

Senator Josh Becker, Chair
Senator Brian Dahle
Senator Mike McGuire



Thursday, May 25, 2023
1:00 p.m. or Upon Adjournment of Session
1021 O Street - Room 2200

Part A

Consultant: Eunice Roh

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Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

VOTE-ONLY

3355 OFFICE OF ENERGY INFRASTRUCTURE SAFETY

Issue 1: Electricity: Expedited Utility Distribution Infrastructure Undergrounding Program (SB 884)

Governor’s Proposal. The Governor’s Budget requests 18 permanent positions and \$4,021,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) in 2023-24 and ongoing to review and evaluate distribution infrastructure undergrounding plans submitted by large electrical utilities, as required by SB 884. This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 2: Continued Implementation

Governor’s Proposal. The Governor’s Budget includes 58 positions and \$12,269,000 in 2023-24 and ongoing (\$11,435,000 Public Utilities Commission Utilities Reimbursement Account (PUCURA) and \$834,000 Safe Energy Infrastructure and Excavation Fund (SEIEF)) to allow the department to meet its public safety mission and reduce the current reliance and associated risk with the use of contractors. This includes \$9,489,000 in personnel costs for 58 new full-time permanent positions, and \$100,000 for a Spanish translation contract among other operating expenses. In addition, this proposal includes trailer bill language that amends statute to improve operational efficiency and “clean up” language. This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted and adopt placeholder trailer bill language.

Issue 3: Human Resources and Procurement Services

Governor’s Proposal. The May Revision includes \$1,205,000 (\$928,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and \$277,000 from the Safe Energy Infrastructure and Excavation Fund (SEIEF)) in 2023-24 and \$420,000 ongoing (\$323,000 from PUCURA and \$97,000 from SEIEF) as well as eight permanent positions to transition its human resources and procurement services in-house. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

Issue 4: Implementing Hourly Electricity Retail Resource Accounting (SB 1158, Becker)

Governor's Proposal. The Governor's Budget requests \$214,000 from the Energy Resources Programs Account (ERPA) for one permanent position to develop regulations implementing hourly retail resource accounting (hourly accounting) under the Power Source Disclosure (PSD) Program and to collect, process, and produce hourly data in support of Integrated Resource Planning and other activities, as required by Chapter 367, Statutes of 2022 (SB 1158, Becker). This item was originally heard on March 23rd, 2023.

Staff Recommendation. Approve as budgeted.

Issue 5: Load Management Standards

Governor's Proposal. The May Revision includes \$373,000 and 2 positions in 2023-24 and ongoing to implement new energy load management standards adopted by the California Energy Commission. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 6: Energy Program Reappropriations

Governor's Proposal. The Governor requests several reappropriations to address delays resulting from COVID-19 and project completion timelines. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 7: Energy Resources Programs Account (ERPA) Structural Deficit Relief Trailer Bill Language

Governor's Proposal. The May Revision proposes to raise the statutory cap on the Energy Resources Program Account (ERPA) surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity ratepayers. This increase will generate approximately \$3 million in additional revenues in 2023-24, and approximately \$6 million annually thereafter to offset recent revenue decreases. This item was originally heard on May 16th, 2023.

LAO Comment.

LAO Bottom Line: *While ERPA is in a deficit, the fund is not projected to go insolvent in 2023-24. The Legislature could direct the administration to return with this proposal next January to allow for sufficient time to discuss these changes, which are significant.*

To address a structural deficit in ERPA, the administration [proposes](#) trailer bill language that would: (1) more than double the statutory cap on the surcharge on electricity bills from \$0.0003 per kilowatt hour (kwh) to \$0.000642 per kwh, (2) tie the statutory cap on the surcharge to the Consumer Price Index to allow for future automatic increases, and (3) extend the surcharge to behind-the-meter electricity consumers. Based on our understanding, a two-thirds vote from both houses of the Legislature would be required to adopt this proposal. The administration put forth a similar proposal last year upon which the Legislature did not act.

Taking Action Now is Not Essential. The fund does have a structural deficit—and has for several years—and legislative action probably is needed to prevent fund insolvency in the coming years. However, we have identified two important factors for the Legislature to consider when evaluating this proposal.

