low Carbon Transit Operations Program	105
Safe and Affordable Drinking Water Program	105

<b>Subtotal</b>	<b>(\$1,567)</b>
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### Other Existing Commitments

Baseline Operations	\$150
Manufacturing Tax Credit	97
State Responsibility Area Fee Backfill	79
Safe and Affordable Drinking Water Program Backfill	25

<b>Subtotal</b>	<b>(\$351)</b>
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### Discretionary

General Fund Backfill—Zero Emission Vehicle Package (CEC)	\$368
General Fund Backfill—Zero Emission Vehicle Package (CARB)	243
General Fund Backfill—AB 617 Community Air Protection	200
General Fund Backfill—AB 617 Local Air District Implementation	50

<b>Subtotal</b>	<b>(\$861)</b>
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<b>Total</b>	<b>\$2,779<sup>a</sup></b>
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<sup>a</sup>Includes \$2.5 billion in auction proceeds and \$300 million from: interest earnings, fund balance utilization, and additional November 2022 auction proceeds.

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

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

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

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

**Background.** According to the LAO:

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

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

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

expenditures.

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

### **LAO Assessment.**

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

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

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

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

### **LAO Comments.**

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

over the last several years.

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

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

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

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

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

**Staff Recommendation.** Hold Open.

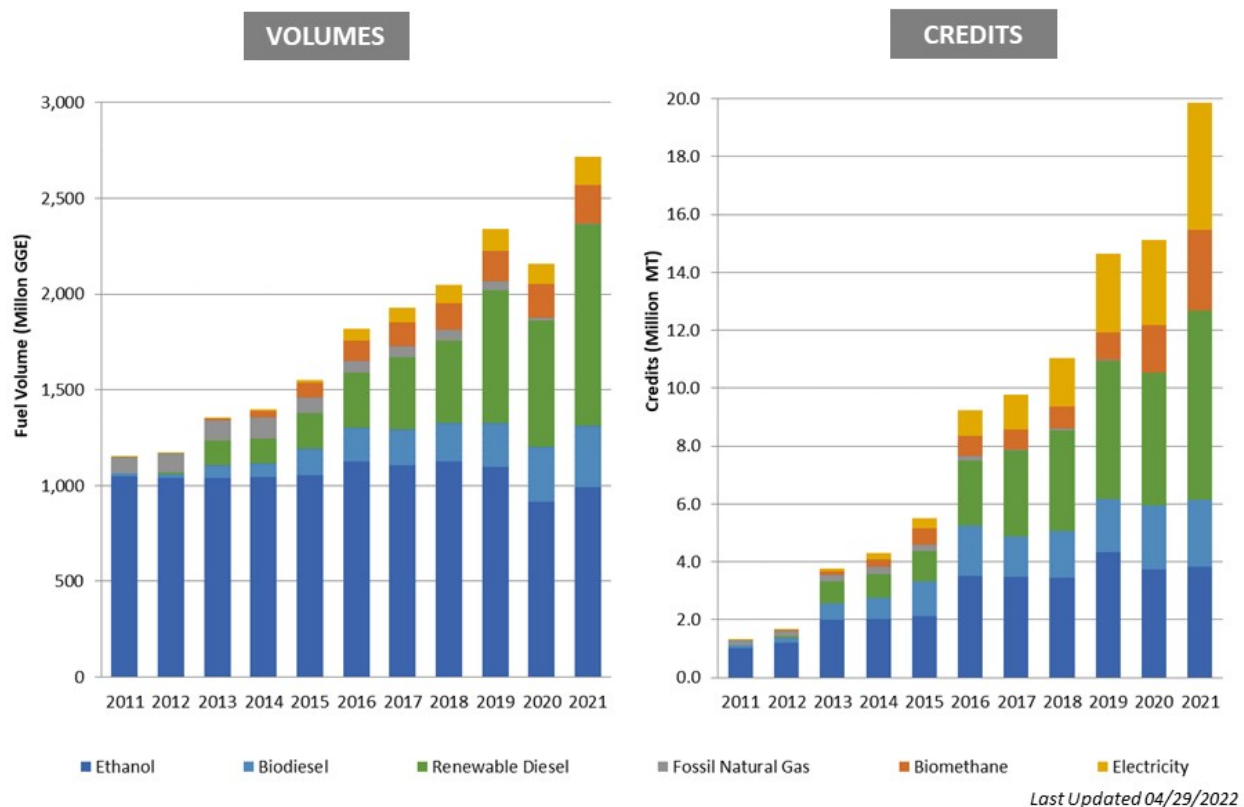
**Issue 18: Low Carbon Fuel Standard Administration**

