# AGENDA

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

## ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

## WEDNESDAY, MARCH 17, 2021

## 9:30 A.M. - STATE CAPITOL, ROOM 437

*Due to the ongoing COVID-19 safety considerations, including guidance on physical distancing, seating for this hearing will be very limited for the press and for the public. All are encouraged to watch the hearing from its live stream on the Assembly's website at https://assembly.ca.gov/todayevents.*

*We encourage the public to provide written testimony before the hearing. Please send your written testimony to: 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-PRESENTATION CALENDAR

## 2740 CALIFORNIA DEPARTMENT OF MOTOR VEHICLES

### ISSUE 1: BRAWLEY AND WOODLAND FIELD OFFICE RELOCATIONS

This item summarizes two budget changes proposals (BCPs) related to two field office relocations for the Department of Motor Vehicles.

### BACKGROUND

1. **Brawley Field Office.** The Governor's budget requests $316,000 in 2021-22, $526,000 in 2022-23, and $793,000 in 2023-24 and ongoing, to relocate the Brawley Field Office to a temporary leased office near Brawley, California. Currently, the Brawley Field Office is in a state-owned modular trailer on a plot of leased land. Due to age and condition, the trailer has surpassed its useful life and now has become dilapidated. Additionally, the leased land is too small, requiring customers to park across a busy street and causing safety concerns voiced by the 56th Assembly District and the City of Brawley. The office is space deficient and does not have basic Field Office space standard program requirements.

   DMV proposes to relocate the Brawley Field Office into a temporary leased building through this project. The Brawley Field Office is proposed to be consolidated with the El Centro Field Office in a capital outlay project in DMV's 2021-22 Five-Year Infrastructure Plan.

2. **Woodland Field Office.** The Governor's office requests $311,000 in 2021-22, $490,000 in 2022-23, and $727,000 in 2023-24 and ongoing to relocate the Woodland Field Office to a permanent leased office near Woodland, California.

   According to the DMV, this critical infrastructure project will replace the department's leased Woodland Field Office building that has not been properly maintained by the lessor. The proposed project will provide a new, safe, appropriately sized, and efficiently designed facility for use by the DMV Field Operations Division.

### STAFF COMMENTS

Staff has no concerns with these two proposals.

**Staff Recommendation: Absent any questions from members or comments by the public, staff recommends a vote-only items whenever the Committee takes action.**

## 2600 CALIFORNIA TRANSPORTATION COMMISSION

### ISSUE 2: TRANSPORTATION SYSTEMS OVERSIGHT

The budget includes an increase of $1,189,000 from the State Highway Account (SHA) and the Public Transportation Account (PTA) to convert eight limited-term positions to permanent positions to address the permanent workload related to the implementation of SB 1 (Beall), Chapter 5, Statutes of 2017, SB 103 (Committee on Budget and Fiscal Review), Chapter 95, Statutes of 2017, and SB 1328 (Beall), Chapter 698, Statutes of 2018.

### BACKGROUND

SB 1 provided an ongoing increase in state transportation funding in more than two decades. In providing this funding, the Legislature has provided additional funding to the Commission and increased its role in a number of existing programs and created new programs for the Commission to oversee. The Commission received an increase of 11 (three permanent and eight two-year limited term) positions in 2019-20 to address the workload. While the positions provided in 2019-20 were limited term, the workload created by these bills was ongoing.

### STAFF COMMENTS

Staff has no concerns with this proposal. Ongoing workload is justified to convert eight positions from limited-term to permanent.

**Staff Recommendation: Absent any questions from members or comments by the public, staff recommends a vote-only items whenever the Committee takes action.**

## 2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION (CALTRANS)

### ISSUE 3: OTHER CALTRANS BUDGET CHANGE PROPOSALS

This item summarizes three Caltrans BCPs.

### BACKGROUND

1. **Planning Program PID ZBB.** The Governor's budget includes resources for Caltrans associated with the biennial zero-based budget (ZBB) for the Project Initiation Document (PID) Program in 2021-22. This ZBB requests a total of 370 positions and $72,120,000 ($68,790,000 in personal services and $3,330,000 in operating expenses) to develop, review, and approve PIDs.

   At the start 2019-20, Caltrans implemented strategic funding adjustments within the State Highway Operation and Protection Program (SHOPP) to achieve federal and state asset performance targets. These adjustments consisted of completing more work under SHOPP Programs that did not require PIDs. As a result of these adjustments, fewer PIDs were needed to fully program the SHOPP funding capacity. Expenditures in 2019-20 reflect workload reductions supporting these program decisions.

   Although there is substantial transportation funding available, the PID Program is requesting a decrease in resources due to the implementation of multi-asset PIDs, increased funding directed towards programs that do not require PIDs, and a new normal level of PIDs after accelerating delivery to meet the influx of the Road Repair and Accountability Act of 2017 (SB1) transportation funding.