Funding Shortfall Has Not Yet Materialized. First, the administration projects that ERPA will not go insolvent until 2024-25. As a result, immediate action to address the deficit is not absolutely necessary for the budget year.

Magnitude of Ongoing Shortfall Is Unclear. Second, the magnitude of the structural deficit over the long run is uncertain. Revenues are projected to grow as transportation and building electrification increases electricity sales in the coming years. For instance, as shown in the figure below, the California Energy Commission (CEC) projects that electricity sales will grow under both its mid-case and high-case scenarios. As a result, the degree to which a long-term increase in the surcharge rate is needed is unclear, as revenue from increasing sales could at least partially eliminate the fund deficit in future years.

Legislature Could Defer Decision Until Next Year. Given these two factors, the Legislature could consider rejecting the administration’s proposal this year, and direct it to come back with a proposal as part of the budget process next January. While this is essentially what occurred last year, the administration once again has presented the Legislature with its proposal late in the spring budget process—rather than in January—which precludes time for careful consideration and deliberation. Upon our initial review, many components of the Governor’s proposal appear reasonable. For example, growth in behind-the-meter generation has eroded ERPA revenues, and a policy rationale exists for extending the charge so these consumers pay their “fair share” of supporting CEC’s regulatory costs. Moreover, tying the surcharge to inflation is a reasonable strategy to ensure future revenue is sufficient to pay for growth in baseline costs, such as growth in salaries and benefits for CEC staff. However, considering this proposal as part of next spring’s budget process would allow for more time to solicit and account for stakeholder feedback, to evaluate projections and assess what level of increase to the cap may be needed to meet future funding needs, and to review whether all existing ERPA expenditures continue to be justified.

Staff Recommendation. Reject without prejudice.

Issue 8: Commissioner Pay Parity

Governor’s Proposal. The May Revision includes trailer bill language to amend GC 11553.5 to provide a commensurate increase in CEC Commissioner salaries of 5 percent per year for the next three fiscal years. Currently, commissioner salaries are capped under state law. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 9: Opt-In Permitting Provisional Language

Governor's Proposal. The May Revision requests that provisional language be added to Item 3360-001-3062 to support unanticipated workload from the Opt-in Permitting program included in the 2022 Budget Act. This language would allow Department of Finance to augment this item by up to \$1,500,000 to address increased permitting and licensing workload. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
3900 STATE AIR RESOURCES BOARD
7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Issue 10: SB 2 Implementation: Transportation Fuels Market Supply and Pricing

Governor’s Proposal. The May Revision includes funding and positions to implement SB 2 First Extraordinary Session, (Skinner), Chapter 1, Statutes of 2023-24, which authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the cost of doing business; require increased reporting; and establish a new division within CEC for oversight. Specifically:

- \$5.9 million from the Energy Resources Programs Account and 14 positions on an ongoing basis for the CEC to collect new data, analyze and track trends in the petroleum supply chain and pricing, produce required reports, and establish a new oversight division. Additionally, the CEC will redirect 10 existing positions internally to support the new Division of Petroleum Market Oversight.
- \$1 million one-time from the Cost of Implementation Account for the California Air Resources Board to support the development of the Transportation Fuels Transition Plan.
- \$286,000 from the Occupational Safety and Health Fund and one position for the Department of Industrial Relations to support analysis on managing refinery turnaround and maintenance schedules.

This item was originally heard on May 17th, 2023.

Staff Recommendation. Approve as budgeted for CARB and DIR. Approve the funds and positions for CEC, but shift the fund source from the Energy Resources Programs Account to the General Fund. Adopt placeholder trailer bill language.

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
3900 STATE AIR RESOURCES BOARD

Issue 11: Reauthorization of the Clean Transportation Program Fees and Program Amendments

Governor’s Proposal. The Governor’s Budget requests to extend until June 30, 2035 the following vehicle registration, smog abatement, vessel registration, and identification plate fees at the existing rates:

