Senate Budget and Fiscal Review—Scott Wiener, Chair
SUBCOMMITTEE NO. 2 **Agenda**

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

Thursday, March 21, 2024
9:30 a.m. or Upon Adjournment of Session
1021 O Street - Room 2200

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Item **Department** **Page**

DISCUSSION ITEMS

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION 2
Issue 1: Community Solar 2
VARIOUS DEPARTMENTS 5
Issue 2: Cap-and-Trade Spending Plan........ 5
3900 STATE AIR RESOURCES BOARD 11
Issue 3: Prescribed Burning and Exceptional Events 11
Issue 4: Resources to Implement More Stringent PM2.5 National Ambient Air Quality Standard....... 12
Issue 5: Southern California Headquarters Building Operations & Maintenance Contracts 13

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DISCUSSION

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC)

Issue 1: Community Solar

Background. The U.S. Department of Energy defines community solar as any solar project or purchasing program, within a geographic area, in which the benefits of a solar project flow to multiple customers such as individuals, businesses, nonprofits, and other groups. These customers receive credit on their electricity bills for their share of the power produced. This model is designed to provide greater access to solar, particularly for renters, residents in multi-unit buildings, businesses that do not own their own roof, and other electricity customers who cannot install solar onsite for various reasons.

Currently, California has a handful of statewide community solar programs, including Green Tariff Shared Renewables Program; Disadvantaged Communities Green Tariff program; Community Solar Green Tariff program; and Solar on Multifamily Affordable Housing. Overall, these programs have struggled due to a variety of challenges, including lack of bill savings to customers, burdensome application and administrative processes, and limits on how many megawatts can be built, according to various stakeholders.

AB 2316 (Ward, Chapter 350, Statutes of 2022) required CPUC, on or before March 31, 2024, to evaluate these various community solar (or community renewable energy) programs, to determine if the program meets specified goals, to authorize the termination or modification of a program that does not meet those goals, and to determine whether it would be beneficial to ratepayers to establish a community renewable energy program. The 2023 Budget Act included $1,103,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account for the CPUC to implement AB 2316. In addition, the 2023 Budget Act included $33 million for community renewable energy programs, as part of the Clean Energy Reliability Investment Plan.

As CPUC conducted its evaluation of the various community solar programs through proceeding A.22-05-022, a range of stakeholders have supported the Net Value Billing Tariff (NVBT), as proposed by the Coalition for Community Solar Access. Under this proposal, subscribers to community solar projects (all of which must have matching storage capacity) would receive a credit applied to their electricity bills. This credit would have two primary components: (1) the energy value, which is determined by the market rate, and (2) the project's value to the grid at the time of generation—this project would not only provide electricity, but it also helps avoid transmission and distribution costs, decreases system demand, avoid greenhouse gas emissions (because it is a renewable energy project), as well as other avoided costs. NVBT proposes the project's value to be locked in for a 25 year term. This proposal would be targeted towards low- and moderate-income households, requiring 51 percent of each project to be reserved for low-income customers and at minimum 20 percent bill credit savings for low- and moderate-income households. NVBT requires projects to interconnect into the distribution system, but proposes no further limitations to projects on geography, or require any other siting restrictions; not cap project size to the extent feasible; and not limit how much capacity can be built.

On March 4, 2024, the CPUC released a proposed decision, as part of proceeding A.22-05-022. It found that NVBT "conflicts with federal law and does not meet the requirements of AB 2316". Instead, the proposed decision recommends "to modify and streamline existing Green Access Program tariffs" and "to adopt a community renewable energy program by layering a customer subscription model and a non-ratepayer-funded adder onto identified standard supply-side tariffs and contract mechanisms". More specifically, the proposed decision:

