

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 ON CLIMATE CRISIS, RESOURCES, ENERGY, AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, MARCH 3, 2021  
9:30 A.M. – STATE CAPITOL, ROOM 437

*Due to the regional stay-at-home order and guidance on physical distancing, seating for this hearing will be very limited for press and for the public. All are encouraged to watch the hearing from its live stream on the Assembly's website at <https://www.assembly.ca.gov/todaysevents>.*

*We encourage the public to provide written testimony before the hearing. Please send your written testimony to: [BudgetSub3@asm.ca.gov](mailto:BudgetSub3@asm.ca.gov). Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.*

*A moderated telephone line will be available to assist with public participation. The public may provide comment by calling the following toll-free number: 877-692-8957, access code: 131 54 37*

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## NON-DISCUSSION ITEMS

### **3540 CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE PROTECTION**

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#### **ISSUE 1: CALFIRE AVIATION PROGRAM: CONTRACTS INCREASES**

The Governor's budget requests funding (\$9.733 million GF in 2021-22, \$8.006 million GF in 2022-23, and \$5.014 million in 2023-24) to support two optional years of aviation parts and logistics vendor contract increases as well as follow-on contract increases for CalFire's fixed-wing pilots and aviation fleet mechanics.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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#### **ISSUE 2: CODE DEVELOPMENT AND ANALYSIS**

The Governor's budget requests one position and \$482,000 Building Standards Administration Special Revolving Fund for the Office of State Fire Marshal's Code and Development and Analysis Division starting in 2021-22. This request is intended to allow for a thorough review of code changes, the timely adoption of current national standards, and the effects on existing code that will identify and then clarify any confusing, duplicative, or conflicting codes.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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#### **ISSUE 3: EXCLUSIVE USE AIRCRAFT BUDGET BILL LANGUAGE**

The Governor's budget requests to add budget bill language to Items 3540-001-0001 and 3540-006-0001 to waive specified state contracting requirements to enable CalFire to contract for Exclusive Use aircraft quickly, up to certain thresholds, to address emergency fire conditions and support fire suppression operations.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**ISSUE 4: FIRE PREVENTION EMBER-RESISTANT ZONES (AB 3074)**

The Governor's budget requests \$3.2 million GF one-time to educate the public, and for the Board of Forestry and Fire Protection to develop the necessary regulations on the provisions for a zero to five-foot ember-resistant zone set forth in AB 3074 (Friedman), Chapter 259, Statutes of 2020.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**ISSUE 5: PIPELINE SAFETY DIVISION STAFFING**

The Governor's budget requests \$1.687 million California Hazardous Liquid Pipeline Safety Fund, \$1.602 Federal Trust Fund, and five permanent positions in 2021-22 and ongoing to research best available leak detection and automatic shutoff technologies for pipelines, review pipeline operators risk assessments, verify assessment of hazardous liquid pipelines near ecologically and environmentally sensitive areas of the coast, manage leak detection and automatic shutoff technologies, and perform field verification on equipment installed per operator's risk assessments as required by AB 864 (Williams), Chapter 592, Statutes of 2015.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**ISSUE 6: WILDLAND FIREFIGHTING RESEARCH GRANT**

The Governor's budget requests \$5 million one-time General Fund in fiscal year 2021-22 to provide a pass-through grant to California State University, San Marcos to study enhanced firefighting equipment and strategies to protect firefighters from the conditions present during wildfires in the wildland urban interface.

CalFire currently cooperates with various research institutions and programs for the purposes of studying wildfires. CalFire partners with University of California (UC), Berkeley, UC Davis, UC Merced, California Polytechnic State University, CSU Humboldt, CSU San Jose, and the University of San Francisco on a broad range of fire research topics ranging from fire behavior to fire weather modeling.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**3340 CALIFORNIA CONSERVATION CORPS**

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**ISSUE 7: CORPSMEMBER COUNSELING; CASE MANAGEMENT; AND TRANSITION TO COLLEGE, CAREER OR TRAINING**

The Governor's budget requests \$1.953 million (\$1.132 million GF and \$821,000 Collins-Dugan Reimbursement Account) to continue funding to make the Navigator Pilot program permanent by providing continued funding for 14 positions and consultant costs. These resources are intended to strengthen the career pathways of Corpsmembers to college, career, or advanced training by providing case management services, mental health, and substance abuse counseling.

The 2018-19 budget included a three-year funding increase to CCC's budget and position authority so that CCC could strengthen the career pathway of Corpsmembers to college, career, or advanced training by providing case Management services. CCC used this pilot program funding to design and implement a Career Transition Navigator pilot program that augmented and reinforced the skills and resources associated with CCC's Career Development and Transition course.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**ISSUE 8: WATERSHED STEWARDS PROGRAM**

The Governor's budget requests position authority for one Conservation Supervisor, two Conservationist II, and one Management Services Technician ongoing for the CCC's Watershed Stewardship Program in partnership with AmeriCorps/CalVolunteers. Adding four permanent positions is intended to provide stability for a program that provides natural resource conservation experience to Corpsmembers and scientific data to local non-profits, local governments, and other entities. This proposal has a net zero fiscal impact.

CCC would like to establish full oversight of the program staff as a commitment to continuing this program. This request would secure four positions as permanent state staff for WSP, which is intended to increase staff retention and subsequently improve program delivery.

The CCC WSP, in partnership with AmeriCorps, places Corpsmembers in science internships to perform field surveys, which contribute to the conservation and restoration of anadromous watersheds. The mission of WSP is to conserve, restore, and enhance anadromous watersheds for future generations by linking education with high quality scientific practices. WSP has operated since the 1990s and serves 44 Corpsmembers annually.

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**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**3900 AIR RESOURCES BOARD**

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**ISSUE 9: BOLSTERING HEAVY-DUTY MOBILE SOURCE TESTING & ENFORCEMENT**

The Governor's budget requests \$2.9 million Air Pollution Control Fund and 14 positions in 2021-22, \$7.3 million APCF and 28.0 positions in 2022-23, and \$9.9 million APCF and 33.0 positions in 2023-24 for its heavy-duty mobile source testing program. These resources will be used to address non-compliance with state and federal emissions standards which may increase enforcement actions resulting from cases of non-compliance. The Certification and Compliance Fund will fully fund the proposal on an ongoing basis beginning in 2024-25.

**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**ISSUE 10: IMPLEMENTATION AND ENFORCEMENT OF NEW CONTROL MEASURE FOR OCEAN-GOING VESSELS AT BERTH**

The Governor's budget requests \$962,000 Air Pollution Control Fund and 5 permanent positions phased in over four years (\$201,000 and 1 position in 2021-22, \$583,000 and 3 positions in 2022-23, \$774,000 and 4.0 positions in 2023-24, and \$962,000 and 5 positions in 2024-25 and ongoing) to implement the requirements of the At-Berth Regulation. This new regulation builds upon the At-Berth Regulation adopted in 2007 and is designed to further reduce pollution from ocean-going vessels while docked at California's busiest ports.

**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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**ISSUE 11: IMPLEMENTATION OF THE ADVANCED CLEAN TRUCKS REGULATION**

The Governor's budget requests 2 permanent positions and \$386,000 Air Pollution Control Fund in 2021-22 and \$384,000 ongoing to implement the newly adopted Advanced Clean Trucks Regulation. The Advanced Clean Trucks Regulation aims to accelerate adoption of medium- and heavy-duty zero-emission vehicles as part of the state's strategy to reduce emissions from the transportation sector.

**Staff Recommendation: Absent member questions or input from the public at this hearing, Staff recommends this item be considered for a vote-only calendar when the Committee takes action.**

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## ITEMS TO BE HEARD

### 3540 CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE PROTECTION

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#### ISSUE 1: VARIOUS CAPITAL OUTLAY PROJECTS

The Governor's budget includes 20 CalFire capital outlay proposals totaling \$54.205 million General Fund in 2021-22 and a total estimated cost of \$653.6 million for all the projects.

#### PANEL

The following individuals will participate virtually in the discussion of this issue:

- Mike Duggan, Assistant Deputy Director, CalFire
- Mike McGinness, Principal Program Budget Analyst, Department of Finance
- Brian Brown, Deputy Legislative Analyst, Legislative Analyst's Office
- Vy Nguyen, Staff Finance Budget Analyst, Department of Finance (Q&A)
- Tony Favro, Deputy Director, CalFire (Q&A)

#### BACKGROUND

**CalFire operates over 500 facilities statewide.** Collectively, CalFire's facility inventory exceeds 3.5 million square feet in total. CalFire facilities include forest fire stations, telecommunication sites, fire/conservation camps, ranger unit headquarters, air attack bases, helitack bases, state forests, administrative headquarters, and miscellaneous facilities.

**Main drivers of capital outlay needs.** The main driver of capital outlay needs is the replacement of aging facilities with structural and space deficiencies. Further, changes in technology, equipment, and emergency response techniques renders a majority of the older facilities no longer provide adequate space. Although the age of a facility does not directly drive infrastructure need, there is a strong correlation between the age of a facility and structural and spatial deficiencies. For example, some of the older fire stations are not big enough to accommodate new fire trucks and other modern fire-fighting equipment. In addition, years of constant use have degraded the quality and safety of some of the older structures. As a general rule, facilities in excess of 50 years, which is the maximum amount of time these facilities are currently designed to last, are the most likely to require replacement.

Site lease expirations also drive the need for some relocation projects. A large number of CalFire's facilities were built between 1930 and 1960, when it was common for the state to acquire low-cost, long-term leases in lieu of land purchases. Many of the leases had 50 to 60-year terms that are now expiring. Although negotiations result in some lease extensions, some owners are unwilling to extend their leases with the state or request lease terms that the state finds unacceptable. In such cases, the only option is to relocate the facility.

**Proposed capital outlay projects were part of CalFire's 5 year infrastructure plan.** Many of the proposed projects are listed as new proposals. However, these projects at one point in time received funding for early capital outlay stages such as a study or a preliminary plan. Due to funding constraints of both General Fund and General Fund supported bond financing, these projects were placed on hold.

**The proposed capital outlay projects.** Most of the Governor's proposed projects support the relocation or replacement of fire stations, camps, helitack and air attack bases, and headquarters facilities that are at least 60 years old. The five helitack projects also are designed to better accommodate new, larger helicopters that are currently being acquired by the Department. The chart below details the estimated costs and details for each capital outlay project.

Proposal	2021-22 GF Cost (millions)	Total Estimated Cost (millions)	Proposal Summary
Alhambra Valley Fire Station – Relocate Facility	2.5	12.408	The Governor's budget requests \$2.5 million GF for the acquisition phase of the Alhambra Valley Fire Station: Relocate Facility project. The project will acquire a suitable parcel, relocate the Steven's Creek Fire Station and construct a standard one-engine fire station with two-bay apparatus, an eight-bed barracks and battalion chief's office, a generator/pump/storage building, and a flammable storage building. Additionally, the scope of work will require site work and utilities, as needed. This is a new project.
Alma Helitack Base: Relocate Facility	5	33.888	The Governor's budget requests \$5 million GF for the acquisition phase of the Alma Helitack Base — Relocate Facility project. This project includes site acquisition and construction of a 28-bed barracks/mess hall bundling, a helicopter hangar, a helitender storage, two landing pads (one primary and one secondary pad for taking the current helicopter out of service for required maintenance), an administrative office space, an antenna, a tower base and radio, a warehouse space, a flammables storage building, a generator building, and a helicopter training tower. This is a new project and located in Santa Clara County.
Boggs Mountain Helitack Base: Relocate Facility	2	22.649	The Governor's budget requests \$2 million GF for the acquisition phase of the Boggs Mountain Helitack Base — Relocate Facility project. This project includes site acquisition and construction of a helicopter hangar, support vehicle garage, 22-bed barracks building, generator/pump/storage building, wash rack canopy, hazmat/retardant storage, and helicopter-training tower. This is a new project located in Lake County.