AB 8 Fees	Code Section	Average Annual Number & Type of Fee Payers	Department	Average Annual Revenue (Dollars in Millions)	Fund	Program
\$2 Vehicle Registration Fee	Vehicle Code section 9250.1	33.6 million vehicles	CEC	\$67	ARFVIF (3117)	Clean Transportation Program (CTP)
\$4 Smog Abatement Fee	Health and Safety Code section 44060.5	10.0 million vehicles	CEC	\$42	ARFVIF (3117)	Clean Transportation Program
\$5 Vessel Registration Fee / \$10 Vessel Registration Fee	Vehicle Code section 9853.6	24,000 original vessel registrations	CEC	\$0.21	ARFVIF (3117)	Clean Transportation Program
\$2.50 Identification Plate Fee *	Vehicle Code sections 9261 and 9261.1	- 135,000 specialized vehicles	CEC	\$0.08	ARFVIF (3117)	Clean Transportation Program
\$1 Vehicle Registration Fee	Vehicle Code section 9250.1	33.6 million vehicles	CARB/BAR	\$33	Enhanced Fleet Modernization Account (3122)	Enhanced Fleet Modernization Program/Consumer Assistance Program
\$4 Smog Abatement Fee	Health and Safety Code section 44060.5	10.0 million vehicles	CARB	\$42	Air Quality Improvement Fund (3119)	Air Quality Improvement Program
\$5 Vessel Registration Fee / \$10 Vessel Registration Fee	Vehicle Code section 9853.6	24,000 original vessel registrations	CARB	\$0.18	Air Quality Improvement Fund (3119)	Air Quality Improvement Program
\$2.50 Identification Plate Fee *	Vehicle Code sections 9261 and 9261.1	- 135,000 specialized vehicles	CARB	\$0.08	Air Quality Improvement Fund (3119)	Air Quality Improvement Program
Total Annual Revenue				\$185		

* Identification Plate Fee - Since 1986, Identification Plates shall be renewed between Jan 1 and Feb 4 every five calendar years. FY 15/16 and FY 20/21 were renewal years. Average Non-renewal year

The Governor also proposes to slightly modify which types of projects and entities would be eligible to receive funding grants from the CTP. First, the proposal would limit eligibility for CTP funding to zero-emission technologies. (CTP historically has funded both low-emission and zero-emission technologies, although has begun to prioritize the latter in recent years.) Second, the proposal would modify CTP’s existing statute to allow for U.S. Department of Energy national laboratories to receive awards under the program. Third, the proposal would expand the definition of tribes that may receive funding through the program to all California tribes, rather than only federally recognized tribes. This item was originally heard on March 23rd, 2023.

Staff Recommendation. Amend the trailer bill language with the following:

- Require 50 percent of the CTP expenditures to directly benefit or serve residents of disadvantaged communities and low-income Californians, and at least 50 percent of the funds for location-based investments be expended in disadvantaged and low-income communities.
- Require the focus of the CTP to support (1) deployment of infrastructure and other projects that advance the adoption of medium- and heavy-duty vehicles that meet the clean transportation, equity, air quality, and climate emission goals; and (2) the deployment of light-duty vehicle infrastructure to fill gaps in current deployment.

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- Revise the purpose of AQIP to focus on reducing criteria air pollutants in goods movement and in non-attainment basins.
 - Align the goals of the program with the state’s existing climate policies and goals.
 - Extend the sunset date on program fees.
 - Require the guidelines for the EFMP to ensure that replacement vehicles are either plug-in hybrids or a zero-emission vehicles, unless CARB, in consultation with the CEC, determines that charging and refueling capabilities are inadequate in certain areas, or an adequate supply of vehicles are not available in new or secondary markets, as specified.
 - Expand the primary purpose of the AQIP to include funding of projects in the off-road and warehouse sectors.

3480 DEPARTMENT OF CONSERVATION
3900 STATE AIR RESOURCES BOARD
3940 STATE WATER RESOURCES BOARD

Issue 12: Carbon Capture, Removal, Utilization and Storage Program (SB 905)

Governor’s Proposal. The Governor’s Budget requests funding for the Air Resources Board (CARB), Department of Conservation (DOC), and the State Water Resources Control Board (State Water Board) to implement Chapter 359, Statutes of 2022 (SB 905, Caballero). More specifically, the request includes:

- **CARB.** \$5.5 million from the Cost of Implementation Account, Air Pollution Control Fund (COIA) and 18 permanent positions in 2023-24 and \$4.5 million ongoing to implement the requirements established by SB 905. Included in the request is \$1,700,000 in ongoing contract funds: \$700,000 to establish an electronic unified permit submittal system for carbon sequestration project operators pursuing permits to operate in California, and \$1 million in ongoing contract funds to perform evaluations of new and emerging carbon capture, removal, utilization and storage (CCUS) and carbon dioxide removal (CDR) technology.
- **DOC.** \$3,682,000 from COIA and 4 permanent positions to create a Geologic Carbon Sequestration Group (Group).
- **State Water Board.** \$280,000 ongoing from COIA for one permanent position to collaborate with CARB to develop and implement a unified permit application process for the construction and operation of CCUS projects and provide technical expertise to ensure these projects are protective of groundwater resources.