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

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

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

**Alternative Fuel Volumes and Credit Generation**



The LCFS has undergone several updates. CARB re-adopted the LCFS in 2015, and updated the LCFS Regulation in 2018 and 2019, adding new opportunities to the program, which reflected the expansion

and diversification of the alternative fuel market, and in doing so, added implementation complexity. The staffing levels for the program have not grown commensurate with these program changes or the increase in the number and complexity of the fuel pathway applications. For example, in 2011, the program administered under 2 million credits. In 2020, it administered over 15 million credits. As a result, the Program is experiencing slowing processing rates.

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

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

**Staff Recommendation.** Hold Open.

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

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

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

The requested positions and funding are needed to implement and support enforcement of the proposed ACF regulation. The ACF regulation will require the reporting of hundreds of thousands of medium- and heavy-duty vehicles and some light-duty delivery vehicles operated in California in the fourth quarter of 2023 and each compliance year thereafter. The ACF regulation has differing compliance schedules, requirements, and exemptions for different fleets including drayage, state and local



government fleets, and high priority and federal fleets. Outreach and education to the affected entities will play an important role in implementation. The reporting system must be updated to incorporate exemptions, extensions, validation, and compliance calculations for the ACF regulation. Reported data will be evaluated and analyzed, as well as processed and provided when requested.

The position request includes 1.25 Air Resources Supervisor II (ARS II), 1.25 Office Technicians (OT), 4 Air Resources Supervisor I (ARS I), 3 Air Resources Engineers (ARE), 9 Air Pollution Specialists (APS), 3 Air Resources Technician I (ART I), and 11 Air Resources Technician II (ART II) for a total of 32.5 new three-year limited term positions to carry out duties associated with the implementation of the proposed ACF regulation. In addition to staffing needs, the proposed ACF regulation would require modifying two separate reporting systems to handle reporting for the new regulations to verify and track compliance as the requirements are phased in. Staff is estimating \$2 million in 2023-24 to upgrade 2 existing reporting systems and to convert them to CARB's Information Technology environment. For 2024-25 and 2025-26, CARB is requesting \$400,000 for maintenance and ongoing fees to operate the 2 systems.

**Staff Comments.** The ACF regulation is currently under development and has not yet been adopted. According to CARB, the regulation will be up for final consideration in April 2023. The Board is still considering some policy questions, such as whether manufacturers should sell only zero emission medium duty and heavy duty vehicles starting in 2036 or 2040. (This request assumes a 2040 deadline.) Prior to acting on this proposal, the Legislature may want to monitor what is ultimately included in the final regulation and whether or not any of these changes will affect this budget request. Given that this is a new program, CARB requests three-year limited-term positions for the initial implementation and expects to request ongoing positions and funding in the future. The department estimated the resources needed to implement the ACF regulation on their experience implementing the Truck and Bus regulation from 2010 to present.

**Staff Recommendation.** Hold Open.

#### **Issue 20: Electric Vehicle Supply Equipment Payment Standards Trailer Bill Language**

**Governor's Proposal.** The Governor's Budget includes trailer bill language would require an electric vehicle charging station that is newly installed or made publicly available to offer specified payment methods, including a contactless payment method that accepts major credit or debit cards, an automated toll-free telephone number or a short message system that provides the electric vehicle charging customer with the option to initiate a charging session and submit payment, and Plug and Charge payment capabilities meeting the International Organization for Standardization (ISO) 15118 standard (for direct current fast charging stations). The bill would authorize the state board, by regulation that is effective no earlier than January 1, 2028, to add or subtract from the payment methods required by the bill, as appropriate in light of changing technologies.