- Expands the Disadvantaged Community Green Tariff Program (DAC-GT) by 60 megawatts, bringing the total available capacity to approximately 144 megawatts.
- Expands the geographic boundaries (for DAC-GT) of a disadvantaged community to allow for more eligible projects that serve low-income customers.
- Ends the Community Solar Green Tariff Program (CSGT) and transfers the remaining capacity into the DAC-GT program.
- Authorizes an additional, new community renewable energy program for PG&E, SCE, and SDG&E residential and commercial customers, regardless of income.
    - Payment for the energy generated by solar projects will be collected from all customers within the utility's territory.
    - 51 percent of each project's capacity will be dedicated to low-income subscribers and low-income customers at highest risk of disconnection will be prioritized for auto-enrollment.
    - Sets the amount of compensation for solar exports to the grid at costs avoided by each project, and the subsidies to low-income customers will be funded by state/federal funds.
- Modifies the Green Tariff Shared Renewables Program by enabling future procurement to be aligned with the state's broader integrated resource planning process, allowing battery storage to be paired with solar projects, and creating a pathway for potential expansion beyond the program capacity cap.

Several stakeholders have taken issue with the CPUC's proposed decision on community solar, particularly on the proposed decision's positions on the NVBT proposal. Specifically, CPUC found that NVBT is not a viable proposal because (1) it conflicts with federal law and (2) it does not meet the requirements of AB 2316.

On the first point, the proposed decision finds that NVBT conflicts with federal law, specifically the Public Utility Regulatory Policies Act (PURPA). This law specifies federal jurisdiction over certain energy projects, specifically of wholesale power generation facilities. These are large power generators that sell electricity on wholesale markets to utilities, electric service providers, and community choice aggregation entities. The Federal Energy Regulatory Commission (FERC) has authority over these wholesale facilities, and the compensation that these facilities can receive. Under PURPA, wholesale facilities' compensation rate is solely based on energy value and capacity to the grid. In comparison, distributed energy resources (DER) are smaller scale energy resources that are located near sites of use, such as rooftop solar. CPUC has authority over these resources, as well as the compensation rates of these resources.

The proposed decision finds that community solar projects, as proposed by NVBT, are more akin to wholesale facilities than DER "in terms of: (1) the lack of a true-up period to identify net surplus generation; (2) the practice of banking credits for surplus energy in lieu of providing net surplus energy compensation; and (3) the absence of geographic proximity between generation and subscriber load." Therefore, the proposed decision finds that CPUC does not have jurisdiction over how community solar projects can be compensated and that these projects' compensation rates are determined by PURPA.

Various stakeholders disagree with this assessment, and claim that community solar projects more resemble distributed energy resource projects, because it is a retail-level program. In addition, stakeholders have pointed out that there has not been legal challenges regarding FERC authority over community solar projects in other states, such as New York, Maine, and Massachusetts.

On the second point, the proposed decision finds that NVBT does not meet the requirements of AB 2316 because it would likely increase costs for nonparticipating customers. NVBT proponents assert that community solar projects are a distributed energy resource, and therefore, will avoid costs, such as utility scale generation and capacity, electric transmission and distribution system capacity, and greenhouse gas emissions. Under the CPUC's measures for DER cost-effectiveness, the NVBT scores better than any other community renewables program administered by the CPUC, scoring a Total Resource Cost (TRC) value of between 1.2 and 1.45 (anything over 1.0 implies a program will result in the addition of resources that are cost-effective for the system) and a ratepayer impact measure (RIM) of between 0.81 and 0.92, compared to RIM scores of 0.35 to 0.58 for the net billing tariff (NBT) rooftop solar program under NEM 3.0 that the CPUC approved in December 2022. The DAC-GT program, which the CPUC's proposed decision expands, also has lower RIM scores than the NVBT proposal, in the 0.44 to 0.61 range.

However, the proposed decision finds that this assessment is not fitting, because community solar projects are more akin to wholesale facilities, and as such, do not avoid transmission, distribution, and capacity costs. The proposed decision finds that these added costs could result in additional costs for non-participants. Specifically, the proposed decision cited investor-owned utilities' cost analyses of NVBT. For example, PG&E found that 1 gigawatt of community solar installed under NVBT could result in a cost shift of $8.1 billion from subscribed customers to all customers over 25 years.

Staff Comment. Currently, the proposed decision is subject to a 30-day public comment period before it can be acted upon by the CPUC. During this period, stakeholders have the opportunity to file and reply to comments before the CPUC votes on this issue. As such, this is the opportune time for the Legislature to engage on the proposed decision, and whether it aligns with the intent of AB 2316.