This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted for Department of Conservation and State Water Board. Approve \$1,914,500 for 9 positions and \$1,700,000 contract funds on a three-year limited term basis for CARB.

3860 DEPARTMENT OF WATER RESOURCES**Issue 13: SB 846 Diablo Canyon Loan**

Governor's Proposal. The May Revision includes budget bill language that provides a General Fund loan up to \$400 million to the Diablo Canyon Extension Fund for the purpose of being loaned to the company licensed to operate the Diablo Canyon Units 1 and 2 for extending operations of the Diablo Canyon powerplant facility, consistent with Chapter 239, Statutes of 2022 (SB 846 Dodd). This item was originally heard on May 17th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 14: Summer 2023 Imported Energy Reimbursement Program

Governor's Proposal. In 2022, DWR's Electricity Supply Strategic Reliability Reserve Program (ESSRRP) was authorized to reimburse electrical corporations for the above-market costs of imported energy and imported capacity products procured from July to September 2022 to support summer electric service reliability. DWR requests this same authority for Summer 2023 as critical reliability measure for extreme events. To enable this, a transfer of up to \$100 million is proposed from the California Energy Commission's Distributed Electricity Backup Assets program to DWR for these activities. This item was originally heard on May 17th, 2023.

Staff Recommendation. Approve as budgeted and adopt placeholder trailer bill language.

Issue 15: SB 1020 Clean Up Trailer Bill Language

Governor's Proposal. The May Revision includes trailer bill language that would authorize the Department of Water Resources to satisfy all or a portion of its procurement obligations imposed on the State Water Resources Development System, commonly known as the State Water Project, by connecting (in addition to installing) zero-carbon resources or eligible renewable energy resources behind the meter on State Water Project property to service its load. This item was originally heard on May 17th, 2023.

Staff Recommendation. Approve as budgeted.

3900 STATE AIR RESOURCES BOARD

Issue 16: Policy and Technical Support for California Climate Investment Programs

Governor's Proposal. The Governor's Budget includes \$629,000 ongoing from the Greenhouse Gas Reduction Fund (GGRF) for three permanent positions to undertake statutorily required duties providing policy and technical support to agencies administering ten new California Climate Investments programs established through the 2022 Budget Act along with other duties regarding the oversight and administration of California Climate Investments. The 2022-23 Budget established ten new California Climate Investments Programs: Community Air Monitoring, Community Emission Reduction Incentives, Lower Emission Boats, Methane Monitoring, Methane Data and Technical Assistance, Methane Reduction—Cattle Feed, Methane Reductions—landfills/wastewater infrastructure, Organic Waste, CalSHAPE, and Sea Level Rise. For each new program, CARB works closely with administering agencies and provides detailed guidance to ensure the statutory requirements around the use of GGRF dollars are met. CARB develops and implements new programs with the administering agencies as well as provide ongoing policy and technical support. For each of the ten new programs and project types, CARB is requesting 3.0 Air Pollution Specialists, who would each be assigned three to four programs each. This item was originally heard on April 20th, 2023.

Staff Recommendation. Rescind the action taken on April 20th, 2023. Approve the funding and positions on a three-year limited-term basis.

Issue 17: Expanding Mobile Air Monitoring in Communities

Governor's Proposal. The Governor's Budget requests budget bill language to revert \$3 million from a 2022-23 appropriation and to use the reverted funds for a four-year limited-term appropriation of \$750,000 per year to support 4.0 limited-term positions to provide technical air monitoring and community engagement services to support the contracted deployment of new, mobile Community Air Monitoring data collection and visualization approaches. This request will fund 2.0 limited-term Staff Air Pollution Specialist (SAPS) and 2.0 Associate Governmental Program Analysts (AGPA) to administer and support technical and community engagement deliverables for the duration of the mobile air monitoring contract (2 years) plus two additional years (4 years total). This item was originally heard on April 20th, 2023.