Butte Fire Center: Replace Facility	2.745	59.657	The Governor's budget requests \$2.745 million GF for the working drawings phase of the Butte Fire Center: Replace Facility project. The project includes an administration building, a CalFire bachelor office quarters, a warehouse, a California Conservation Corps utility storage garage, a six- to ten-bed corps member dormitory, a fuel island storage building, an emergency generator/fire pump building, a multipurpose gym/weight room, and a recyclable vehicle wash building. This is a continuing project located in Butte County.
Elsinore Fire Station – Relocate Facility	1.8	15.413	The Governor's budget requests \$1.8 million GF for the acquisition phase of the Elsinore Fire Station — Relocate Facility project. The project includes site acquisition and construction of a 12-bed barracks/3-bay apparatus single building fire station, a storage building, a fuel island canopy, a generator/pump building, and a vehicle wash rack system. This is a new project located in Riverside County.
Growlersburg Conservation Camp: Replace Facility	3.05	59.265	The Governor's budget requests \$3.05 million GF one-time for the working drawings phase of the Growlersburg Conservation Camp — Replace Facility project. In conjunction with the California Department of Corrections and Rehabilitation (CDCR), the project includes the design and construction of an administration building, inmate dorm building, inmate recreation building, inmate hobby building, CalFire/CDCR barracks building, inmate kitchen and mess hall, multipurpose facility for inmate programs, inmate staging area, restrooms, showers, a warehouse, carpentry shop, auto/welding shop, vehicle storage building, sawmill shed, sawmill building, covered vehicle wash rack, vehicle wash recycling building, and related site work. This is continuing project located in El Dorado County.
Hemet Ryan Air Attack Base: Replace Facility	1.931	37.523	The Governor's budget requests \$1.931 million GF one-time for the working drawings phase of the Hemet Ryan Air Attack Base: Replace Facility project. The project includes the construction of an air operations building, 32-bed barracks/mess hall, three-bay apparatus storage and warehouse building, hangar, protective aircraft weather canopy, and a helicopter-training tower. This is a continuing project located in Riverside County.
Higgins Corner Fire Station – Replace Facility	0.789	12.029	The Governor's budget requests \$789,000 GF one-time for the preliminary plans phase of the Higgins Corner Fire Station — Replace Facility project. The project includes site acquisition and construction of a standard, two-engine fire station, including a 12-bed barracks/3-bay apparatus building, administration building, flammable storage building, and generator/pump/storage building. This is a continuing project located in Nevada County.

Hollister Air Attack Base/Bear Valley Helitack Base: Relocate Facilities	12.15	53.55	The Governor's budget requests \$12.15 million GF one-time for the acquisition phase of the Hollister Air Attack Base/Bear Valley Helitack Base — Relocate Facility project. This project includes site acquisition and construction of an air operations building, 32-bed barracks/mess hall, 3-bay apparatus storage and warehouse building, helicopter and OV-10 hangar, protective aircraft weather canopy, helicopter training tower, and site work as needed. This is a continuing project located in San Benito County.
Howard Forest Helitack Base: Relocate Facility	0.55	17.985	The Governor's budget requests \$550,000 GF one-time for the acquisition phase of the Howard Forest Helitack Base — Relocate Facility project. This project includes a helicopter hangar, lighted helipads, support vehicle garage, 22-bed barracks building, generator/pump/storage building, wash rack canopy, hazmat/retardant storage, and helicopter-training tower. This is a new project located in Mendocino County.
Humboldt-Del Norte Unit Headquarters: Relocate Facility	1.86	57.317	The Governor's budget requests \$1.86 million GF one-time for the acquisition phase of the Humboldt-Del Norte Unit Headquarters: Relocate Facility project. This project includes an administration/training building, service center building, auto shop, covered vehicle wash rack with water recycle system and building, telecommunications building, covered parking structure for 15 vehicles (with photovoltaic panels), standard two-engine fire station with a dozer/transport dozer shed, two generator/pump/storage buildings (with generators), radio communications tower, site development, utilities, propane or natural gas system, septic system, domestic water well with water treatment and storage, fire suppression water system with water storage, landscaping and irrigation, site lighting and fencing, and telephone and radio cabling. Demolition and hazardous materials abatement, at the existing site, will be required upon completion of the new site. This is a new project in Humboldt County. Total estimated project costs are \$57.317 million.
Intermountain Conservation Camp: Relocate Facility	0.6	73.895	The Governor's budget requests \$600,000 GF one-time for the acquisition phase of the Intermountain Conservation Camp: Relocate Facility project. This project is in conjunction with the California Department of Corrections and Rehabilitation (CDCR). The project includes CalFire/CDCR administration buildings, bachelor officer quarters, inmate dormitory, inmate kitchen/mess hall, inmate recreation building, inmate laundry building, inmate staging area, CalFire warehouse, CDCR warehouse, CalFire maintenance shop building, five-bay auto shop building, five-bay emergency crew transport building, two-bay dozer/transport building, garage, inmate family visit building, generator building, pump building, fire pump building, storage building, and a flammables storage building. This is a continuing project located in Larsen County.

Kneeland Helitack Base: Relocate Facility	0.85	18.285	The Governor's budget requests \$850,000 GF one-time for the acquisition phase of the Kneeland Helitack Base: Relocate Facility project. This project includes a helicopter hangar, support vehicle garage, 22-bed barracks building, generator/pump/storage building, wash rack canopy, hazmat/retardant storage, and helicopter training tower. This is a new project located in Humboldt County.
Macdoel Fire Station: Relocate Facility	0.796	11.879	The Governor's budget requests \$796,000 GF one-time for the acquisition and preliminary plans phases of the Macdoel Fire Station - Relocate Facility project. This project includes a single-building 12-bed barracks/3-bay apparatus facility, flammable storage building, generator/pump building, hose rack, and fueling canopy. This is a continuing project located in Siskiyou County.
Minor Projects: Various	2.005	2.005	The Governor's budget requests \$2.005 million for two minor projects: 1) Owens Valley Conservation Camp: Tank and Dozer Barn Improvements — \$975,000 for preliminary plans, working drawings, and construction. This project is located in San Bernardino County. 2) West Point Fire Station/La Panza Fire Station: Construct Apparatus Buildings - \$1.03 million for preliminary plans, working drawings, and construction. This project is located in Calaveras/San Luis Obispo County.
Potrero Fire Station: Replace Facility	0.981	13.262	The Governor's budget requests \$981,000 GF for the working drawings phase of the Potrero Fire Station: Replace Facility project. This project includes one standard, two-engine fire station, consisting of a 14-bed barracks/mess hall, three-bay apparatus building, and generator/pump storage building, fuel dispensing system and fuel vault, vehicle wash rack, hose wash rack, flammable storage building, and site work and utilities. This is a continuing project located in San Diego County.
Prado Helitack Base: Replace Facility	1.51	24.6	The Governor's budget requests \$1.51 million GF for the working drawings phase of the Prado Helitack Base: Replace Facility project. This is a continuing project located in San Bernardino County. This project is for the working drawings phase of the Prado Helitack Base: Replace Facility project. The project includes construction of a helicopter hangar, warehouse/shop building, support vehicle garage, 26-bed barracks building, generator/pump storage building, wash rack canopy, hazmat/retardant storage, and helicopter training tower.

Shasta Trinity Unit Headquarters / Northern Operations: Relocate Facility	4.329	105.805	The Governor's budget requests \$4.329 million GF one-time for the preliminary plans phase of the Shasta Trinity Unit Headquarters/Northern Operations: Relocate Facility project. The project includes a new joint facility to co-locate the Shasta Trinity Unit Headquarters and several Northern Region Operations facilities. Construction will include a six-bay auto shop, covered vehicle wash rack, fire station, service center, emergency command center, flammables storage building, 70-bed dormitory, Northern Region Headquarters administration building, Technical Services administration building and shop building, telecommunications repair shop, two training buildings, 120-foot communications tower, 45 covered parking spaces, physical fitness building, and Emergency generator/pump/storage building, and site work and utilities as needed. This project is continuing and located in Shasta County.
Temecula Fire Station: Relocate Facility	0.595	12.618	The Governor's budget requests \$595,000 GF for the preliminary plans phase of the Temecula Fire Station: Relocate Facility project. This project includes a 12-bed/three-bay apparatus, single building fire station, storage building, administration building, generator/pump building, and vehicle wash rack canopy, fuel island canopy, self-contained breathing apparatus repair building, and site work and utilities as needed. This is a continuing project and located in Riverside County.
Various Projects: Air Attack Bases: Infrastructure Improvements	8.2	9.616	The Governor's budget requests \$8.164 million GF for the construction phases of the Fresno Air Attack Base/Ramona Air Attack Base — infrastructure improvement projects. These projects are continuing.
<b>TOTAL:</b>	<b>54.205</b>	<b>653.649</b>	

<b>LAO COMMENTS</b>
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**Future Costs for Projects Will Be Substantial.** The total costs for these projects will be \$654 million based on current estimates. The Department will come back to the Legislature in future years to ask for subsequent phases of project funding, including any revised estimates of project costs.

- **Future Costs Expected to Be Funded from General Fund.** For most of these projects, the Administration has not specified out-year fund sources. However, CalFire projects typically are funded directly from the General Fund on a pay-as-you-go basis or with lease revenue bonds, which are repaid from the General Fund over multiple decades.
- **Both Pay-As-You-Go and Bonds Come With Trade-Offs.** Pay-as-you-go will require substantial one-time General Fund expenditures at the time the projects are undertaken. Using bonds, on the other hand, reduces the budgetary costs in the near term, but results in smaller annual costs—including for interest payments—for a much longer period of time. (Currently, interest rates are low compared to historical averages, making borrowing

somewhat less expensive than other periods.) In both cases—whether using pay-as-you-go or bonds—funding these projects would result in a reduction of General Fund resources available for other budgetary priorities.

**Consider Future Costs When Crafting Longer-Term Budget Plan.** The LAO has no concerns with the specific projects proposed by the Department. These projects are intended to improve upon aging facilities and address operation needs, such as the accommodation of new helicopters previously authorized by the Legislature. However, the state faces multiyear General Fund deficits, and the Legislature will want to consider these proposals in the context of those longer-term fiscal challenges.

- **Given Magnitude of Costs, Could Have Department Report at Hearings on Priorities.** Ultimately, given the total costs of the proposed projects, the Legislature could consider directing CalFire to report at budget hearings on the operational impacts of not approving each project, the alternatives for accommodating new air resources, and how the Department would prioritize these projects.

#### STAFF COMMENTS

CalFire has significant capital outlay and maintenance needs due to the age of their facilities. Nearly three-fourths of CalFire's facilities were built prior to 1950. In addition, many facilities were not designed for the amount and type of use required of them today. Addressing the structural and functional deficiencies of these facilities would help support CalFire's operations and improve their ability to effectively and efficiently deliver emergency response resources.

Some of these projects were meant to happen many years ago, but were shelved for various reasons. For example, proposals to relocate CalFire's Hollister Air Attack Base were appropriated funding in the 1999 and 2006 Budget Acts, but those attempts to relocate did not come to fruition. The Governor's budget includes a proposal to relocate Hollister Air Attack Base, providing \$12 million for acquisition (total project cost of \$53.6 million).

The LAO forecast projects that the state faces a growing General Fund operating deficit over the next few years. With the forecast of a growing General Fund operating deficit, the Subcommittee may wish to ask the Administration how the projects will be funded and completed in the out years.

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**Staff Recommendation: Hold Open.**

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**ISSUE 2: DEFENSIBLE SPACE INSPECTIONS (AB 38)**

The Governor's budget request \$8.3 million General Fund one-time, \$6.1 million in 2022-23 and ongoing, and 26 positions to address increased workload related to defensible space inspections and a regional capacity review set forth in AB 38 (Wood, Chapter 391, Statutes of 2019).