Staff Recommendation. Hold Open.

VARIOUS DEPARTMENTS

Issue 2: Cap-and-Trade Spending Plan

Governor's Proposal. The Governor proposes a roughly $2.3 billion discretionary cap-and-trade expenditure plan. The plan would dedicate most of this funding for fund shifts to backfill General Fund reductions, including $557 million proposed for early action in the current year. The proposal also includes an intention to commit a significant amount of out-year Greenhouse Gas Reduction Fund (GGRF) revenues to backfill future spending for activities related to zero-emission vehicles (ZEVs) that previous budget agreements had initially planned to provide from the General Fund.

Background. According to the LAO:

Cap-and-Trade Auction Revenue. Revenues from quarterly cap-and-trade auctions are deposited into GGRF and the funds generally are allocated to climate-related programs. Over the past three years, individual quarterly auctions have generated an average of $1.1 billion in revenue, with annual amounts averaging $4.2 billion. Under current law, about 65 percent of auction revenue is continuously appropriated to certain projects and programs, including for the state's high-speed rail project, affordable housing, transit, and safe drinking water. In addition, $200 million is continuously appropriated each year for forest health and wildfire prevention activities. The remaining revenue 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 priorities.

Proposes $2.3 Billion in Discretionary Spending. The Governor assumes the state will have about $5.1 billion in GGRF monies available to spend in 2024-25. This total includes (1) unallocated revenues from higher-than-anticipated proceeds the state received in the August 2023 auction, (2) short-term investment proceeds earned on prior-year funds before they were spent, and (3) anticipated revenues from 2024-25 auctions and investment earnings. Of this amount, as shown in Figure 1, the proposal commits $2.5 billion for continuous appropriations; $2.3 billion for discretionary spending; and $284 million for other existing commitments, including baseline operations.

Governor's Proposed 2024-25 Cap-and-Trade Spending Plan

(In Millions)

	Department	Funding
Continuous Appropriations		**$2,518**
High-speed rail project	HSRA	$912
Affordable Housing and Sustainable Communities	SGC	729
TIRCP	CalSTA	365
Healthy and resilient forests	CalFire	200
Low Carbon Transit Operations Program	CARB	182
Safe and Affordable Drinking Water Program	SWRCB	130

Other Existing Commitments		**$284**
Baseline Operations	Various	$100
Manufacturing tax credit	N/A	97
State Responsibility Area fee backfill	CalFire	87
Discretionary Appropriations		**$2,279**
Early Action Fund Shifts (2023-24)		**$557**
ZEV fueling infrastructure grants (ZEV package)	CEC	$219
Drayage trucks and infrastructure (ZEV package)	CEC	157
Fire prevention grants	CalFire	81
Clean trucks, buses, off-road equipment (ZEV package)	CEC	71
Transit buses and infrastructure (ZEV package)	CEC	29
Budget-Year Fund Shifts (2024-25)		**$1,242**
TIRCP and other transportation programs	CalSTA	$791
Energy package activities	CEC	144
Extreme heat package activities	CNRA/SGC	94
Wildfire package activities	Various	81
Oil well plug and abandonment	DOC	50
Coastal resilience package activities	CNRA	37
Livestock methane reduction program	CDFA	24
Water and drought package activities	CDFA	21
Other Discretionary Spending		**$480**
AB 617	CARB	$250
Zero-Emission Transit Capital Program	CalSTA	230
Total		**$5,081**

HSRA = High Speed Rail Authority; SGC = Strategic Growth Council; TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; CalFire = California Department of Forestry and Fire Prevention; CARB = California Air Resources Board; SWRCB = State Water Resources Control Board; N/A = not available; ZEV = zero-emission vehicle; CEC = California Energy Commission; CNRA = California Natural Resources Agency; DOC = Department of Conservation; CDFA = California Department of Food and Agriculture; and AB 617 = Assembly Bill 617 Community Air Protection Program.