**Background.** Chapter 418, Statutes of 2013 (SB 454, Corbett) established open access principles for electric vehicle supply equipment (EVSE – i.e., charging stations). In response, the California Air Resources Board (CARB) adopted the EVSE Standards in 2019. These standards are applicable to electric vehicle service providers (EVSPs) and require publicly available EV charging stations that require payment to accept chip credit and debit cards and offer a phone number to process payments. These requirements went into effect on January 1, 2022 for direct current fast charging (DCFC) stations and will go into effect—unless this trailer bill language supersedes it—on July 1, 2023 for level 2 chargers (or at the time of replacement, but no later than July 1, 2033).

The federal Infrastructure Investment and Jobs Act (IIJA) establishes a new program for EV infrastructure, called the National Electric Vehicle Infrastructure (NEVI) program. California is estimated to receive \$384 million in NEVI Formula Program funds over the next five years for the purposes of expanding in-state EVSE networks. On February 15, 2023, the Joint Office of Energy and Transportation, which administers the NEVI program, published final minimum standards for federally funded EVSE. Minimum requirements for EVSE payment options are among the several included in the Standards. This proposal modifies statutory requirements to align CARB's EVSE Standard with recently published federal EVSE Standards.

**Staff Comments.** The proposed changes align state standards with the recently released requirements for federally funded EV charging infrastructure. Such alignment streamlines the process for EV service providers and EVSE manufacturers to build federally funded charging infrastructure in the state. In addition, several stakeholders have reported requiring chip readers—to meet the existing state requirements—result in an increase in costs (to install, maintain, and repair). However, there has been some concerns with removing chip readers—particularly, when it comes to ensuring all drivers with varying levels of income and access to traditional banking having access to publicly available EV charging stations. Given that technologies and preferences are likely going to continue to change, it seems reasonable to authorize CARB to amend (in a few years) the required payment methods as issues come up.

**Staff Recommendation.** Hold Open.

## 8570 DEPARTMENT OF FOOD AND AGRICULTURE

### Issue 21: Implementation and Reductions in the Sustainable Agriculture Package

**Governor's Proposal.** The Governor proposes reductions in the sustainable agriculture package, as shown in below. Specifically, the largest reduction proposed—\$25 million—is the elimination of the Climate Catalyst Program's funding for agriculture-related loans. Some other notable reductions include: (1) \$22 million from the Conservation Agriculture Planning Grants Program, (2) \$15 million from the Healthy Soils Program, (3) \$15 million from the Pollinator Habitat Program, and (4) \$15 million from the Farm to Community Food Hubs Program.

## Governor's Proposed Sustainable Agriculture Budget Reductions

2021-22 Through 2023-24 (In Millions)

Program	Department	Total Augmentations	Proposed Reductions	New Proposed Amounts
<b>Sustainable Agriculture Programs Proposed for Solutions</b>				
Healthy Soils Program	CDFA	\$170 <sup>a</sup>	-\$15	\$155
Conservation Agriculture Planning Grants	CDFA	39	-22	18
Pollinator Habitat Program	CDFA	30	-15	16
Climate Catalyst Fund Program—agriculture	IBank	25	-25	—
Healthy Refrigeration Grant Program	CDFA	20	-9	11
Farm to Community Food Hubs Program	CDFA	15	-15	0
Urban Agriculture Program	CDFA	12	-6	6
Research in GHG reduction	CDFA	10	-5	5
Invasive Species Council	CDFA	10	-5	5
Farmer training and manager apprenticeships	CDFA	10	-5	5
Sustainable Cannabis Pilot Program	CDFA	9	8.5	0.5
<b>Total</b>		<b>(\$350)</b>	<b>(-\$128)</b>	<b>(\$222)</b>