**PANEL**

The following individuals will participate virtually in the discussion of this issue:

- Wendy Collins, Assistant State Fire Marshal, CalFire, Office of the State Fire Marshal
- Becca Moore, Staff Finance Budget Analyst, Department of Finance
- Brian Brown, Deputy Legislative Analyst, Legislative Analyst's Office
- Stephen Benson, Principal Program Budget Analyst, Department of Finance (Q&A)
- Steven Hawks, Staff Chief, CAL FIRE, Office of the State Fire Marshal (Q&A)

**BACKGROUND****Structures in very high fire hazard zones are subject to defensible space requirements.**

Current law requires the Board of Forestry to establish defensible space requirements for structures in the state responsibility area (SRA) and Very High Fire Hazard Severity Zones in California. These regulations include requirements related to: (1) how live vegetation—trees, shrubs, and grasses—should be maintained; (2) clearance of dead vegetation; and, (3) the location of wood piles and other flammable items near the structures. Noncompliance with these requirements is punishable by a fine.

**AB 38 (Wood, Chapter 391 of 2019).** AB 38, among other things, requires that property sellers in areas rated as being at high or very high wildfire risk to disclose to buyers that the home is compliant with defensible space requirements. The large majority of the SRA is rated as high or very high risk of wildfire. AB 38 also requires the Office of Emergency Services to enter into a joint powers agreement with CalFire to administer a comprehensive wildfire mitigation and assistance program to encourage cost-effective structure hardening and facilitate vegetation management.

**CalFire is responsible for enforcing defensible space requirements in the SRA.** CalFire has identified about 768,000 parcels within the SRA subject to defensible space inspections. They utilize seasonal inspectors for these inspections. CalFire also deploys firefighters to conduct defensible space inspections as time permits. In 2019-20, 69 percent of inspections conducted by CalFire was performed by the inspectors and 31 percent was performed by firefighters. The Department's goal is to inspect one-third of these parcels each year. In total, CalFire has come close to this target, inspecting just under 30 percent each of the past couple years.

**LAO COMMENTS**

**Consistent With New Law, and No Alternative Fund Source Available.** The LAO finds that the proposal generally is reasonable as it supports implementation of AB 38. Moreover, the General Fund appears to be the most appropriate fund source because there is not existing fee revenue associated with this workload, and the department currently is not authorized to charge a fee.

**Workload Is Uncertain Because Is New Responsibility.** The Administration took a reasonable approach to estimating its future workload associated with disclosures given the uncertainty associated with implementing a new program. However, the actual workload could be substantially higher or lower than assumed.

- **Uncertainty Around Number of and Time Per Inspection.** The actual number of home sales in the SRA could be significantly higher or lower than estimated. Similarly, the average time per inspection could be substantially different than estimated by the Department.
- **Could Impact Existing Defensible Space Inspection Program.** To the extent that actual disclosure-related workload turns out to be higher than estimated, the Department might need to divert other staff to complete disclosure inspections. This could negatively impact outcomes for other programs, such as CalFire's existing defensible space inspection program or hazardous fuels reduction projects. Alternatively, if workload is actually lower than estimated, the additional inspectors provided in this proposal could be used to increase the total number of defensible space inspections completed by the Department's existing program.

**Insufficient Justification for Academy and Mobile Equipment Components.** The three training positions are being requested as ongoing despite the fact that the training workload will occur on a one-time basis when the new defensible space inspectors are hired. Similarly, the mobile equipment program positions are related to the one-time procurement of vehicles for the inspectors. The purchase of the fire engine is not warranted because: (1) its procurement likely would not be completed in time to be used for the training of these inspectors; and, (2) the Department has historically had several fire engines in its inventory that have been replaced in the field with newer fire engines but remain usable.

**Approve Most of Proposal, but With Modifications.** The LAO recommends that the Legislature approve most of the funding as proposed. The request for additional defensible space inspectors is consistent with recent statutory changes, and the workload estimates are reasonable based on current information. However, the LAO recommends two modifications.

- **Provide Funding for Training and Mobile Equipment Staff on One-Time Basis.** The LAO find that it is reasonable to add some additional staff in support of the initial training of the new inspectors and procurement of their vehicles. However, there will not be the same level of workload on an ongoing basis.

- **Reduce by \$400,000 to Eliminate Fire Engine.** The LAO finds that the costs to procure a new fire engine are not justified based on the workload demands associated with the new disclosure requirements, nor would it be procured in time to assist in the training of these inspectors.

**Adopt Reporting Requirement.** The LAO recommends that the Legislature approve supplemental reporting language directing the Department to report in each of the next two years on: (1) the number of inspections completed to meet the disclosure requirements; (2) the average time (including for travel) to complete these inspections; and, (3) how these new requirements and staffing have impacted the Department's existing defensible space inspection program. This information would help inform future legislative funding decisions, as well as determine whether the new workload is inadvertently affecting the existing program, which is important for ensuring community safety.

**Consider Options to Make Disclosure Inspection Program Fee Based.** In the longer term, the Legislature may want to consider whether it would make sense to charge home owners a fee when they request these defensible space inspections. The arguments for such a fee are that: (1) the program provides a direct service to property owners, and it is reasonable for them to reimburse the state; (2) the costs per property would be relatively modest—perhaps between \$100 and \$200 per inspection based on current workload estimates; and, (3) it would offset ongoing General Fund costs. Notably, any such requirement would require statutory authority and additional administrative support to collect the fee.

<b>STAFF COMMENTS</b>
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Staff concurs with the LAO's assessment and recommendation on this proposal. The suggested modifications are appropriate and a fee to offset the cost of defensible space inspections would decrease pressure on the General Fund especially given the out year uncertainties in the fund.

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**Staff Recommendation: Hold Open.**

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**3340 CALIFORNIA CONSERVATION CORPS****3540 CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE PROTECTION****ISSUE 3: CALFIRE EMERGENCY RESPONSE & PREPAREDNESS: CALFIRE/CCC FIRE CREWS**

The Governor's budget requests a total of \$143.266 million one-time (\$124.493 million GF ongoing), 617 positions for 16 CalFire hand crews and 26 positions for the expansion of CCC hand crews to eight year-round and six seasonal crews.

**PANEL**

The following individuals will participate virtually in the discussion of this issue:

- Joe Tyler, Deputy Director, CalFire
- Bruce Saito, Director, California Conservation Corps
- Becca Moore, Staff Finance Budget Analyst, Department of Finance
- Brian Brown, Deputy Legislative Analyst, Legislative Analyst's Office
- Stephen Benson, Principal Program Budget Analyst, Department of Finance (Q&A)
- Chris Anthony, Assistant Deputy Director, CalFire (Q&A)

**BACKGROUND**

**Hand crews support wildfire response and mitigation work.** Hand crews are often used in conjunction with fire engine crews and air support for fire response activities. When assigned to wildland fires, hand crews are utilized primarily to construct fire lines by removing vegetation from the path of an advancing wildfire. Hand crews also assist fire engine crews with deployment of fire hoses over long distances, are assigned to helicopter and bulldozer activities, and are utilized in the logistical operations and support on major incidents, including establishing the incident base for large fires. When not responding to emergencies, fire crews engage in fuel reduction, vegetation management, prescribed fire, and forest health projects.

Historically, CalFire has operated 208 hand crews. The majority of these crews are through interagency cooperative agreements with the California Department of Corrections and Rehabilitation and the Department of Juvenile Justice for use of state prison inmates. CalFire also have 12 crews through a partnership with CCC, and an additional four crews that are part of a training program at Ventura Training Center.

**Declining use of inmate fire crews in recent years.** In the past decade, the state has enacted various changes to sentencing laws that have significantly reduced the inmate population. This has resulted in fewer inmate fire crews available to support CalFire's fire response and mitigation operations.

Inmate fire crews are housed at conservation camps located in or near forests throughout the state. The number of inmates housed at conservation camps has declined from 3,980 in January 2010 to 2,989 in January 2020 (25 percent). The decline in the conservation camp population

has led to the closure of eight conservation camps, and the remaining inmate crews have been consolidated into the remaining 35 conservation camps.

To address the decline of inmates available to staff these hand crews, CalFire has partnered with the California Conservation Corps to add 12 year-round hand crews in recent years. In addition, the administration contracted with the California National Guard to hire ten additional seasonal hand crews in 2020-21. Given fire risks present during the 2020 fire season, the Administration augmented the Emergency Fund to add both additional seasonal CCC crews and 858 seasonal fire fighters to act as fire crew members, as part of a flexible fire fighter surge capacity.

**The Proposal.** The Governor's proposal request to add a total of 617 positions and \$143 million in the first year and \$124.5 million ongoing to support the creation of 16 CalFire hand crews and the expansion of CCC hand crews. Specifically, the proposal includes:

- \$137 million for CalFire for 591 positions to establish 16 seasonal fire fighter hand crews at seven of the closed conservation camps, as well as other support of the CCC crews and other ancillary costs.
- \$6 million for CCC for 26 positions to establish 14 CCC hand crews for fire response and mitigation. This includes converting six existing reimbursement crews to year-round hand crews, adding two new year-round hand crews, and transitioning six existing reimbursement crews to seasonal hand crews. Each hand crew will be made up of 15 corpsmembers.

The chart below details the proposal:

<b>Governor's Proposal to Expand Fire Crews</b>		
<i>General Fund (In Millions)</i>		
<b>Proposal</b>	<b>2021-22</b>	<b>Future Years<sup>a</sup></b>
<b>CalFire</b>	<b>\$137.3</b>	<b>\$116.4</b>
Creation of 16 seasonal fire fighter hand crews	\$93.2	\$97.2
Facility repairs <sup>b</sup>	21.2	—
Vehicles and equipment	6.2	1.4
Supervision of 14 year-round CCC crews	5.0	4.8
Maintenance, cooking, and administrative support	4.9	6.2
Temporary lease and maintenance	3.8	3.8
CCC contract for six seasonal crews	2.5	2.5
Classification study	0.5	0.5
<b>CCC</b>	<b>\$5.9</b>	<b>\$8.1</b>
Addition of two year-round crews	\$3.2	\$3.6
Conversion of six crews to year round	2.4	4.3
Staffing for six seasonal crews	0.4	0.3
<b>Totals</b>	<b>\$143.2</b>	<b>\$124.5</b>
<sup>a</sup> Most costs fully implemented in 2022-23, but some CCC costs ramp up over a few years.		
<sup>b</sup> Includes \$3.3 million for repairs at CCC facilities.		
CalFire = California Department of Forestry and Fire Protection and CCC = California Conservation Corps.		

**LAO COMMENTS**

**Would Add Valuable Fire Response and Mitigation Capacity.** Hand crews play an important role in the state's overall approach to mitigating the risk of wildfire damage. The additional hand crew capacity proposed would provide a significant expansion of the resources available to assist in response to active wildfires, as well as conduct hazardous fuel removal projects at other times.

**Most Time Likely Would Be Spent on Wildfire Response.** The LAO anticipates that most of the additional resources requested would be used for wildfire response, though this could vary each year based on the severity of the fire season. Most of the new resources requested are for seasonal fire crews—including all 16 CalFire crews and 6 of the CCC crews—which largely operate during California's wildfire season.

**Expanded CalFire Capacity Is Particularly Expensive.** While valuable, the budget request reflects a significant ongoing General Fund commitment, particularly for the CalFire components. The ongoing nature of the request is particularly notable given the ongoing structural challenges projected for the General Fund.