Includes $557 Million Proposed for Early Action, Primarily for ZEV Activities. The budget proposes spending $557 million of available GGRF revenues in 2023-24, primarily for activities included in the multiyear ZEV package that was part of recent budget agreements. The Governor proposes that the Legislature take early action and use these funds to achieve current-year General Fund savings through the following fund shifts:

- ***ZEV Activities ($476 Million).*** The Governor proposes shifting current-year funding from the General Fund to GGRF for four programs adopted as part of the ZEV package in recent budgets, all administered by the California Energy Commission (CEC): ZEV fueling infrastructure grants ($219 million); drayage trucks and infrastructure ($157 million); clean trucks, buses, and off-road equipment ($71 million); and transit buses and infrastructure ($29 million). The administration has directed CEC to pause its spending of authorized General Fund for these programs to avoid eroding these potential current-year savings.
- ***California Department of Forestry and Fire Protection Fire Prevention Grants ($81 Million).*** The budget also would reduce General Fund and instead provide GGRF for the fire prevention grants program, which both aims to reduce the risk of wildfires to homes and communities and reduce carbon emissions from forest fires.

Uses Discretionary Funds Primarily to Swap Out Planned General Fund Spending. As shown in Figure 1, similar to the proposed current-year fund swaps, the Governor uses most of the remaining discretionary spending ($1.2 billion) to backfill General Fund reductions in 2024-25 for various programs, including those related to transportation as well as activities included in a number of climate budget packages. (We discuss these specific proposals and programs in our companion publications, *The 2024-25 Budget: Crafting Climate, Resources, and Environmental Budget Solutions* and *The 2024-25 Budget: Transportation Budget Solutions*.) The two main exceptions to this approach are $250 million for the AB 617 Community Air Protection program and $230 million for the Zero-Emission Transit Capital Program administered by the California State Transportation Agency. The former is a program initiated through Chapter 136 of 2017 (AB 617, C. Garcia) to monitor and reduce air pollution in vulnerable communities. This program has received regular support from GGRF over the past several years. The latter is a new program initiated in the 2023-24 budget intended to provide four years of formula funding to transit agencies which they can use to support zero-emission buses and related infrastructure and/or to cover their operating expenses.

Delays $600 Million in Planned GGRF Funding. The Governor proposes to delay $600 million in planned GGRF spending for the ZEV package from 2024-25 to 2027-28. This delay frees up this funding in 2024-25, making an additional $600 million available for achieving budget solutions through other General Fund reductions and backfills. This $600 million is part of the $2.3 billion in resources used for discretionary spending.

Commits $3.5 Billion in Out-Year GGRF. Reflecting actions agreed to as part of the 2023-24 budget package, the Governor's proposal commits out-year discretionary GGRF for various programs. Specifically, as shown in Figure 2 and consistent with the 2023-24 budget agreement with the Legislature, the Governor's proposal includes intent to commit funding annually for the ZEV package and the Zero-Emission Transit Capital Program from 2025-26 through 2026-27. The figure also shows the new $600 million the Governor is proposing to provide for ZEV programs in 2027-28 (reflecting the proposed delay from the budget year) as well as a new proposed intention to provide annual appropriations of $250 million for the AB 617 program through 2029-30.

Governor's Proposed Out-Year GGRF Commitments

(In Millions)

Program	Department	2025-26	2026-27	2027-28	2028-29	2029-30	Totals
AB 617	CARB	$250	$250	$250	$250	$250	$1,250
ZEV package	CARB	215	301	213	—	—	729
	CEC	385	299	387	—	—	1,071
Zero-Emission Transit Capital	CalSTA	230	230	—	—	—	460
Totals		**$1,080**	**$1,080**	**$850**	**$250**	**$250**	**$3,510**

GGRF = Greenhouse Gas Reduction Fund; AB 617 = Assembly Bill 617 Community Air Protection Program; CARB = California Air Resources Board; ZEV = zero-emission vehicle; CEC = California Energy Commission; and CalSTA = California State Transportation Agency.

LAO Assessment.