**Background.** According to the LAO:

**Recent Budgets Committed \$1.2 Billion for Sustainable Agriculture Activities, Mostly From General Fund.** As shown below, recent budgets have committed a total of \$1.2 billion on a limited-term basis over three years—\$684 million in 2021-22, \$487 billion in 2022-23, and \$13 million intended for 2023-24—to support sustainable agriculture activities. About 80 percent of the \$1.2 billion total—\$915 million—is from the General Fund. The remaining amounts are from GGRF (\$225 million) and the Air Pollution Control Fund (\$43 million). While most of this funding was included as part of a 2021-22 budget package focused on sustainable agriculture, some of the funding shown was originally included in an extreme heat package or as standalone proposals.

Figure 20

### Recent and Planned Sustainable Agriculture Augmentations

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

Program	Department	2021-22	2022-23	2023-24	Totals
Agricultural diesel engine replacement (FARMER)	CARB	\$213 <sup>a,b</sup>	\$150	—	\$363
San Joaquin Valley agricultural burning alternatives	CARB	180	—	—	180
Healthy Soils Program	CDFA	75 <sup>a</sup>	85	\$10	170
Livestock methane reduction and AAMP	CDFA	32	68 <sup>a</sup>	—	100
Farm to School Incubator Program	CDFA	30	60	—	90
Conservation Agriculture Planning Grants	CDFA	17	22	—	39
Pollinator Habitat Program	CDFA	15	15	—	30
Fresno-Merced Future of Food	CDFA	30	—	—	30
Climate Catalyst Fund Program—agriculture	IBank	—	25	—	25
California Nutrition Incentive Program	CDFA	10	10	—	20
Healthy Refrigeration Grant Program	CDFA	10	10	—	20
Farm to Community Food Hubs Program	CDFA	15	—	—	15
Urban Agriculture Program	CDFA	12	—	—	12
Underserved farmer technical assistance	CDFA	5	5	—	10
Methane reduction: cattle feed	CDFA	—	10 <sup>a</sup>	—	10
Research in GHG reduction	CDFA	5	5	—	10
Invasive Species Council	CDFA	5	5	—	10
Farmer training and manager apprenticeships	CDFA	5	5	—	10
Safer, sustainable pest management	CDFA	10	8	—	18
Sustainable Cannabis Pilot Program	CDFA	9	—	—	9
Various other programs <sup>c</sup>	CDFA, DPR	6	4	3	12
<b>Totals</b>		<b>\$684</b>	<b>\$487</b>	<b>\$13</b>	<b>\$1,183</b>

<sup>a</sup> Includes funding from the Greenhouse Gas Reduction Fund.

<sup>b</sup> Includes funding from Air Pollution Control Fund.

<sup>c</sup> Includes the following programs: (1) impact assessment and alignment of reporting, (2) integrated pest management technical assistance (previously in the extreme heat package), (3) canine blood bank, and (4) Senior Farmers Market Nutrition Program.

FARMER = Funding Agricultural Replacement Measures for Emission Reductions; CARB = California Air Resources Board, CDFA = Department of Food and Agriculture; AAMP = Alternative Manure Management Program; IBank = California Infrastructure and Economic Development Bank; GHG = greenhouse gas; and DPR = Department of Pesticide Regulation.

**Sustainable Agriculture Funding Supports a Variety of Programs.** The committed \$1.2 billion is designated for more than two dozen programs administered by various departments. Almost half of the funds are for two programs administered by CARB: (1) the Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program, which supports agricultural equipment upgrades and replacements that reduce GHG and air pollutant emissions (\$363 million) and (2) financial incentives for farmers to implement alternative practices to agricultural burning in the San Joaquin Valley (\$180 million). The remaining funds—\$640 million—support a wide range of programs, mostly administered by CDFA. For example, \$170 million is committed to CDFA’s Healthy Soils Program, which provides grants to increase statewide implementation of various practices that improve soil health, sequester carbon, and reduce GHG emissions.