Staff Recommendation. Rescind the action taken on April 20th, 2023. Reject the Governor's proposal and revert the \$3 million to the Greenhouse Gas Reduction Fund.

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. This item was originally heard on March 30th, 2023.

Staff Recommendation. Approve as budgeted.

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 positions 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. This item was originally heard on March 30th, 2023.

Staff Recommendation. Approve as budgeted.

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

Governor's Proposal. The Governor's Budget includes trailer bill language that 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. This item was originally heard on March 30th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 21: Implementing Evaluations and Recommendations for Hydrogen to Support Decarbonizing the California Economy (SB 1075)

Governor's Proposal. The Budget includes \$3.1 million from the Cost of Implementation Account in 2023-24 (\$849,000 ongoing) for four permanent positions and one-time contract services to develop and publish an evaluation and provide policy recommendations on the use of hydrogen, as required by Chapter 363, Statutes of 2022 (SB 1075, Skinner). This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 22: Technical Adjustment: Reappropriation for the Statewide Mobile Air Monitoring Initiative

Governor's Proposal. The Governor requests a technical adjustment to reappropriate \$27 million Greenhouse Gas Reduction Funds (GGRF) appropriation for the Statewide Mobile Air Monitoring Initiative. This item was originally heard on May 16th, 2023.

LAO Comment.

Reject Funding for Mobile Air Monitoring Program and Redirect to Higher Priority. The May Revision proposes to extend the deadline for CARB to spend \$27 million of GGRF to secure a contract for a new Mobile Air Monitoring program. This program was approved with \$30 million of GGRF as part of the 2022-23 budget package and is intended to support expanded community-level air monitoring that would provide a one-time snapshot of air pollution at the local level. Against the context of the changed budget situation, the fact that CARB has not yet expended any of the funds provides the Legislature the opportunity to reconsider the merits and urgency of funding this program. The state already supports the AB 617 Community Air Protection Program—including with \$310 million in the current year and \$250 million proposed for 2023-24—which has similar goals and an established track record, as well as existing staff and administrative structures. Therefore, rather than establishing a largely duplicative program on a one-time basis, we recommend the Legislature reject the Governor’s proposal to extend these GGRF funds for this program and instead revert and redirect them for other legislative priorities.

Staff Recommendation. Reject the Governor’s proposal and revert the \$27 million to the Greenhouse Gas Reduction Fund.

7502 DEPARTMENT OF TECHNOLOGY
8660 PUBLIC UTILITIES COMMISSION

Issue 23: Broadband Infrastructure Funding

Governor’s Proposal. The Governor’s Budget proposes to defer a total of \$1.1 billion General Fund allocated to two broadband programs. Specifically, the Administration proposes to (1) defer \$550 million for the last-mile infrastructure grants in 2023-24 to future years (\$200 million in 2024-25, \$200 million in 2025-26, and \$150 million in 2026-27) and (2) defer \$175 million from 2022-23 and \$400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years (\$300 million in 2024-25 and \$275 million in 2025-26).

Staff Recommendation. Approve as budgeted, but (1) adopt trailer bill language and (2) adopt budget bill language that requires reporting.

Trailer bill language will make the following amendments:

- Clarify that upon full execution of any contract for the lease, build, or joint-build or any portion of the state-owned middle mile broadband network, the California Department of technology shall update the map on its public internet website to identify those segments of this network that will be built, leased, or jointly built pursuant to those fully-executed contracts.
- Require lease agreements to include sufficient fiber strands to support speeds and capacity comparable to the speeds and capacity offered by infrastructure built or jointly built by the state.
- Eliminate the June 30, 2023, deadline for the rural-urban reallocation of FFA funds and instead specify that any funds in the FFA must be allocated to rural and urban counties with 50 percent provided to rural counties and 50 percent provided to urban counties.
- Modify the CASF Public Housing Account to require the CPUC to prioritize grants to those existing public housing facilities that have not received a CASF grant and do not have access to free or low-cost broadband internet service on-site.