- **Utilizes Fire Fighters for Hand Crews.** In part, CalFire's portion of costs is particularly expensive because it proposes to utilize professional fire fighters, which are considerably more expensive than other types of fire crew members, including inmates or corpsmembers.
- **Provides 24-Hour Coverage.** CalFire hand crew members will work 72-hour shifts. This allows for round-the-clock availability, but necessitates hiring multiple people to fill each position throughout the week (as well as provide relief when crew members take leave, such as for injury or illness).
- **Reactivates Camps.** The conservation camps are aging and designed for inmates, rather than state fire fighters. Consequently, CalFire has identified one-time facility repair costs of \$18 million in 2021-22, as well as future capital outlay costs of \$38 million. The projects would involve various renovations and upgrades, such as repair of cracked paving, utility upgrades, and remodeling of the dormitories

**Creation of New Classification Could Reduce Costs, but Little Information Available.** The Department reports that it would like to work with CalHR to study whether it would make sense to create a new classification that could be used to staff hand crews instead of Fire Fighter I's because members of hand crews do not have all of the same responsibilities, such as staffing fire engines.

- **Unclear What Potential Savings Would Be.** If the Legislature approves the creation of CalFire hand crews, an evaluation of a new classification could make sense if it expands the pool of potential applicants and/or if a lower salary range could reduce the impact of the proposal on the General Fund in the future. Any such benefits, however, would

depend on final decisions regarding eligibility requirements and salary scales for the new classification.

- **Unclear if Augmentation Needed to Begin Review Process.** The budget includes funding over a couple of years to support this classification analysis with CalHR. Departments and CalHR do not typically receive budget augmentations for these types of analyses, instead relying on CalHR's existing staff to support such efforts.

**Consider Proposal in Context of Other Budget Requests and General Fund Condition.**

The expansion of the state's hand crew capacity could add significant value for both wildfire response and mitigation. In reviewing this proposal, the Legislature will want to consider these merits in the context of other current and recent funding proposals related to wildfires, as well as the state's overall fiscal condition.

- **Governor's \$1 Billion Wildfire Resilience Package.** As discussed in greater detail in a separate analysis below, the Governor's 2021-22 budget plan includes a total of \$1 billion for various wildfire prevention and mitigation efforts, including for multiple programs that support hazardous fuels reduction. To the extent that the Legislature is primarily interested in the potential of fire crews to increase prevention and mitigation work, it could choose to target resources into programs already included in that package—such as various forest health and fire prevention grants—rather than create a new CalFire program.
- **Proposed Fire Fighters Would Add to Positions Provided in Recent Budgets.** Notably, recent state budgets have provided ongoing funding to increase the number of CalFire fire fighters, including: (1) \$86 million in 2020-21 for 172 permanent and 378 seasonal fire fighter positions; and, (2) \$33 million in 2019-20 to add 131 permanent fire fighters to staff 13 new year-round fire engines.
- **General Fund Faces Multiyear Challenges.** The Administration anticipates the state would have operating deficits if the Legislature adopted the Governor's budget proposals, reaching \$11.3 billion in 2024-25.

**Could Explore Other Options to Expand State's Hand Crew Capacity.** Historically, the state could rely primarily on state inmates to staff hand crews. However, the decline in the prison population—coupled with more intense wildfires—has forced the state to explore other options, including the use of CCC corpsmembers, creation of a parolee training center, and contracting with CNG. While this request to expand the use of CCC and CalFire hand crews has merit, there may be value in investigating additional options, such as expanding parolee crews or creating partnerships with local governments, which also might be interested in supporting regional hazardous fuels reduction work. The Legislature could explore such options in the course of budget hearings or direct the Administration to investigate certain options and report back in the future.

**If Legislature Approves Proposal, Consider Reducing Amount for Classification Review.**

If the Legislature approves the proposed expansion of CalFire fire crews staffed by Fire Fighter I's, an assessment evaluating an alternative classification would have merit. However, it

currently is unclear whether CalFire and CalHR require additional funding to undertake such an assessment. The Legislature could direct the Administration to provide additional information on the expected workload, existing staff available, and implementation plan before determining whether to provide the requested augmentation.

- **Could Require Review With Existing Resources.** If the Administration is unable to justify the additional costs, the Legislature could approve a lesser amount or direct CalFire and CalHR to undertake the study with existing resources.
- **Require Report Back on Outcome of Review.** If the Administration is directed to undertake this assessment, the LAO recommends adopting supplemental language directing CalFire to report back on its findings, including the potential effects on recruitment and retention, operations, and costs.

<b>STAFF COMMENTS</b>
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Given the devastating fires in the recent years and the reduced number of fire crews due to the declining inmate population, spending resources for additional fire crews make sense. However, this is a substantial ongoing General Fund obligation. This is due to the CalFire's portion of costs, which proposes to utilize professional fire fighters. Firefighters are considerably more expensive than other types of fire crew members, including inmates or corpsmembers. The Subcommittee may wish to ask the rationale for including firefighters as crew members and whether the Administration has considered other less costly options.

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**Staff Recommendation: Hold Open.**

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## 3900 AIR RESOURCES BOARD

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### ISSUE 4: CONTINUING RESOURCES TO SUPPORT IMPLEMENTATION OF THE COMMUNITY AIR PROTECTION PROGRAM (AB 617)

The Governor's budget requests \$4.165 million ongoing from the Greenhouse Gas Reduction Fund to support 22 existing permanent positions that were approved in the 2017-18 Budget to meet the statutory requirements of AB 617 (C. Garcia, Chapter 136, Statutes of 2017). The positions are currently supported by temporary funding that is set to expire on June 30, 2021.

#### PANEL

The following individuals will participate virtually in the discussion of this issue:

- Edie Chang, Deputy Executive Officer, California Air Resources Board
- Lizzie Urie, Staff Finance Budget Analyst, Department of Finance
- Ross Brown, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Teresa Calvert, Program Budget Manager, Department of Finance (Q&A)
- Vernon Hughes, Assistant Division Chief, California Air Resources Board (Q&A)

#### BACKGROUND

**Air quality regulation is divided between the California Air Resources Board and Regional Air Districts.** In California, the California Air Resources Board (CARB) and 35 regional air pollution control and air quality management districts (air districts) share responsibility for the regulation of air quality. Historically, regulatory efforts have largely focused on reducing “criteria” pollutants that affect regional air quality, such as nitrogen oxides that contribute to smog. Regular air districts generally manage the regulation of stationary sources of pollution (such as factories) and prepare regional implementation plans to achieve compliance with federal and state air quality standards. CARB is responsible primarily for the regulation of mobile sources of pollution (such as cars and trucks) and for the review of regional air district programs and plans. Regional air districts also administer some mobile source incentive programs. Over the last few decades, the state has also developed various programs intended to reduce local toxic air pollution — such as diesel particulate matter and hexavalent chromium — and global pollution that contributes to climate change, such as carbon dioxide.

**AB 617 established a new program to focus on heavily polluted and disadvantaged communities.** AB 617 (C. Garcia, Chapter 136, Statutes of 2017) was signed into law in 2017. It made a variety of changes that are intended to help monitor and reduce criteria and toxic air pollutants that have adverse effects on heavily polluted communities. Importantly, these changes focus on pollution on the community level, rather than focusing primarily on global or regional effects. Community-level effects include the cumulative pollution from regional criteria pollutants, as well as local toxic air pollutants. The changes are implemented by both CARB and air districts, in consultation with community groups and other state agencies. The major requirements and implementation time frames include:

- *Community Air Monitoring Systems.* AB 617 required CARB, by October 1, 2018, to: (1) develop a statewide plan for monitoring community air pollution; and, (2) select the highest priority locations to deploy monitoring systems, based on their exposure to toxic and criteria pollutants. The purpose of the statewide monitoring plan is to provide guidance to air districts that will be deploying the monitoring systems in the selected communities. Once the initial communities (also known as “first year” communities) are selected, air districts must deploy the monitoring systems in those communities by July 1, 2020. Each year thereafter, CARB must select additional communities to deploy monitoring systems, as it deems appropriate, and the regional air districts must deploy systems in those communities within one year.
- *Community Emission Reduction Plans.* AB 617 also required CARB to develop, by October 1, 2018, a statewide strategy to reduce toxic and criteria emissions in communities with high pollution, and to update the strategy every five years. As part of the statewide strategy, CARB is also required to select communities with high cumulative exposure to air pollutants that will develop emission reduction programs (also known as first year communities). Within one year of selecting the communities, air districts — in consultation with local community groups and other stakeholders — must develop community emission reduction plans for each selected community and submit them to CARB for review. The plans must include emission reduction targets, specific reduction measures, a schedule for implementation, and an enforcement plan. CARB must select additional communities for emission reduction plans annually thereafter, as it deems appropriate.
- *Other AB 617 Changes.* AB 617 made a variety of other changes to air quality monitoring and regulation, including requirements that: (1) CARB establish a uniform statewide system of reporting annual emissions of criteria pollutants from stationary sources; (2) CARB establish a clearinghouse that identifies best available technologies for pollution control; and, (3) air districts adopt expedited schedules for requiring industrial facilities that are subject to the state’s Cap-and-Trade regulation to install updated pollution control technologies if they have not done so since 2007. It also required CARB to provide grants to community-based organizations for technical assistance and to support community participation in the AB 617 process.

**Prior appropriations for CARB for AB 617 implementation.** In the 2017-18 budget, the Legislature approved \$12 million (Greenhouse Gas Reduction Fund) ongoing funding for 50 positions and \$4.2 million 2-year limited-term funding for 22 positions to implement AB 617. The limited-term funding was provided with recognition that this was a new program and the ongoing CARB implementation costs were uncertain.

In the 2019-20 budget, the Legislature extended the limited-term funding through 2020-21 and adopted Supplemental Report Language (SRL) requiring CARB to report on its costs to implement AB 617. The SRL report was intended to accompany any request to extend funding for these 22 positions and inform legislative budget discussions about ongoing funding.

The SRL report must include:

1. Detailed information about past workload and estimated future workload.
2. A description of how CARB workload is different from local air district activities and why CARB staff are needed.
3. A description of the degree to which attendance of CARB at community steering committee meetings is helpful for developing emission reduction plans.
4. An evaluation of the degree to which CARB staff help achieve programmatic outcomes.

#### **LAO COMMENTS**

The Administration has not yet submitted the SRL report to the Legislature. Therefore, the Legislature does not have all of the information that it required, including detailed information about overall CARB workload. This makes it difficult to fully evaluate the ongoing funding needs.

The LAO recommends the Legislature withhold action on this item until the Administration provides the required SRL report. Once the report is available, we will review the information and report back to the Legislature.

#### **STAFF COMMENTS**

The proposal before us seeks to make ongoing the \$4.2 million for 22 positions at CARB. This funding was provided as limited-term precisely because the workload is uncertain and remains so. The pending SRL report would provide the needed information to inform the Legislature whether it is appropriate to continue this funding in this amount and on an ongoing basis.

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**Staff Recommendation: Hold Open.**

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## VARIOUS DEPARTMENTS

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### ISSUE 5: WILDFIRE AND FOREST RESILIENCE STRATEGY

The Governor's budget requests \$1 billion in forest health and fire prevention. Of that amount, \$323 million is proposed for early action to help the state prepare for the upcoming fire seasons and \$677 million is proposed for 2021-22 to build the state's resilience to wildfires, increase pace and scale, and reduce fire risk.

#### PANEL

The following individuals will participate virtually in the discussion of this issue:

- Wade Crowfoot, Secretary, California Natural Resources Agency
- Bryan Cash, Assistant Secretary for Administration and Finance, California Natural Resources Agency
- Becca Moore, Staff Finance Budget Analyst, Department of Finance
- Brian Brown, Deputy Legislative Analyst, Legislative Analyst's Office
- Stephen Benson, Principal Program Budget Analyst, Department of Finance (Q&A)
- Jessica Morse, Deputy Secretary of Forest Resources Management, California Natural Resources Agency (Q&A)
- Thom Porter, Director, CalFire (Q&A)

#### BACKGROUND

**Wildfires in California continue to increase in frequency and intensity.** Wildfires are sweeping and destructive blazes that can occur in forestlands, grasslands, deserts, shrub lands, and brush lands. In California, wildfires have escalated significantly in severity over recent years, becoming more frequent, getting larger and more unpredictable. Fires today burn twice as many acres and for twice as long as they did in the 1990s.