Use of GGRF to Achieve General Fund Savings Has Merit, but Legislature Could Choose an Alternative Mix. Given the General Fund deficit, the Governor's proposal to use most discretionary GGRF to achieve General Fund savings and sustain some program activities makes sense. However, the Legislature could adopt this same strategy in a somewhat different way to align with its priorities. Specifically, it could achieve the same amount of savings as the Governor through directing GGRF funds to backfill a different mix of General Fund reductions. For example, the Governor proposes using a total of $1.8 billion from GGRF to backfill essentially *all* the proposed General Fund reductions to the ZEV package across the next three years, but only $37 million in 2024-25 to sustain a mere 8 percent of the proposed reductions to certain coastal resilience activities that had been included in previous budget agreements. Based on its highest priorities, the Legislature could choose a different allocation. The Legislature has flexibility around how it is able to direct GGRF revenues because the program was authorized in a way that is akin to a tax, meaning the funds can legally be used for broad purposes. Moreover, if the General Fund condition continues to deteriorate and the Legislature has to consider making ongoing reductions to base programs, it may want to prioritize GGRF monies differently. Specifically, the Legislature may need to consider using these funds to preserve more urgent and ongoing needs rather than backfilling spending for one-time discretionary activities.

Extensive Reliance on Out-Year GGRF Makes Assumptions About Future State Priorities and Revenues. While the state dedicates a share of annual GGRF revenues to recurring ongoing activities (such as the high-speed rail project, sustainable housing and transit programs, and activities to improve drinking water quality and availability), it generally has maintained about 35 percent for discretionary spending decisions agreed upon by the Legislature and Governor as part of each year's budget negotiations. The 2023-24 budget package broke with historical practice somewhat by including plans to dedicate a notable share of out-year discretionary GGRF revenues for specific purposes rather than deferring that decision to future legislative and administration negotiations, including $600 million annually for three years beginning in 2024-25 to backfill General Fund reductions within the ZEV package. As noted above, the Governor's proposal includes $3.5 billion in out-year GGRF discretionary spending commitments. While this approach allows the state to maintain long-term intended ZEV spending plans and save General Fund, it does raise two key concerns:

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

- ***Uncertainty Around Future Revenues.*** As we discuss below, considerable uncertainty exists around how much GGRF revenue will be available in future years. A precipitous drop in these revenues could jeopardize not only planned out-year ZEV and Zero-Emission Transit Capital Program spending but also other longstanding state priorities for which the state has historically relied upon this funding source—raising further questions about the wisdom of committing these additional funds so many years in advance.

Legislature Could Revisit Existing Statutory Commitments if Its Priorities Have Changed. Besides revisiting whether it wants to maintain out-year, limited-term discretionary commitments for ZEV activities and other programs, the Legislature also could reconsider the degree to which both current continuous appropriations (which receive about 65 percent of total GGRF revenues) and ongoing discretionary spending commitments continue to be consistent with its current priorities. Most of the continuous appropriations were established as part of the 2014-15 budget, and legislative priorities may have changed over the last decade. Particularly in the context of the General Fund deficit and proposed spending reductions to other programs, the Legislature can consider all GGRF expenditures "on the table" and within its purview for reevaluation and potential modification.

Administration's New Revenue Estimate Methodology Less Conservative, Likely More Accurate. As part of developing its annual budget proposal, each year the Department of Finance (DOF) estimates how much revenue it believes will be generated for GGRF at cap-and-trade auctions in the coming fiscal year. This estimate forms the basis for the Governor's annual GGRF spending plan. DOF recently changed the methodology it uses to calculate this projection. Prior to spring 2023, the administration based its estimates on an assumption that all cap-and-trade allowances would sell at the auction floor price. This methodology resulted in DOF regularly underestimating revenues quite notably, as allowances have sold well above the floor price for the last several years. (In contrast, our office historically has developed cap-and-trade revenue estimates based on an assumption of stable allowance prices. In recent years, this approach has led our projections of annual discretionary GGRF revenues to exceed the Governor's by several hundreds of millions of dollars—and also has resulted in our estimates more closely aligning with actual auction results, as compared to the administration's projections.) DOF's new approach uses an average of actual allowance prices from auctions that occurred in the previous calendar year. For 2024-25, this new approach has resulted in the administration basing its spending plan on higher estimates compared to its previous practice. We believe DOF's new approach is likely to yield more accurate revenue predictions.