Budget bill language for the CDT and CPUC will require the reporting of following information at the time intervals provided below:

Agency	Information in Report	Report Recipients	Frequency
CPUC	<ul style="list-style-type: none"> • List of projects awarded funding • Amount of ARPA funds encumbered and expended • Amount of BEAD funds encumbered and expended • Amount of General Funds in Federal Funding Account encumbered and expended 	<ul style="list-style-type: none"> • Relevant policy committees of each house • Budget committees of each house • Joint Legislative Budget Committee • Legislative Analyst’s Office 	Quarterly

CDT	<ul style="list-style-type: none"> • List of contracts executed for lease, construction, and joint-build of the middle mile • Identification of miles constructed, leased, or jointly built by county • Amount of ARPA funds encumbered and expended • Amount of General Funds encumbered and expended 	<ul style="list-style-type: none"> • Relevant policy committees of each house • Budget committees of each house • Joint Legislative Budget Committee • Legislative Analyst's Office 	Quarterly
CDT and CPUC	<ul style="list-style-type: none"> • Prohibit shifting funding sources for the Federal Funding Account and Middle Mile without advance notification to the budget committees in each house of the Legislature 	<ul style="list-style-type: none"> • Budget committees in each house 	As needed

8570 DEPARTMENT OF FOOD AND AGRICULTURE**Issue 24: 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. This item was originally heard on March 30th, 2023.

Staff Recommendation. Reject and defer to the policy process.

Issue 25: Blythe Border Protection Station Relocation Project

Governor's Proposal. The May Revision includes \$2,759,000 from the General Fund to begin the Working Drawings phase for the Blythe Border Protection Station Relocation Project, located in Riverside County. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 26: Reappropriation and Extension of Climate Smart Agriculture Programs

Governor's Proposal. The Governor requests expenditure/encumbrance and liquidation deadline extensions for CDFA's Climate Smart Agriculture (CSA) grant programs. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

8660 PUBLIC UTILITIES COMMISSION**Issue 27: 2023-24 California LifeLine Enrollment, Caseload, and Population May Revision Estimate**

Governor's Proposal. The May Revision provides an update to the Universal LifeLine Telephone Service Program (California LifeLine Program)—reducing the state operations cost estimate by \$3,330,000 in 2023-24 and ongoing to reflect reductions in consulting costs and increasing the local assistance cost estimate by \$65,478,000 in 2023-24 and ongoing to reflect publishing costs resulting from increased auto-renewals and new caseload projections. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 28: Electricity: Expedited Utility Distribution Infrastructure Undergrounding Program (SB 884)

Governor's Proposal. The Governor's Budget requests 6 permanent positions and \$2,068,000 in 2023-24 and 2024-25, \$1,618,000 in 2025-26, and \$1,435,000 ongoing from the PUCURA to develop, administer, and enforce new standards for an expedited electric utility distribution infrastructure undergrounding program, including providing maintenance and operating oversight, as required by SB 884. This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 29: Permanent Staffing to Support Wildfire, Enforcement and Reform Statutes

Governor's Proposal. The Budget includes \$6,342,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account for 29 positions to ensure continued legal, ratemaking, and administrative support of the various wildfire prevention, cost recovery, and enforcement mandates. This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 30: Public Utilities Commission: Customer Renewable Energy Subscription Programs and the Community Renewable Energy Program (AB 2316)

Governor's Proposal. The Governor's Budget provides \$1,413,000 in 2023-24, \$1,313,000 in 2024-25, \$1,113,000 in 2025-26 and 2026-27, and \$1,103 in 2027-28 and ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to review, evaluate, and modify existing customer renewable energy subscription programs, as required by Chapter 350, Statutes of 2022 (AB 2316, Ward). This item was originally heard on April 20th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 31: Digital Divide Grant Program

Governor’s Proposal. The May Revision provides \$1 million in 2023-24 and \$200,000 in 2024-25 and ongoing to implement the Digital Divide Grant Program per Public Utilities Code 280.5. This program will distribute competitive awards for the purpose of funding community technology programs in low-income school districts in rural and urban communities. This item was originally heard on May 16th, 2023.

Staff Recommendation. Approve as budgeted.