Some of the largest and most severe wildfires in California's recorded history have occurred in recent years. Five of the six largest fires in state history was burning simultaneously in 2020. On October 4, 2020, California surpassed four million acres burned in one year. This more than doubled the last record, which was 1.8 million acres burned in 2018.

Experts believe that a combination of factors will result in serious fire seasons for the indefinite future. Among other factors, three primary reasons why California wildfires have become more catastrophic include: (1) the climate is becoming more extreme; (2) more people are living in combustible places; and, (3) there is more fuel for the fires to burn.

**Prior investments in fire prevention and resources management is minimal compared to fire response and recovery investments.** Over the last few fiscal years, fire prevention and suppression expenses have ranged between \$2 billion to \$3 billion with fire suppression making up the bulk of expenses. As an example, the Budget Act of 2020 provided \$203.3 million for fire

prevention and resource management. This stands in contrast with the \$2.3 billion spent for fire suppression and response. The breakdown in fire funding for fiscal year 2020-21 is detailed in the chart below:

2020-21 Wildfire Prevention and Protection Funding Summary (Dollars in Thousands)			
	General Fund	Other Fund	Total
Cal OES Fire Preparedness & Response	\$88,855	\$1,176	\$90,031
CAL FIRE Fire Protection	\$1,640,042	\$530,689	\$2,170,731
CAL FIRE Fire Prevention & Resource Management	\$15,404	\$187,902	\$203,306
<b>Total</b>	<b>\$1,744,301</b>	<b>\$719,767</b>	<b>\$2,464,068</b>

**The Proposal.** According to the Administration, wildfire resilience requires simultaneous action across three areas:

1. Across broad landscapes to limit risk of large, catastrophic wildfire, and restore ecological health;
2. Around communities threatened by wildfire to protect residents and property; and,
3. Within communities to help them survive if a wildfire swept through.

With this approach in mind, the Governor proposes a \$1 billion wildfire resilience package. This package proposes funding in the current year as well as the budget year for over 20 programs across multiple departments. Funding is proposed for a wide array of forest health, hazardous fuel reduction, workforce and market development, research, and community hardening programs. Funding includes \$198 million General Fund and \$125 Greenhouse Gas Reduction Fund (GGRF) in 2020-21 and \$477 million General Fund and \$200 million GGRF in 2021-22. The table on the following page provides a breakdown of appropriations for programs proposed in the Governor's Wildfire and Forest Resilience Strategy package.

**Wildfire Resilience Expenditure Plan** (Dollars in Millions)

Investment Category	Department	Program	Early Action 2020-21	Budget Year 2021-22	Total	Fund Source
<b>Resilient Forests &amp; Landscapes</b>	CalFire	Forest Health Program	5	20	25	GF
		Forest Health	65	80	145	GGRF
		Forest Improvement Program for Small Landowners	0	40	40	GF
		Forest Improvement Program for Small Landowners	10	0	10	GGRF

		Forest Legacy & Reforestation Nursery	8	17	25	GF
		Urban Forestry	10	13	23	GF
		Tribal Engagement	1	19	20	GF
	Parks, DFW & SLC	Stewardship of State-Owned Land	19	123	142	GF
	Sierra Nevada & Tahoe Conservancies	Project Implementation in High-Risk Regions	21	61	82	GF
<b>Wildfire Fuel Breaks</b>	CalFire	CalFire Unit Fire Prevention Projects	10	40	50	GF
		Fire Prevention Grants	50	80	130	GGRF
		Prescribed Fire & Hand Crews	15	0	15	GF
		Prescribed Fire & Hand Crews	0	35	35	GGRF
	CCC	Forestry Corps & Fuel Reduction Projects	0	15	15	GF
		Forestry Corps & Fuel Reduction Projects	0	5	5	GGRF
	DOC	Regional Forest and Fire Capacity	25	60	85	GF
<b>Community Hardening</b>	Cal OES & CalFire	Home Hardening	25	0	25	GF
	CalFire	Defensible Space Inspectors	0	6	6	GF
	CalFire & UC	Land Use Planning & Public Education Outreach	0	7	7	GF
<b>Science-Based Management</b>	CalFire	Ecological Monitoring, Research & Adaptive Management	3	17	20	GF
	CNRA	Remote Sensing	0	15	15	GF
	CARB & SWRCB	Permit Efficiencies	0	4	4	GF
<b>Forestry Sector</b>	IBank & GO-Biz	Climate Catalyst Fund	47	2	49	GF
	CalFire	Workforce Training	6	18	24	GF

<b>Economic Stimulus</b>	OPR	Market Development	3	0	3	GF
Subtotal (GF)			198	477	675	GF
Subtotal (GGRF)			125	200	325	GGRF
<b>Total</b>			<b>323</b>	<b>677</b>	<b>1000</b>	

Source: Department of Finance

**Resilient Forests and Landscapes (\$139 million in 2020-21 and \$373 million in 2021-22).**

The state owns 3 million acres. These ecosystems are being destroyed by wildfire, with over 100,000 acres of Parks land and 40,000 acres of DFW land burned in the 2020 wildfire season alone. The proposed funding in this category is intended to: (1) invest in coordinated forest health and fire prevention projects that help restore the right fire regime to the right ecosystem; (2) provide state land managers resources to better manage state-owned lands in particularly fire-prone area; (3) expand programs that provide assistance to non-industrial landowners; (4) implement ready-to-go projects in high-risk regions; and, (5) provide resources to Tribes for fire resilience.

**Protective Fuel Breaks (\$100 million in 2020-21 and \$235 million in 2021-22).** Emergency fuel breaks protect communities and sensitive areas against the impacts of wildfires. They enable firefighters to approach a fire, take a stand, establish containment lines, and create evacuation routes. The proposed funding in this category is intended for strategic fuel breaks and other fire prevention projects to reduce fire risk.

**Community and Home Hardening (\$25 million in 2020-21 and \$13 million in 2021-22).**

Investments within communities are essential to protect residents from all types of wildfires, including wind-driven fires that spread embers ahead of the fire front. These include hardening homes against embers, creating survivable spaces, establishing space around homes, and supporting local and regional efforts to create fire-adapted communities through improvements in local ordinances, emergency access routes, communications, smoke management, and other tools.

Retrofits like fine-mesh attic vents or double-paned windows dramatically improve a home's survival during a wildfire. Education and outreach can help homeowners make the right improvements. The proposed funding in this category is intended to implement the wildfire mitigation assistance pilot program created by AB 38 (Wood), Chapter 391, Statutes of 2019 to support implementation of home hardening education programs, as well as grants to low-income homeowners in high-risk areas that could not otherwise afford retrofitting projects (\$25 million in 2020-21) and \$13 million in 2021-22). California will work with FEMA to pursue potential federal funding to match the state's investment.

**Science-Based Management (\$3 million in 2020-21 and \$36 million in 2021-22).** The proposed funding in this category is intended to improve the predictive models and science-based approaches to support the state's forest health and fire prevention goals, including the expanded use of LiDAR and other remote sensing technology, research, and data analysis collection methods. Funding includes the execution of the California Vegetation Treatment Program (CAL VTP) including synchronizing SWRCB permits within the CAL VTP application. CARB will also have resources to facilitate the issuance of "burn permits" to keep pace with the

increase in prescribed fire.

**Forest Sector Economic Stimulus (\$56 million in 2020-21 and \$20 million in 2021-22).** The proposed funding in this category is intended to ensure that fire prevention investments will be a driver for economic growth in rural communities. Fuel reduction projects may create jobs and a foundation for small business to start up from backyard micro-mills to bio-diesel conservation. However, there are barriers to these markets. Private loans for forestry equipment can face a 40 percent interest rate. Shortages in crews and specialized equipment operators slow the pace of projects and drive up the cost-per-acre. Low-interest lending programs and training to expand the workforce are intended to improve the pace of Fire resilience. Steady, long-term regional funding is intended to enable local businesses to start up in regions to meet the state's demand.

#### LAO COMMENTS

**Focus on Wildfire Prevention and Mitigation Has Merit.** The LAO finds that increased budget support for programs that attempt to reduce the risks associated with wildfires is merited given the increasing pattern of severe wildfires in recent decades and the major consequences for communities, the environment, and the economy.

- **Package Builds on Prioritization Established in SB 901.** The Legislature established its intent to focus additional state resources on wildfire prevention and mitigation in SB 901. This package would restore GGRF funding for such programs in the current and budget years, as well as expand on these and other programs. By comparison, most budget augmentations related to forests and wildfires have been for wildfire response in recent years, rather than prevention or mitigation. For example, recent budgets have included one-time and ongoing funding to replace CalFire's helicopter fleet, expand the number of state fire engines, and increase the number of state fire fighters.

**Myriad of Risks Warrants Consideration of Multiple Strategies.** The package includes a mix of programs designed to reduce future wildfire risks and damages, and many of these programs could be useful in addressing the varied contributors to wildfire risk. For example, forest health and fuel break programs could reduce the risk of rapid wildfire spread, community hardening could reduce the number of properties severely damaged when wildfires do occur, and research could help better target future funding decisions to the most effective strategies and/or where risks are determined to be greatest.

**One-Time General Fund Spending Does Not Address Ongoing Nature of Problem.** It is understandable that the Administration is proposing that the General Fund augmentations be provided on a one-time basis given the projected out-year General Fund structural deficit. Moreover, much of the funding is intended to be spent over multiple years or have multiyear benefits. For example, some state agencies propose to use a portion of the proposed one-time funding to purchase equipment which can be used on fuels reduction work for many years. However, the one-time nature of these proposals presents some significant challenges. Accordingly, the Legislature may want to direct the Administration to present at budget hearings on its longer-term plan to sustain the projects and activities proposed in the package.

- **Addresses Only Small Share of Estimated Need.** For example, while this package could result in substantial benefits by treating hundreds of thousands of additional acres of forestlands over the next few years, the state's Forest Carbon Plan estimates that 20 million acres of the state's forests would benefit from treatment. In addition, with millions of California homes in areas at risk of wildfires, it likely would cost billions of dollars to ensure that basic home hardening modifications were made on all of them.
- **Many Funded Projects Could Require Ongoing Support to Be Effective.** For example, even where effective forest treatment occurs, it is often necessary to do additional maintenance and retreatments in subsequent years to prevent too much vegetation regrowth, particularly of invasive species. Other programs areas—such as defensible space inspections and research—should be considered ongoing efforts.

**Early Action More Justified for Some Programs.** While there could be legitimate rationales for approving some funding early, in our view it is incumbent upon the administration to present clear justification for such action. Appropriating funds in the current year reduces the Legislature's time to deliberate the merits and trade-offs associated with each proposal, as well as reduces its ability to consider the proposed costs in the context of its broader state budget plan.

- **Reasons Early Action Might Be Justified.** If the Legislature decides to adopt a current-year GGRF expenditure plan, we find that it would be reasonable to include the funding proposed in the wildfire resilience package since it is consistent with existing statutory direction in SB 901, and only partial funding was provided in the enacted 2020-21 budget. Early action might also be reasonable if the Administration can demonstrate that the added implementation time available to departments would ensure that certain high-priority projects could be in place in advance of an additional fire season (usually encompassing most of the summer and fall). The Administration should provide detailed time lines to justify any such claims.
- **Reasons Early Action Might Be Less Warranted.** While timing likely is critical to the success of certain proposals, the LAO does not believe early action necessarily is warranted solely to complete projects a few months earlier than would be the case if the funding were provided in the 2021-22 budget. In particular, early action would not be warranted if the Administration has not yet provided sufficient detail to inform the Legislature about the program's implementation plan and expected outcomes. In addition, some might think that providing early funding would help stimulate the economy. However, state spending is limited in its ability to generate stimulus, in part because the amount of additional spending would be quite small relative to the overall state economy.