We Estimate More GGRF Could Be Available for Discretionary Spending, but Projections Carry Considerable Uncertainty. Even with DOF's new approach, we believe the administration still could be underestimating the amount of GGRF revenue that cap-and-trade auctions will generate in 2024-25. Our conclusion is based on recent auction trends, in which allowance prices have been trending upward (as of this writing). Should these trends continue, the state could have additional GGRF to spend in both the current and budget years compared to the Governor's proposal—perhaps including several hundreds of millions of dollars more for discretionary spending. However, considerable uncertainty exists around these estimates. The Legislature will be able to incorporate additional information from the February and May 2024 auctions before it needs to make its final budget decisions for 2024-25.

Increasing Degree of Uncertainty Around Revenues. A couple of factors may contribute to more volatility than usual for cap-and-trade revenues over the next several years. The Legislature may want to keep these uncertainties in mind as it makes its GGRF budgeting decisions for 2024-25 and in the coming years.

- ***California Air Resources Board (CARB) Considering Cap-and-Trade Program Changes.*** CARB is in the process of considering amendments to the cap-and-trade program that would influence allowance prices. These include potential changes to the emissions cap, the number of allowances the state makes available, and the allocation of those allowances. Scenarios that CARB has presented suggest allowance auction prices will increase, which likely would mean more revenues for GGRF. However, the way in which CARB makes changes to its allocation of allowances (such as modifying the mix of allowances given away for free to certain industries like utilities versus the number sold at the state-run auctions) ultimately will determine the impacts on prices and state revenues.

- ***2030 Expiration.*** Before the Legislature last extended the statutory authorization for the cap-and-trade program in 2018, revenues from GGRF began to decline due to investor uncertainty about the status of the program. Should considerable uncertainty about the fate of the program exist as its next statutory end-date approaches (2030), a similar change in revenue trends could reemerge. Such volatility related to reauthorization questions is not likely to be a significant risk this year, but could develop over the next several years closer to 2030.

LAO Recommendations.

Adopt GGRF Spending Plan That Focuses on Legislative Priorities and Maximizes General Fund Solutions. We recommend the Legislature adopt the Governor's overall strategy of using GGRF to help backfill General Fund reductions for certain programs. This approach allows the state to achieve necessary budget savings while continuing important activities. However, we recommend the Legislature adopt a GGRF spending package that ultimately preserves funding for its highest-priority activities, which may represent a different mix from that proposed by the Governor. For example, instead of prioritizing GGRF to sustain nearly all of the original intended funding for ZEV activities, the Legislature could redirect some of those funds to protect some additional funding for other program areas proposed for deeper reductions, especially given the significant amount of federal funds available for ZEVs. Depending on how quickly and severely the General Fund condition worsens, the Legislature also could consider using GGRF to backfill General Fund reductions to core ongoing programs rather than to sustain discretionary one-time climate and environment spending. In addition, the Legislature could consider revisiting GGRF continuous appropriations and ongoing spending commitments, most of which were established in 2014-15. The Legislature's highest priorities may now be different.

Minimize Out-Year GGRF Commitments. The state faces considerable uncertainty about future GGRF revenues due to the factors mentioned above. In addition, committing out-year GGRF funds, while useful to provide some assurance regarding future programs, limits legislative flexibility over the use of these funds in upcoming years should other priorities emerge. This is especially important in this fiscal environment, where the budget situation is expected to be difficult for the next few years. As such, we recommend that—for now—the Legislature consider both reducing planned out-year GGRF funding that has not yet been appropriated, and reducing rather than delaying GGRF expenditures and revisiting them in a future year when it has a better sense of its available fiscal resources and highest spending priorities. This would help avoid creating spending expectations that the state may not be able to fulfill.