**Sustainable Agriculture Activities Historically Not Significant Recipients of General Fund.** The state has traditionally not provided significant General Fund support for most of these activities. Some of the programs shown in the table above are new and their creation was made possible by the robust condition of the General Fund. Examples of new programs include (1) the Fresno-Merced Future of Food Innovation Initiative; (2) the Conservation Agriculture Planning Grants Program; (3) the Pollinator Habitat Program; (4) the Urban Agriculture Program; (5) the Farm to Community Food Hubs Program;

and (6) the Climate Catalyst Fund, which provides low-interest loans to projects that advance the state’s climate mitigation and adaptation goals in the agricultural sector. (We also discuss this program in the “Wildfire and Forest Resilience” section of this report because separate funding focusing on the wood products sector was included in that package.)

Some other programs shown in the table above have received funding from the state in the past, but typically from sources other than the General Fund. For example, CARB’s FARMER Program has been supported by GGRF and the Air Pollution Control Fund (which receives revenue from fees and penalties paid by various emitters of air pollution), and the Healthy Soils program has historically been supported by GGRF. As noted in the figure, these two programs received support from those special funds in 2021-22, but in subsequent years funding shifted to the General Fund.

**Staff Recommendation.** Hold Open.

### **Issue 22: Oversight Costs for AB 1499 (2017)**

**Governor’s Proposal.** The Governor’s Budget includes trailer bill language to allow the Department to use revenue collected pursuant to Chapter 798, Statutes of 2017 (AB 1499, Gray) to fund existing Fairs and Exposition Branch positions and operating expenses.

**Background.** California has one of the nation’s largest fair systems (Network). The Network consists of 79 fairs that operate under a variety of governance structures, such as state institutions (District Agricultural Associations [DAAs]), counties, and non-profits; collectively they are statutorily known as “state-designated fairs.” They provide agricultural education, emergency response and preparedness, environmental leadership, and generate millions of dollars in state and local revenues. CDFA is responsible for providing oversight activities carried out by each California fair. CDFA fulfills its oversight responsibilities through the Fairs and Expositions (F&E) Branch and services provided by CDFA’s Human Resources Branch, Legal Office, Audit Office, Office of Civil Rights (OCR), and Executive Office.

AB 1499 requires the California Department of Tax and Fee Administration to transfer annually into CDFA’s F&E Fund, a portion of the sales tax corresponding to the sales tax revenue generated at fairgrounds during the prior year. The annual amount to be deposited into the fund can be expected to be anywhere between \$18 and \$20 million. AB 1499 authorized the funding to be allocated to fairs pursuant to BPC section 19620.2, which includes capital outlay projects related to health and safety, deferred maintenance, projects related to emergencies, projects related to securing fairgrounds, and general operational support of fairs. However, current law does not authorize CDFA to use revenue generated by AB 1499 on its own administrative costs. CDFA’s F&E Branch is currently funded by the General Fund and Prop. 68, but has relied on funding reserves in recent years.

The F&E Fund that is used for CDFA’s administrative costs will be nearly exhausted by the end of FY 2022-23. Without an additional source of funding, CDFA will no longer be able to provide oversight to the Network beginning in FY 2023-24. CDFA is currently exploring the potential to transition the fairs in the Network to a new governmental structure. However, no change is expected to take place for at least five years, and current models suggest F&E’s role of providing some level of oversight would need to continue indefinitely.

**Staff Comments.** In recent years, COVID-19 has significantly disrupted state fair operations. As a result, the revenues authorized by AB 1499 have been much lower than estimated by CDFA. For example, AB

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1499 generated about \$8 million in 2020-21 and \$3 million in 2021-22. This revenue is intended to fund projects addressing public health, safety, and emergency services; deferred maintenance; and general operational support at the fairs. However, under the Governor's proposal, a significant portion of the currently limited AB 1499 revenues would have to be dedicated to CDFA's oversight costs. The CDFA F&E Branch currently has 10 positions and budget authority of about \$2 million annually to provide oversight of the Network.

**Staff Recommendation.** Hold Open.