**Limited Evidence Available on Effectiveness of Many Programs.** Many of the activities proposed for funding in the package are widely considered good practices to reduce wildfire risks, particularly reduction of hazardous fuels, defensible space, and home hardening. However, the available research on the effectiveness of programs is somewhat limited in a couple of ways, making it difficult for the Legislature to know whether the proposed package represents the most effective way to allocate funds for wildfire prevention and mitigation.

- **Research Base Not Well Developed for Many Types of Programs.** Among other findings, a recent report from the California Council on Science and Technology found that activities such as vegetation management, defensible space, and home hardening can be effective wildfire mitigation measures. However, the costs and cost-effectiveness of these measures is not systematically tracked, making it unclear the degree to which they might reduce suppression and other costs, as well as making it difficult to compare costs and benefits across strategies.
- **Limited Outcome Data for Specific Programs in the Package.** Administering departments have been mixed in whether they have provided information on the specific outcomes they expect to achieve with the proposed funding, such as number of acres treated, cost per acre, or homes protected. The Legislature likely will want to direct the Administration to provide such information where possible before deciding what level of funding to provide for each program.

**Legislature Could Fund Programs in Different Amounts Based on Its Priorities.** In addition to not consistently having clear evidence regarding the effectiveness of different mitigation and prevention activities, the state also lacks a comprehensive statewide strategy. In combination, these two factors make it very difficult for the Legislature to determine whether this package represents the “best” mix of funding to address wildfire risks. The Legislature could consider a different total level of funding for prevention and mitigation, as well as a different mix among programs. Some different evaluation criteria the Legislature could use include the following:

- **Which Harms Would Be Mitigated.** For example, to the extent protecting homes and reducing economic costs are high priorities, the Legislature could consider dedicating more funding to community hardening.
- **Which Groups of Californians Are Most Impacted.** The Legislature might want to consider how wildfires affect different communities, how past funding has been directed, and the extent to which the proposed strategies could more equitably target new spending. For example, the Governor’s plan includes funding dedicated to forest health projects on tribal lands, and the home hardening program is intended to go to lower-income households that might otherwise be less able to implement these safety improvements on their own.
- **Whether It Protects State Assets and Responsibilities.** For example, some funding in this package is targeted to addressing risks on state-owned lands, such as state parks. The Legislature could also consider whether more funding should be spent in ways that better ensure protection of other state assets, such as highways and state buildings, or the watersheds that provides most of the water flows for the State Water Project.

**Explore Additional Options to Strengthen Prevention and Mitigation.** The Legislature may want to use budget hearings to consider other prevention and mitigation options. This could include hearing from stakeholders — including tribes, community and business groups, local governments, and researchers — about other program ideas, as well as discussion of other potential funding mechanisms.

- **Other Mitigation and Prevention Strategies.** While the strategies contained in the Administration's plan might represent a reasonable package of proposals, hearing directly from other stakeholders could illuminate other beneficial programmatic options. For example, local governments have significant responsibilities related to mitigation and prevention, including land use planning and development decisions, enforcement of local defensible space ordinances, and hazardous fuels management projects. In addition, there are activities the state has undertaken in the past that might be worthy of consideration, again, such as the provision of air filtration systems to mitigate public health impacts and assistance to households and businesses to respond to public safety power shut offs.
- **Other Potential Funding Sources.** Particularly, if the Legislature is interested in exploring ongoing funding options to support some of these activities, it might want to consider funding sources that could be used in place of or in addition to the General Fund. For example, the state used to charge a fee on all properties in the State Responsibility Area to help fund certain mitigation and prevention activities.

**Could Consider Adding Accountability Measures Where They Do Not Exist.** Given the importance of the programs involved and the level of spending proposed, future reporting on outcomes will be important for holding the Administration accountable for delivering results, learning what is effective to improve future implementation. Moreover, the proposed appropriation of one-time fund will be spent over multiple years, which reduces legislative oversight of programs compared to if that funding was appropriated on an annual basis. Therefore, the Legislature may want to consider requiring the Administration to report on specific metrics and outcomes for each program that ultimately receives funding.

#### STAFF COMMENTS

The negative impacts of wildfires are widespread, ranging from watershed health, air quality, soil, to the economy. With eight of the State's most destructive wildfires occurring in the last five years, we are overdue for a plan to increase our fire resilience through better land management and other fire prevention measures. While there are a lot of questions on this proposal, such as to whether this is the correct mix of activities to fund, this proposal is a step in the right direction. The Subcommittee may wish to ask the Administration:

- How will you ensure the investments are coordinated?
- How will you ensure these investments are in harmony with other climate resiliency and restoration efforts?

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**Staff Recommendation: Hold Open.**

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**0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT (GO-BIZ)****ISSUE 6: CLIMATE SMART AGRICULTURE — CLIMATE CATALYST FUND**

The Governor's budget proposes \$50 million General Fund one-time to provide low-interest loans and credit support advancing the state's climate-smart agriculture objectives, via the California Infrastructure and Economic Development Bank, Climate Catalyst Fund.

This proposal additionally includes trailer bill language that would allow the Climate Catalyst Fund to accept state funds and budget bill language to allow up to five percent of the requested funding for administrative costs.

**PANEL**

The following individuals will participate virtually in the discussion of this issue:

- Dan Adler, Senior Advisor for Climate Funding, GO-Biz
- Scott Wu, Executive Director, I-Bank
- Sergio Aguilar, Principal Program Budget Analyst, Department of Finance
- Brian Weatherford, Senior Fiscal & Policy Analyst, Legislative Analyst's Office
- Jenny Lester Moffitt, Undersecretary, Department of Food and Agriculture (Q&A)
- Kevin Masuhara, Deputy Secretary of Finance & Administration, Department of Food and Agriculture (Q&A)
- Amrith Gunasekara, Ph.D., Science Advisor to the Secretary, Department of Food and Agriculture (Q&A)
- Tamara Johnson, Finance Budget Analyst, Department of Finance (Q&A)

**BACKGROUND**

**Climate Catalyst Fund.** The Climate Catalyst revolving loan fund was established in 2020 to provide low-interest loans for climate-related projects. A revolving loan fund means that the fund is replenished as borrowers repay their loans, and the program may continue making loans indefinitely without continued support. Low-interest loans in a revolving fund enable greater leverage of private investment and encourage lending to borrowers who are presently challenged with access to capital. Though the Fund was created, the 2020-21 Budget Act did not provide any funding for the Climate Catalyst program.

**Administration intends for this Fund to catalyze climate innovation in the agricultural sector.** Low-interest loans further benefit borrowers by letting them retain more revenue for their businesses and communities. According to the Administration, the overall goal of the Climate Catalyst Fund, and applied in the agricultural sector, is to support financially viable projects that the private market is not yet supporting. Climate solutions in the agricultural sector are particularly in need of this focused intervention, as investors are less familiar with these technologies and practices; for example, with established technologies like wind and solar. By supporting small businesses in the agricultural sector that traditional lenders will not serve, this

Fund promotes inclusion in the climate solutions economy. The Administration further asserts that the presence of this low-cost debt, particularly in conjunction with smart, risk-reducing grant dollars from other agencies (a key design feature of the Climate Catalyst program), can encourage private lenders to co-lend, creating the private market leverage the state's funding programs need to achieve scale. The Administration intends for the Climate Catalyst Fund to fund Climate Smart Agriculture loan projects such as methane reduction projects; equipment replacement to improve efficiency and emissions; water efficiency; healthy soils; circular economies; on-farm bio energy; energy efficiency for food processing; and, renewable energy systems and energy storage for agricultural operations.

#### LAO COMMENTS

**Revolving Loan Fund Established to Finance Climate-Related Projects.** IBank provides financing for a variety of private and public projects. The Climate Catalyst Revolving Loan Fund was established at IBank in 2020 to help finance climate-related projects. (A revolving loan fund means that the fund is replenished as borrowers repay their loans, and the program may continue making loans indefinitely without continued support.)

**Strategic Growth Council Advises Legislature on Investment Categories.** Government Code section 63048.93(d) requires the Strategic Growth Council (SGC), in consultation with the Labor and Workforce Development Agency to annually advise the Legislature of potential categories of climate catalyst projects that would focus on the state's key climate mitigation and resilience priorities. The SGC met on December 17, 2020 to approve the following investment category recommendations:

- Zero-Emissions Vehicles and Infrastructure
- Market Approaches to Reduce Wildfire Risk
- Facilitate Implementation of Executive Order N-19-19
- Opportunities Presented by Federal Stimulus

**Baseline Funding.** The 2020-21 Budget Act did not capitalize the Climate Catalyst program. (The fund also has not received funding from any other source, as was envisioned when it was created.)

**A Pilot Program May Be Appropriate.** When this was proposed last year, the LAO agreed with the Administration that a public loan fund could be an appropriate way to increase the amount of public and private investment for climate mitigation and adaptation projects. However, the LAO noted that the Administration needed to first demonstrate that a sufficient number of appropriate projects existed. The LAO suggested that a limited pilot program could be an appropriate approach to gauging the demand for such loans. This proposal could be considered to be such a pilot project.

**Justification for Agricultural Projects Exists, But Is Weak.** The LAO acknowledges that the agriculture sector is a significant source of greenhouse gas emissions and that cost-effective private solutions to mitigate these sources exist. Access to low-cost loans may help to investments that would reduce these emissions. However, the LAO also notes that it is unclear

how well this proposal fits in with the state's overall climate strategy. For example, it is unclear why the Governor advanced this specific proposal when the SGC did not identify agricultural projects as a priority investment category. The Administration's proposal also lacks key details regarding how the Climate Catalyst Fund will be implemented.

**Expand Reporting Requirements.** Current law requires IBank to annually report information about the Climate Catalyst loans in its portfolio. This reporting requirement will help the Legislature to assess the extent to which the program benefiting businesses, reducing greenhouse gas emissions, and potentially creating jobs. The current reporting requirements do not address our concern that the low-interest loans could crowd-out private lenders in this market. The LAO previously recommended that the legislature require IBank to also report more detailed financial information about each project so that the state may assess the financial risk and the extent to which private capital is participating in financing these projects.

<b>STAFF COMMENTS</b>
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Last year, the Governor's January Budget proposed the establishment of the Climate Catalyst Fund along with a \$250 million General Fund allocation. The May Revision withdrew this proposal. However, the final Budget Act of 2020 included trailer bill language to establish the Climate Catalyst Revolving Loan Fund at the IBank and authorized it to receive funds from non-state governmental entities and private sources for the purpose of making loans for climate catalyst projects that further the state's climate goals. These moneys are available upon appropriation by the Legislature.

This proposal is again before us. While there could be benefits for such a revolving loan program, the Administration have not provided sufficient evidence of its benefits nor the demand for such a loan program. Inherent to this loan program is the migration of certain existing grant programs. It is unclear how the Administration determined which programs are suitable for grants and others for loans. Some previous grant recipients have told legislative staff that a loan is not a good option for them and that they already have access to borrowing for these investments. Moreover, shifting funds away from established grant programs to a new loan program will end funding for technical assistance and demonstration projects, which are part of those existing grant programs.

In addition, this program appears to be duplicative and not distinct from lending programs that IBank and a few other departments currently offer. For example, IBank operates the California Lending for Energy and Environmental Needs (CLEEN) Center and the California Small Business Loan Guarantee Program. CLEEN funds programs such as statewide energy efficiency program projects, ZEVs, and hydrogen fueling stations. Similarly, CalRecycle administers a GHG Reduction Loan program.

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**Staff Recommendation: Hold Open.**

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## VARIOUS DEPARTMENTS

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### ISSUE 7: CAP AND TRADE EXPENDITURE PLAN

The Governor's budget proposes \$1.369 billion Greenhouse Gas Reduction Fund for a number of programs. Specifically, this proposal includes \$624 million for early action in 2020-21 and \$745 million in 2021-22. This proposal also includes budget bill language for 2020-21 and 2021-22 restricting departments from encumbering or committing more than 75 percent of their Greenhouse Gas Reduction Fund appropriations prior to the fiscal year's fourth quarterly Cap and Trade auction.