Issue 32: Modifications to User Fee Statutes

Governor’s Proposal. The May Revision proposes trailer bill language to modify PUC 285, 432, and 433. The proposed language clarifies that VoIP telecommunication carriers must continue to remit a CPUC user fee but removes the existing statutory prescription that these be based on intrastate revenues. CPUC is otherwise required to retain two different fee filing systems for telecommunications carriers and carriers are required to report in two different methodologies on two separate filing systems, administratively burdensome for both the CPUC and carriers. The transition off intrastate revenues is similar to what was authorized in 2021 for the telecommunications surcharge supporting the CPUC public purpose programs which CPUC has now transitioned to a per access line fee. This item was originally heard on May 16th, 2023.

Staff Comments. The proposed trailer bill language is a substantive policy change that requires additional time for review and assessment that the current timeframe does not provide. In addition, it is not clear that action on this item is absolutely critical this budget year—therefore, if statutory changes continue to be needed, the administration can submit trailer bill language for consideration as part of the Governor’s Budget in January 2024.

Staff Recommendation. Reject without prejudice.

VARIOUS DEPARTMENTS

Issue 33: Energy TBL

Governor’s Proposal. The Governor has put forward two major proposals related to procuring sufficient clean energy resources to meet reliability and GHG reduction goals. These proposals are contained in budget trailer legislation. The proposals include: (1) establishing a new centralized energy procurement role for the state, for which costs could be recovered from ratepayers, and (2) requiring “capacity payments” from LSEs that experience energy resource deficiencies during months when the state utilizes the ESSRRP. This item was originally heard on March 23rd, 2023.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 34: Clean Energy Reliability Investment Plan

Governor’s Proposal. The May Revision includes the Clean Energy Reliability Investment Plan, pursuant to SB 846. California Energy Commission (CEC), in consultation with the California Public Utilities Commission (CPUC) and the California Air Resources Board (CARB), developed a plan to invest in “programs and projects that would accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability.” Specifically, CERIP includes \$1 billion for clean energy investments over multiple years--\$100 million in 2023-24, \$400 million in 2024-25, and \$500 million in 2025-26. This item was originally heard on May 23rd, 2023.

Staff Recommendation. Approve, but amend the Governor’s proposal to include the following:

- 2023-24 - \$100 million
 - \$35 million for the Community Renewable Energy Program
 - \$28 million for Long-Duration Energy Storage
 - \$20 million for DSGS
 - \$5 million for CBO Support
 - \$2 million for Transmission Planning
 - \$10 million for Administration

- 2024-25 - \$400 million
 - \$195 million for Community Renewable Energy Program
 - \$50 million for Cost-Share Innovation Grants
 - \$50 million for Scaling Supply-Side Technologies
 - \$50 million for Long-Duration Energy Storage
 - \$30 million for DSGS
 - \$10 million for Central Procurement Function
 - \$5 million for CBO Support
 - \$10 million for Administration

- 2025-26 - \$500 million
 - \$170 million for the Community Renewable Energy Program
 - \$145 million for Distributed and Consumer-Side Solutions
 - \$50 million for Cost-Share Innovation Grants
 - \$50 million for Scaling Supply-Side Technologies
 - \$45 million for DSGS
 - \$20 million for Long-Duration Energy Storage
 - \$10 million for Central Procurement Function
 - \$10 million for Administration

Adopt trailer bill language that requires CERIP funding to prioritize projects that do at least one of the following: (1) Serve customers who live in low-income households as defined in Section 39713 of the Health and Safety Code that are within disadvantaged communities as defined in Section 39711 of the Health and Safety Code; (2) Support the viability of community-owned projects; or (3) Support the viability of urban infill projects that provide local reliability benefits and/or are located in disadvantaged communities as defined in Section 39711 of the Health and Safety Code.

Issue 35: Cap-and-Trade Spending Plan

Governor's Proposal. The Governor's budget assumes cap-and-trade revenues of \$2.8 billion in 2023-24. 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). 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. 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. This item was originally heard on March 30th, 2023.

LAO Comment.

LAO Bottom Line: Under our office's higher GGRF revenue estimates, we believe the state could spend \$460 million more on discretionary activities than the Governor proposes in the May Revision. The administration proposes to utilize nearly all GGRF discretionary revenue for the ZEV Package, but the Legislature may have other priorities. We continue to recommend the state reject the Governor's proposed midyear GGRF trigger restoration approach. Finally, we recommend the Legislature reject the Governor's proposal related to the Mobile Air Monitoring Program and instead redirect those funds for a different purpose.