Monitor Auctions and Adopt Spending Levels That Reflect Evolving Revenue Trends. Given the growing uncertainty around cap-and-trade revenues, we recommend the Legislature continue to closely monitor quarterly auctions to assess how revenues are materializing and set its annual GGRF spending levels accordingly. For 2024-25, this will mean incorporating the results of the February and May 2024 auctions. (The results from February were not yet available at the time of this writing.) If allowance prices continue to trend upward at that point, the Legislature could have some additional comfort in potentially adopting a plan that spends at a slightly higher level than the Governor's proposal. For future years, the Legislature may want to adopt a more conservative approach with its GGRF spending assumptions, given the growing uncertainty around allowance prices and potential for revenue volatility. As discussed above, avoiding making significant out-year GGRF commitments is another tool that can help preserve legislative flexibility to respond to unknown and evolving future revenue trends.

Staff Recommendation. Hold Open.

3900 STATE AIR RESOURCES BOARD

Issue 3: Prescribed Burning and Exceptional Events

Governor's Proposal. The Governor's Budget includes $4,393,000 ongoing from the Cost of Implementation Account, Air Pollution Control Fund ($3 million from the Local Assistance portion and the remaining from the State Operations portion) to continue the Prescribed Burn Reporting and Monitoring Grant Program; prescribed burn air quality monitoring support; Smoke Spotter Application; modeling support and technical assistance to assess smoke impacts; as well as positions to support the Exceptional Event Process.

Background. Prescribed burning is the controlled application of fire to the land to reduce wildfire hazards, clear downed trees, control plant diseases, improve rangeland and wildlife habitats, and restore natural ecosystems. To improve forest resilience and reduce the devastation of wildfires, the state has encouraged and supported the expansion the use of prescribed burning. However, prescribed burning requires air quality monitoring, smoke forecasting, and other data collection and analysis to manage the impact of smoke from prescribed fires.

The California Air Resources Board's smoke management program provides some of this expertise through regional daily burn forecasts; collects data on agricultural and prescribed burning and associated smoke emissions; and oversees and maintains the State's Prescribed Fire Information Reporting System (PFIRS).

In addition, the smoke management program provides support to local air districts to expand their prescribed burning efforts by providing grants to streamline and subsidize the permit process; funding air quality monitoring; providing a public app that informs the public of nearby prescribed burn and wildfire activity; providing smoke forecasting data and other modeling support; and supporting air districts on the Exceptional Event process, which will allow prescribed burns that affect attainment status to be excluded from consideration in the attainment designation process.

Currently, CARB provides $2 million annually for local assistance funding. However, this funding is limited-term, and the last year of funding is 2023-24. The department requests to expand that amount to $3 million; $410,000 for prescribed burn air quality monitoring and maintenance of these air quality monitors; $150,000 for the regular maintenance and updates to the Smoke Spotter Application; $150,000 for daily smoke forecasts and ongoing update/maintenance of the modeling system; and $614,000 for three positions to support smaller air districts on the Exceptional Event process.

Staff Comments. In California, 15 air districts are now expected to be out of attainment with the recently updated federal standards for the particulate matter 2.5 (PM 2.5). Several of these air districts are in rural areas, where prescribed burning plays a critical role in maintaining forest health and improving wildfire resilience. In order for these areas to continue prescribed burning, the state will need to provide sufficient support and technical assistance—in particular to support the Exceptional Event process—so that prescribed burning is not detrimental in these air districts' plans to comply with the federal PM2.5 standards. This will likely be an ongoing need, given that many of these rural air districts lack the staffing and resources to do these activities on their own.

Staff Recommendation. Hold Open.

Issue 4: Resources to Implement More Stringent PM2.5 National Ambient Air Quality Standard

Governor's Proposal. The Governor's Budget includes $3,842,000 ongoing from the Air Pollution Control Fund to meet the federal Clean Air Act requirements, as a result of a more stringent particulate matter (PM) 2.5 national ambient air quality standard.

Background. The US EPA sets standards for the allowable concentration levels of PM2.5 in ambient air. CARB is the state agency responsible for implementing programs to meet these standards. The current PM2.5 standard is set at the level of 12 ug/m3 PM2.5. CARB works with California air districts designated as not attaining these standards to develop State Implementation Plans (SIPs) containing measures and regulations designed to reduce PM2.5 concentrations. Currently, three out of 35 air districts in California are out of attainment for the 12 ug/m3 standard and are required to develop SIPs.