#### PANEL

The following individuals will participate virtually in the discussion of this issue:

- Jared Blumenfeld, Secretary, California Environmental Protection Agency
- Lauren Sanchez, Deputy Secretary for Climate Policy and Intergovernmental Relations, California Environmental Protection Agency
- Lizzie Urie, Staff Finance Budget Analyst, Department of Finance
- Teresa Calvert, Program Budget Manager, Department of Finance
- Ross Brown, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Andrew Hull, Staff Finance Budget Analyst, Department of Finance (Q&A)
- Becca Moore, Staff Finance Budget Analyst, Department of Finance (Q&A)
- Sydney Vergis, Chief, Mobile Source Control Division, California Air Resources Board (Q&A)
- Scott Rowland, Chief, Incentives and Technology Advancement Branch, California Air Resources Board (Q&A)
- Mario Cruz, Chief, Climate Investments Branch, California Air Resources Board (Q&A)
- Helge Eng, Deputy Director, CAL FIRE (Q&A)
- Angela Lottes, Assistant Deputy Director, CAL FIRE (Q&A)
- Amrith Gunasekara, Science Advisor, Department of Food and Agriculture (Q&A)
- Jenny Lester Moffitt, Undersecretary, Department of Food and Agriculture (Q&A)
- Sergio Aguilar, Principal Program Budget Analyst, Department of Finance (Q&A)

#### BACKGROUND

**Cap-and-Trade Part of State's Strategy for Reducing GHGs.** AB 32 (Núñez/Pavley, Chapter 488, Statutes of 2006) established the goal of limiting greenhouse gas (GHG) emissions, statewide, to 1990 levels by 2020. Subsequently, SB 32 (Pavley, Chapter 249, Statutes of 2016) established an additional GHG target of reducing emissions by at least 40 percent below 1990 levels by 2030. One policy the state uses to achieve these goals is a cap-and-trade program. The cap-and-trade regulation—administered by the California Air Resources Board (CARB)—places a “cap” on aggregate GHG emissions from large emitters, such as large industrial facilities, electricity generators and importers, and transportation fuel suppliers. Capped sources

of emissions are responsible for roughly 80 percent of the state's GHGs. To implement the program, CARB issues a limited number of allowances, and each allowance is essentially a permit to emit one ton of carbon dioxide equivalent. Entities can also "trade" (buy and sell on the open market) the allowances in order to obtain enough to cover their total emissions.

Auction revenue has been volatile in the past, but since the enactment of AB 398 (E. Garcia, Chapter 135, Statutes of 2017), which extended the program through 2030, revenues have stabilized and quarterly auction revenue has consistently exceeded \$600 million—reaching about \$800 million in the most recent auction.

**Auction proceeds.** The proposed expenditure plan is based on cap and trade auctions generating an estimated \$2.121 billion in 2020-21, which reflects actual August and November 2020 auctions results and assumes an average of these results for the February and May 2021 auctions. After accounting for estimates of the required transfers for the manufacturing tax credit (- \$51 million) and fire prevention fee backfill (- \$74 million), as well as additional interest earnings (currently assumed at \$60 million), \$2.056 billion is estimated to be available.

**Cap and Trade Availability**  
**Current Year 2020-21**  
(Dollars in Millions)

<b>Revenues</b>	Auction Proceeds	\$2,121
	Estimated Interest Earnings	\$60
<b>Subtotal, Revenues</b>		<b>\$2,181</b>
<b>Statutory Obligations</b>	State Responsibility Area Fee Backfill	\$74
	Manufacturing Tax Credit	\$51
<b>Net Available Resources</b>		<b>\$2,056</b>
<b>Continuous Appropriations</b>	High-Speed Rail Project	\$499
	Affordable Housing & Sustainable Communities Program	\$399
	Transit and Intercity Rail Capital Program	\$200
	Low Carbon Transit Operations Program	\$100
	Safe & Affordable Drinking Water Program	\$100
<b>Subtotal, Continuous Appropriations</b>		<b>\$1,298</b>
<b>Existing Commitments</b>	2020 Budget Act—Baseline State Operations	\$134
	<b>Subtotal</b>	<b>\$134</b>
<b>Amount Available for 2020-21 Appropriations</b>		<b>\$624</b>

**Cap and Trade Availability**  
**Budget Year 2021-22**  
(Dollars in Millions)

<b>Revenues</b>	Auction Proceeds	\$2,256
	Estimated Interest Earnings	\$60
<b>Subtotal, Revenues</b>		<b>\$2,316</b>
<b>Statutory Obligations</b>	State Responsibility Area Fee Backfill	\$77
	Manufacturing Tax Credit	\$52
<b>Net Available Resources</b>		<b>\$2,187</b>
<b>Continuous Appropriations</b>	High-Speed Rail Project	\$532
	Affordable Housing & Sustainable Communities Program	\$426
	Transit and Intercity Rail Capital Program	\$213
	Low Carbon Transit Operations Program	\$106
	Safe & Affordable Drinking Water Program	\$106
<b>Subtotal, Continuous Appropriations</b>		<b>\$1,383</b>
<b>Existing Commitments</b>	Baseline State Operations	\$59
	<b>Subtotal</b>	<b>\$134</b>
<b>Amount Available for 2021-22 Appropriations</b>		<b>\$745</b>

**A percentage of the cap and trade proceeds are continuous appropriations.** Sixty-five percent of Cap and Trade auction proceeds are continuously appropriated on an annual basis to five programs, totaling an estimated \$1.298 billion in 2020-21 and \$1.383 billion in 2021-22. These programs are focused on reducing transportation emissions through investments in transit and transit-oriented development and include: High Speed Rail, Affordable Housing and Sustainable Communities, Transit and Intercity Rail Capital, Low Carbon Transit Operations, as well as Safe and Affordable Drinking Water.

**Baseline state operations.** The 2020 Budget Act includes \$133.6 million for departments to continue implementation of programs with funds authorized in previous fiscal years. The 2021-22 Budget proposes \$59 million for this purpose. The main difference from 2020-21 levels is the inclusion of CalFire's Chapter 626, Statutes of 2018 (SB 901), expenditures in the Expenditure Plan proposal, as displayed in the following chart.

**Governor's Proposal.** The Governor's budget proposes \$624 million for early action to augment the 2020-21 budget and proposes \$745 million for the 2021-22 budget year. The chart below details each proposed expenditure and their amounts for early action or budget year.

**Cap and Trade Expenditure Plan**  
(Dollars in Millions)

Investment Category	Department	Program	Early Action 2020-21	Budget Year 2021-22	Total
Equity Programs	California Air Resources Board	AB 617 - Community Air Protection	\$125	\$140	\$265
		AB 617 - Local Air District Implementation	\$0	\$50	\$50
		AB 617 - Technical Assistance to Community Groups	\$0	\$10	\$10
	Water Board	Safe & Affordable Drinking Water (\$130 million total)	\$30	\$24	\$54
Low Carbon Transportation & ZEV Strategy	California Air Resources Board	Clean Trucks, Buses, & Off-Road Freight Equipment	\$165	\$150	\$315
		Clean Cars 4 All & Transportation Equity Projects	\$74	\$76	\$150
		Agricultural Diesel Engine Replacement & Upgrades	\$90	\$80	\$170
Natural & Working Lands	CAL FIRE	Healthy & Resilient Forests (SB 901) (\$75 million included in 2020 Budget)	\$125	\$200	\$325
	Department of Food & Agriculture	Healthy Soils	\$15	\$15	\$30
<b>Total</b>			<b>\$624</b>	<b>\$745</b>	<b>\$1,369</b>

Below are descriptions of each of the expenditure proposals:

### **Equity Programs**

The Cap and Trade Expenditure Plan continues a strong focus on community air protection by providing \$325 million to support the AB 617 program, which reduces exposure in communities with disproportionate exposure to air pollution through targeted air monitoring and community emissions reduction programs. This support includes grants to community-based organizations, implementation funding for local air districts, and incentives for cleaner vehicles and equipment.

**California Air Resources Board, AB 617—Community Air Protection**— \$125 million in 2020-21 and \$140 million in 2021-22 for incentive actions to reduce both stationary and mobile source emissions in communities identified as heavily impacted by air pollution. Under the Community Air Protection Program (AB 617), CARB will continue to identify at-risk communities and key measures to reduce neighborhood pollution.

**California Air Resources Board, AB 617—Local Air District Implementation**—\$50 million in 2021-222 to support local air districts' implementation of AB 617, including establishing and coordinating community steering committees, emissions reduction program development,

deployment of air monitoring within communities, and implementation of Best Available Retrofit Control Technologies (BARCT) requirements.

**California Air Resources Board, AB 617—Technical Assistance to Community Groups—**\$10 million in 2021-22 for technical assistance grants to community-based organizations to participate in the AB 617 process, including for involvement and support of the development of community emission reduction plans.

**State Water Resources Control Board, Safe and Affordable Drinking Water—**Chapter 120, Statutes of 2019 (SB 200), created the Safe and Affordable Drinking Water Fund, which provides up to \$130 million per year to assist water systems in providing a safe and affordable supply of drinking water to communities. This is achieved by accelerating the implementation of short- and long-term solutions, funding consolidations, planning, technical assistance, administrators, replacement water, and operations and maintenance. Projects funded by the program will improve climate change adaptation and resiliency of disadvantaged communities.

Subdivision (3) (A) of Section 39719 of the Health and Safety Code requires five percent of annual Cap and Trade proceeds be transferred to the Safe and Affordable Drinking Water Fund. This proposal authorizes an additional amount to be transferred to the Safe and Affordable Drinking Water Fund but not to exceed a total of \$130 million.

### **Low Carbon Transportation & ZEV Strategy**

Executive Order N-79-20 directly addresses California's transportation emissions challenge by position state agencies to work with stakeholders to aggressively scale the zero-emission vehicle (ZEV) market in ways that benefit all Californians. To help the state meet the targets set in the order, the Cap and Trade Expenditure Plan includes \$465 million to improve access to new and used zero-emission vehicles, including passenger cars and trucks, medium- and heavy-duty vehicles, and off-road equipment. The Expenditure Plan also includes investments in existing transportation equity programs such as Clean Cars 4 All, Clean Mobility Options, and Financing Assistance, as well as heavy-duty vehicles programs such as the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project and the Clean Off-Road Equipment Voucher Incentive Project. These programs also reduce harmful air pollutants that have a disproportionate impact on disadvantaged populations in both urban and rural communities. Complementing this funding, the Expenditure Plan includes \$170 million dedicated to reducing emissions from agricultural vehicles.

**California Air Resources Board, Clean Trucks, Buses, and Off-Road Freight Equipment—**-\$165 million in 2020-21 and \$150 million in 2021-22 for incentives for zero-emission trucks, transit buses, school buses, and freight equipment in the early stages of commercialization. These investments support the equitable transition of the transportation sector to zero-emission and provide critical air quality and health benefits to communities.

**California Air Resources Board, Clean Cars 4 All and Transportation Equity Projects—**\$74 million in 2020-21 and \$76 million in 2021-22 for equity-focused investments that increase access to clean transportation for low-income households and disadvantaged communities. Projects include voluntary Clean Cars 4 All car scrap-and-replace incentives, financing



assistance for low-income consumers, clean mobility options such as car sharing, community-based transportation equity projects, and rural school bus replacement.

**California Air Resources Board, Agricultural Diesel Engine Replacement & Upgrades**—\$90 million in 2020-21 and \$80 million in 2021-22 for farmers and agricultural businesses to replace existing diesel, agricultural vehicles and equipment with the cleanest available diesel or advanced technologies. Emissions from agricultural equipment are a significant source of air pollution, especially in the San Joaquin Valley, and reducing these emissions is critical for meeting health protective federal air quality standards.