Legislature Could Potentially Allocate Several Hundred Million Dollars More. The May Revision assumes an additional \$686 million in GGRF revenue compared to the Governor's January proposal. This increase reflects the additional revenue collected at the February 2023 cap-and-trade auction (which was higher than the administration assumed in January), and an increase in the administration's expected proceeds from the auctions in the budget year. Roughly two-thirds of the additional revenue is continuously appropriated under current law, with the remainder available for discretionary spending. Combined with newly identified carryover funds from prior years, the May Revision includes \$500 million for new discretionary spending in 2023-24. This additional funding increases total 2023-24 cap-and-trade discretionary spending in the May Revision to about \$1.5 billion. Final information on 2022-23 GGRF revenue will be available later this month after the results from the May 17 auction are released.

Governor Uses Additional GGRF Revenues for ZEVs, but Legislature May Have Higher Priorities. In January, the Governor proposed shifting a total of \$1.4 billion in ZEV Package spending from General Fund to GGRF (\$611 million in 2023-24, and \$414 million each in 2024-25 and 2025-26). The May Revision reduces an additional \$635 million in General Fund expenditures on ZEVs over three years and backfills them with GGRF. Specifically, the proposal would shift \$500 million in ZEV expenditures from the General Fund to GGRF in 2023-24, \$80 million in 2024-25, and \$55 million in 2025-26, resulting in a total of \$2.1 billion for ZEV package backfills across the three years. While reducing pressure on the General Fund has merit, the Legislature may have higher priorities for the funds than sustaining ZEV funding.

Reject Governor’s GGRF Trigger Approach. We continue to recommend the Legislature reject the Governor’s proposed control section language—introduced in January and maintained in May—that would grant the administration authority to allocate any GGRF revenues that come in higher than expected throughout the year to backfill reductions to ZEV programs. Historically, the Legislature has opted to delay action on any additional GGRF revenues that materialize midyear and allocate them as part of the subsequent year’s budget package. This approach allows the Legislature the discretion to consider its highest priorities for that spending as part of a more comprehensive discussion. Giving the administration the discretion to prioritize ZEV programs with any additional funds shifts too much decision-making authority away from the Legislature. Maintaining legislative discretion and spending authority is particularly important now, as the budget problem has grown since January and the Legislature may be faced with identifying additional spending solutions midyear and in next year’s budget process if revenue forecasts continue to decline. Given these evolving conditions, the Legislature may have shifting priorities for how it might want to use any additional GGRF monies—such as to preserve programs that may face potential new reductions—rather than automatically directing them to restore ZEV programs.

Staff Recommendation. Approve the fund shifts to the GGRF for the ZEV package. Reject the trigger restoration approach for GGRF. Approve \$460 million in additional discretionary GGRF spending, which includes:

- \$100 million for the Equitable Building Decarbonization program at CEC
- \$100 million for the Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program at CARB
- \$100 million for ZEV Transit Buses & Infrastructure at CEC and CARB
- \$60 million for the Protecting the Coast from Climate Change at the State Coastal Conservancy
- \$40 million to Implement SB 1 (Atkins) at Ocean Protection Council
- \$35 million for Agriculture Related Methane Reductions at CDFA
- \$10 million for the Building Energy Benchmarking Program at CEC
- \$10 million for Technical Assistance for Federal Tax Credits at CEC
- \$5 million for the Intertidal Biodiversity DNA Barcode Library at the Ocean Protection Council

Issue 36: Legislative Analyst’s Office Reporting Requirement

Senate Proposal. Chapter 337, Statutes of 2022 (AB 1279, Muratsuchi) requires the Legislative Analyst’s Office to conduct independent analyses of the state board’s progress toward the state’s GHG emissions goals every two years. This proposal would amend this requirement to read as the following: “As part of its annual reporting requirements pursuant to Section 38592.6, the Legislative Analyst’s Office shall conduct independent analyses of the state board’s progress toward the goals stated in subdivision (c) and shall prepare annual reports detailing its review, which may include recommendations for improvements. When appropriate, these annual reports may incorporate reviews of the state board’s evaluation and reporting practices, which could include potential changes to advance transparency and accountability.”

Staff Recommendation. Approve.