On February 7, 2024, the US EPA announced a final rule to strengthen the air quality standards for PM2.5—US EPA is setting the level at 9 ug/m3. According to CARB, the following areas record levels over the 9.0 ug/m3 annual PM2.5 standard based on preliminary data. This list could change slightly with final PM2.5 data and an evaluation of the impact of wildfire exceptional events. The first 3 districts on the list are the current nonattainment areas.

- South Coast Air Quality Management District*
- San Joaquin Valley*
- Northern Sierra Portola (Plumas)*
- Owens Lake (Mono County)

- Feather River Air Quality Management District
- Northern Sierra Quincy (Plumas)
- Sacramento County
- Siskiyou County
- Imperial County
- San Francisco Bay Area
- Coachella Valley
- San Diego County
- Mendocino County
- Mojave Desert San Bernardino
- Shasta County

SIPs are developed jointly with the local air district and CARB. However, CARB is responsible for meeting SIP planning requirements, including developing a comprehensive emission inventory, air quality modeling, and SIPs, in addition to providing emission reductions for mobile sources. On average, this process takes between 3-4 years per region and a significant level of staff and technical resources.

The new SIPs will be due 18 months after the US EPA determines regional non-attainment designations for the new standards—which will be about mid-2026. This is a very rapid timeline, as SIPs typically take 3 to 4 years to develop. If a nonattainment area fails to submit the required SIP, US EPA will issue a failure to submit notice, and sanction clocks will begin. The first sanction will begin in 18 months, where new or modified stationary sources in the nonattainment area will need to offset their emissions at a ratio of 2 to 1. In 24 months, highway sanctions will begin in which federal funds for transportation projects will be prohibited except for safety, transit, and beneficial air quality projects.

In order to meet the deadline to develop SIPs for the newly out of attainment regions, CARB requests $2.85 million for 12 full-time permanent positions in 2024-25 and ongoing, and $1 million for one-time air measurement equipment purchases in 2024-25, and an additional $1 million in 2025-26 and ongoing for air quality modeling computing resources ($500,000) and research ($500,000).

Staff Recommendation. Hold Open.

Issue 5: Southern California Headquarters Building Operations & Maintenance Contracts

Governor's Proposal. The Governor's Budget includes $6,290,000 in 2024-25, $9,126,000 in 2025-26, and $9,586,000 in 2026-27 and ongoing to operate and maintain CARB's Southern Headquarters Building.

Background. In 2021, CARB completed building their Southern California Headquarters building in Riverside. This new facility gave CARB the ability to consolidate six previously existing Southern California locations, into a single location that houses more than 400 employees. The building includes an extended range of dedicated test cells for testing light-duty and heavy-duty vehicles, an advanced chemistry laboratory, a workspace for accommodating new test methods for future generations of vehicles, space for developing enhanced onboard diagnostics and portable emissions measurement systems, visitor reception and education areas, a media center, flexible conference areas, and a large public auditorium.

Under standard state operations, the Department of General Services (DGS) would assume responsibility for building management upon completing newly constructed state-owned buildings. However, in November 2019, DGS confirmed that they do not have the staff necessary to maintain such a technical facility.

As such, CARB requests contract funding of $6.1 million in 2024-25, $9.0 million in 2025-26, and $9.4 million in 2026-27 and ongoing for building management, maintenance, custodial, security, and landscaping services for the facility. The building management contractor will manage critical facility systems (such as the photovoltaic system) and ensure equipment warranties remain in effect to ensure the facility achieves the Zero Net Energy (ZNE) rating.

In addition, CARB requests 1.0 permanent full-time Staff Services Analyst/Associate Governmental Program Analyst (SSA/AGPA) position that will be located at the Southern HQ locations to assist the Southern Facilities Unit (SFU) with Building Management and Maintenance Contract oversight and the Facilities Services Section (FSS) team with daily duties.

Staff Recommendation. Hold Open.