### **Natural & Working Lands**

As the state works to achieve carbon neutrality by mid-century, the agricultural and forestry sectors will be essential to both reducing emissions and sequestering carbon. Consistent with the Natural and Working Lands Executive Order N-82-20, this proposal includes \$30 million one-time for the Healthy Soils Program to provide grants for on-farm soil management practices that sequester carbon. The Expenditure Plan also continues investments for CAL FIRE for forest health and fire prevention programs consistent with the directives of Chapter 626, Statutes of 2018 (SB 901, Dodd).

**CalFire, Healthy & Resilient Forests and Prescribed Fire and Fuels Crews**—\$125 million in 2020-21 and \$200 million for forest health and fire prevention activities, including prescribed fire and other fuel reduction activities, to build healthy and fire resilient forests. This includes funding for projects and grants for fuel reduction and tree thinning; reforestation; forest insect and disease mitigations; prescribed fire; local community capacity development; research; and other forest resilience activities, such as conservation easements or other actions to restore watershed health and function, and support biodiversity and adaptation to climate change. This also includes funding for a total of 10 dedicated fuels crews and related staff necessary for CalFire to increase the pace and scale of prescribed fire and other fuel reduction activities to better meet CalFire annual fuel reduction goals and the state's carbon goals. Additionally, SB 901 made \$200 million available to CalFire for these purposes annually through 2023-24. The 2021-22 Budget proposes trailer bill language to make this annual funding available to CAL FIRE through 2030.

In addition to the resources above, the Governor proposes additional one-time funding for CalFire and various other departments to increase the pace and scale of forest health and fire prevention activities. For more information, see the Wildfire and Forest Resilience Strategy Budget Change Proposal.

**California Department of Food and Agriculture, Healthy Soils Program**—\$15 million in 2020-21 and \$15 million in 2021-22 to support the Healthy Soils Program (HSP). The HSP consists of Healthy Soils Incentives and Demonstration Project grants. The HSP Incentives Program provides financial incentives to California growers and ranchers to implement conservation management practices that sequester carbon, reduce atmospheric GHG, and improve soil health. The HSP Demonstration Project grants provide on-farm demonstration projects that collect data and/or showcase conservation management practices that mitigate GHG emissions and increase soil health. The projects create a platform to promote widespread

adoption of conservation management practices throughout the state. The funds will also be used for Technical Assistance for the Healthy Soils Incentives applicants, planning grants for HSP Demonstration Projects, and administrative costs to implement the HSP.

#### LAO COMMENTS

**Cap-and-Trade Auction Revenue Deposited in the GGRF.** Funds are spent on a variety of environmental programs. About 65 percent of auction revenue is continuously appropriated to certain programs and projects, including high-speed rail, transit-related activities, and a program to provide safe and affordable drinking water. About \$185 million is spent on annual state administrative costs and other ongoing statutory allocations such as backfilling revenue losses associated with 2017 legislation that suspended: (1) a fee to support fire protection activities; and, (2) sales taxes for certain manufacturing equipment. The remaining revenue is available for expenditure in the annual budget — sometimes referred to as “discretionary expenditures.”

**2020-21 Budget Provided Limited Discretionary Funding Due to Revenue Uncertainty.** Given uncertainty about auction revenue, the 2020-21 GGRF budget was limited to: (1) continuous appropriations; (2) about \$125 million for ongoing statutory allocations; (3) \$75 million for wildfire activities related to SB 901 (Dodd), Chapter 626, Statutes of 2018; and, (4) \$59 million to continue state administrative activities. The budget also authorized a loan from the Underground Storage Tank Clean-Up (USTC) Fund to the Safe and Affordable Drinking Water Fund to ensure the program received \$130 million in total funding even in the event that GGRF revenues were insufficient. The loan will be repaid by GGRF at a future date.

**Expenditure Plan Assumes Lower Revenue Than Prior Years.** Revenue is down from a high of \$3.2 billion in 2018-19 to an estimated \$2.1 billion in 2020-21 and \$2.3 billion in 2021-22.

**Less Funding Available for Discretionary Spending.** The Governor’s budget plan includes additional “early action” discretionary spending of \$624 million in 2020-21, as well as total discretionary spending of \$745 million in 2021-22. Discretionary spending in 2021-22 is only about half of what was provided in 2019-20 (\$1.4 billion). Discretionary spending in the budget year is lower than it was previously, primarily because lower revenue reduces the amount of funding available for spending — including for both continuous appropriations and discretionary spending. In addition, as part of the 2019-20 budget, the Legislature added a five percent continuous appropriation for safe and affordable drinking water, beginning in 2020-21. This reduces the amount of funding available for discretionary spending by about \$100 million in 2021-22.

**Funding Would Go to Programs That Have Received GGRF in Recent Years.** Funding would go to a mix of programs that commonly receive discretionary GGRF funding. The Administration is not proposing funding for any new programs. The plan prioritizes repayment of the USTC Fund loan in 2020-21 (estimated to be \$30 million) and additional funding to ensure the safe drinking water program receives a total of \$130 million in 2021-22.

**Other Programs That Commonly Received GGRF Are Not Included.** Notably, the plan does not include funding for the Clean Vehicle Rebate Project (CVRP) — the state’s main program to provide rebates for zero-emission vehicles. The expenditure plan has included funding for CVRP

every year from 2014-15 to 2019-20. Other programs that have frequently received substantial annual GGRF allocations, but that are not included in this year's plan include waste diversion, include dairy methane emission reductions and Transformative Climate Communities. The Administration indicates that other programs will help support some of the activities that would not receive GGRF. For example, the newly implemented Clean Fuel Rewards Program administered by utilities provides \$1,500 rebates for electric vehicles, and the Governor is proposing a new loan program through the Climate Catalyst Fund for dairy methane projects.

**Revenue Estimates Are Reasonable, But Significant Uncertainty Remains.** Revenue could be several hundred million dollars higher or lower in both the current year and budget year. A decline in overall economic conditions and/or financial markets can result in dramatic drops in quarterly auction revenues witnessed last year. On the other hand, it is possible that there is a substantial increase in revenue. For example, the Secretary of the California Environmental Protection Agency has expressed his intent to work with CARB to evaluate potential changes to the Cap-and-Trade program that might be necessary to achieve the state's GHG goals. Depending on the specific outcomes of this evaluation, changes could increase demand for allowances and prices.

**Proposal Would Leave Small Fund Balance.** Under the Governor's proposal, the GGRF fund balance would be slightly more than \$100 million at the end of the current year and budget year — roughly five percent of the estimated annual revenue. This is a small fund balance, particularly given the ongoing uncertainty and potential volatility of the revenue.

**Early Action More Justified for Some Programs Than Others.** Early Action Presents Trade-Offs. The main benefit of providing funding through early actions is that projects could be implemented a few months earlier than if funding were provided in the 2021-22 budget. However, early action reduces the Legislature's time to deliberate the merits and trade-offs associated with each proposal.

**Most Cap-and-Trade Expenditures Not Addressing Urgent Needs.** There could be a strong rationale for approving some funding a few months early. For example, early action can make sense if spending is needed to address an urgent public safety or economic challenges, such as those related to the pandemic. Most Cap-and-Trade programs do not fit these criteria.

**Early Action on Wildfire-Related Funding Could Make Sense.** There could be merit in providing funding for some forest health and resilience activities a few months earlier than if they were included in the 2021-22 budget. This allocation would be consistent with the direction in SB 901 to provide \$200 million annually for these programs. In addition, based on discussions with the Administration, allocating GGRF funding this spring — before the 2021 fire season begins — could make it more likely that some high-priority projects are in place in advance of the 2022 fire season.

**Consider Reducing Amount Provided in 2020-21 Expenditure Plan.** Given ongoing revenue uncertainty and a lack of urgency around many of the programs, the LAO recommends the Legislature consider limiting early action to an amount less than the \$624 million proposed by the Governor. A couple of alternative early action plans that the Legislature could consider are:

- Alternative No. 1 — Augment Only for Wildfire-Related Programs. Limit additional current-year funding to only those activities where a strong rationale for early action exists, such as the \$125 million for healthy and resilient forests.
- Alternative No. 2 — Limit Early Action Spending to What Is “In the Bank.” For example, the LAO estimates there is currently about \$300 million GGRF that has already been raised from earlier auctions, but that has not yet been allocated to other programs. This amount will likely increase after the upcoming auction in February. The Legislature could allocate up to \$300 million — plus a portion of discretionary revenue collected from the February auction — in 2020-21 for programs that it determines to be high priorities.

**Assess Resources Available for 2021-22 Expenditure Plan After Upcoming Auctions.** The Legislature might want to re-assess the amount proposed in the 2021-22 Cap-and-Trade expenditure plan until after the results of the February and May auctions are available (late May, 2021). The state will have complete information about 2020-21 auction revenue at that time, including how much funding is available from the year-end fund reserves. These auction results could also help inform 2021-22 revenue estimates, although there will likely continue to be significant revenue uncertainty.

**Consider Larger Reserve to Promote Long-Term Fund Solvency and Funding Predictability.** Over the last several years, revenue volatility has resulted in unpredictable funding for many GGRF programs and administrative actions. For example, after the May 2020 auction generated very little revenue, the Department of Finance reduced over \$100 million in GGRF allocations to select programs to ensure fund solvency, consistent with the authority it was given in the 2019-20 budget. The LAO recommends the Legislature consider alternative strategies to better ensure long-term fund solvency, as well as greater funding stability for high priority programs.

For example, the Legislature could begin building a larger reserve in the fund that would serve as a buffer against future revenue volatility. This is similar in concept to the approach the state has enacted for the General Fund, which relies heavily on volatile personal income tax revenues.

The “right” size of the reserve depends on the Legislature’s overall risk tolerance, but the LAO thinks a target of 10 percent of annual revenue — which would be over \$200 million for the GGRF — is a reasonable starting goal. However, the Legislature might want to consider a somewhat higher target, given the revenue volatility.

**Allocate Discretionary Funding Based on Legislative Priorities.** The Legislature will have to weigh many different priorities when considering how to allocate funds, including GHG reductions, local air quality improvements, safe drinking water, and forest health.

The state has multiple funding and regulatory programs designed to achieve many of these goals. So, once the Legislature determines its priorities for GGRF funds, it will want to try to identify the mix of programs that achieve those goals most effectively and, therefore, where GGRF funds can best be targeted.

For example, to the extent the Legislature considers GHG emission reductions the highest priority use of GGRF funds, it will want to identify the programs that achieve the goals most effectively. In prior reports, the LAO has identified some key factors the Legislature might want to consider when spending GGRF funds on GHG emission reduction efforts. For instance, the Legislature could:

- Consider targeting funds to address other “market failures” that current regulations do not address. For example, it could target funds to pilots and demonstrations for GHG reducing technologies because private companies do not always invest in these activities at a level that is socially optimal.
- Target funds to achieve GHG reductions from sources that are not currently covered but the Cap-and-Trade regulation. For example, it could prioritize programs aimed at reducing methane emissions from dairies or sequestering carbon in natural and working lands.

<b>STAFF COMMENTS</b>
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The Administration’s proposed expenditure plan continues to fund past priorities and make investments in the areas of air toxic and criteria air pollutants, low carbon transportation, forest health, and healthy soils. With these programs, California has made strides to reduce GHG emissions, served as a laboratory by developing and implementing programs that can be replicated in other states and around the world, and it has also funded efforts to develop new technologies. The proposed expenditure plan does not include funding for certain programs that have received support in the past. Those programs not proposed for funding include:

- Transformative Climate Communities
- Urban Greening
- Low-income weatherization
- Clean Vehicle Rebate Program
- Waste Diversion and Recycling

The Assembly continues to evaluate this proposed expenditure plan.

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**Staff Recommendation: Hold Open.**

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