2. **Maintenance Zone Enhancement Enforcement Program (MAZEEP).** The Governor's budget proposes a permanent increase in the State Highway Account (SHA) funds of $4,000,000 in operating expenses beginning in 2021-22 for MAZEEP needs statewide. The permanent increase in resources will enhance worker safety in project work zones.

   This funding will allow Caltrans to replace redirected resources to accomplish priority highway maintenance activities, such as increased landscape and right-of-way maintenance, including material purchases and services contracts on hold due to budget constraints.

3. **Wildfire Litigation.** The Governor's budget proposes three-year, limited-term resources in the SHA funds totaling $2,756,000 to support increase workload for wildfire litigation.

   This proposal addresses the Legal Division's workload increases due to wildfire litigation. Wildfire litigation has begun with pre-litigation work, which includes instituting litigation holds to preserve evidence from an expansive group of entities and individuals, as well as securing expert witnesses.

In 2020-21, the Legal Division's BCP request for additional wildfire litigation resources was withdrawn due to the 2020 COVID-19 Pandemic and anticipated delays in court proceedings. Subsequently, the courts implemented technological solutions and, once again, cases are progressing. The Legal Division has already begun incurring staffing costs and fees. Additional resources are needed for preparing for and conducting depositions, coordinating with court reporters, requesting reprographic services and executing contracts with expert witnesses.

## STAFF COMMENTS

Staff has no concerns with these proposals, resources requested are reasonable.

**Staff Recommendation: Absent any questions from members or comments by the public, staff recommends a vote-only items whenever the Committee takes action.**

## 2720 CALIFORNIA HIGHWAY PATROL

### ISSUE 4: RECORDS MANAGEMENT SYSTEM LICENSING AND SUBSCRIPTION

The Governor's budget includes a permanent increase of $3.5 million from the Motor Vehicle Account (MVA) for the ongoing licensing and subscription of the Department's Records Management System (RMS).

### BACKGROUND

In response to a federal mandate requiring all law enforcement agencies to submit statistical crime data in electronic format beginning January 1, 2021, the Department was awarded a $4.5 million Federal Justice Assistance Grant in 2019-20, for the acquisition of RMS that complies with the National Incident Based Reporting System.

The Department has indicated that the federal grant only covers the initial cost of the acquisition, configuration, and stabilization of the RMS but not the ongoing licensing and maintenance costs. The Department plans to provide licenses for access to the acquired system for the roughly 7,500 sworn officers and non-uniformed administrators. $3.5 million per year covers the licensing costs for these individuals. While the MVA is fiscally constrained, this funding is required to meet a federal mandate.

### STAFF COMMENTS

Staff has no concerns with this proposal.

**Staff Recommendation: Absent any questions from members or comments by the public, staff recommends a vote-only items whenever the Committee takes action.**

## 2670 BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO, AND SUISUN

### ISSUE 5: FUNDING FOR INCREASED TRAINING COSTS

The Governor's budget includes a permanent augmentation of $200,000 from the Board of Pilot Commissioners' Special Fund to cover increased training costs for the Board of Pilot Commissioners (BOPC) for the Bays of San Francisco, San Pablo, and Suisun.

### BACKGROUND

The current appropriation of $1,225,000 will not cover the training costs of both pilots and pilot trainees in 2021-22 if the Board increases the maximum number of pilot trainees from eight to ten. The increase to the training budget by $200,000 would cover increased Pilot Trainee Training Program costs. Of this amount, $168,000 would be used to increase pilot trainee stipends and $32,000 to support other trainee costs.

### STAFF COMMENTS

Staff has no concerns with this proposal. Resources requested will allow the BOPC to increase pilot trainees from eight to ten.

**Staff Recommendation: Absent any questions from members or comments by the public, staff recommends a vote-only items whenever the Committee takes action.**

# ITEMS TO BE HEARD

**0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT**
**3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION**
**3900 CALIFORNIA AIR RESOURCES BOARD**
**7760 DEPARTMENT OF GENERAL SERVICES**

## OVERVIEW

The Subcommittee will discuss the Governor's Zero Emission Vehicle proposal, which includes components in four different state departments.

## ISSUE 6: ZERO EMISSION VEHICLE PROPOSAL

The Governor's budget includes two proposals related to the Energy Commission implementing recent legislation.

### PANEL

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

- Commissioner Patricia Monahan, California Energy Commission
- Hannon Rasool, California Energy Commission
- Sydney Vergis, California Air Resources Board
- Scott Rowland, California Air Resources Board
- Ross Brown, Legislative Analyst's Office
- Damien Mimnaugh, Department of Finance
- Elizabeth Urie, Department of Finance
- Mark Monroe, Department of Finance
- Teresa Calvert, Department of Finance

### BACKGROUND

According to the Air Resources Board, transportation emissions are the largest source of state greenhouse gas emissions accounting for 40 percent the state total, rising to 50 percent if fuel production is included. The chart on the following page illustrates emissions in 2018, and also shows greater detail as the significant role that light-duty passenger vehicles play as a source of that pollution:

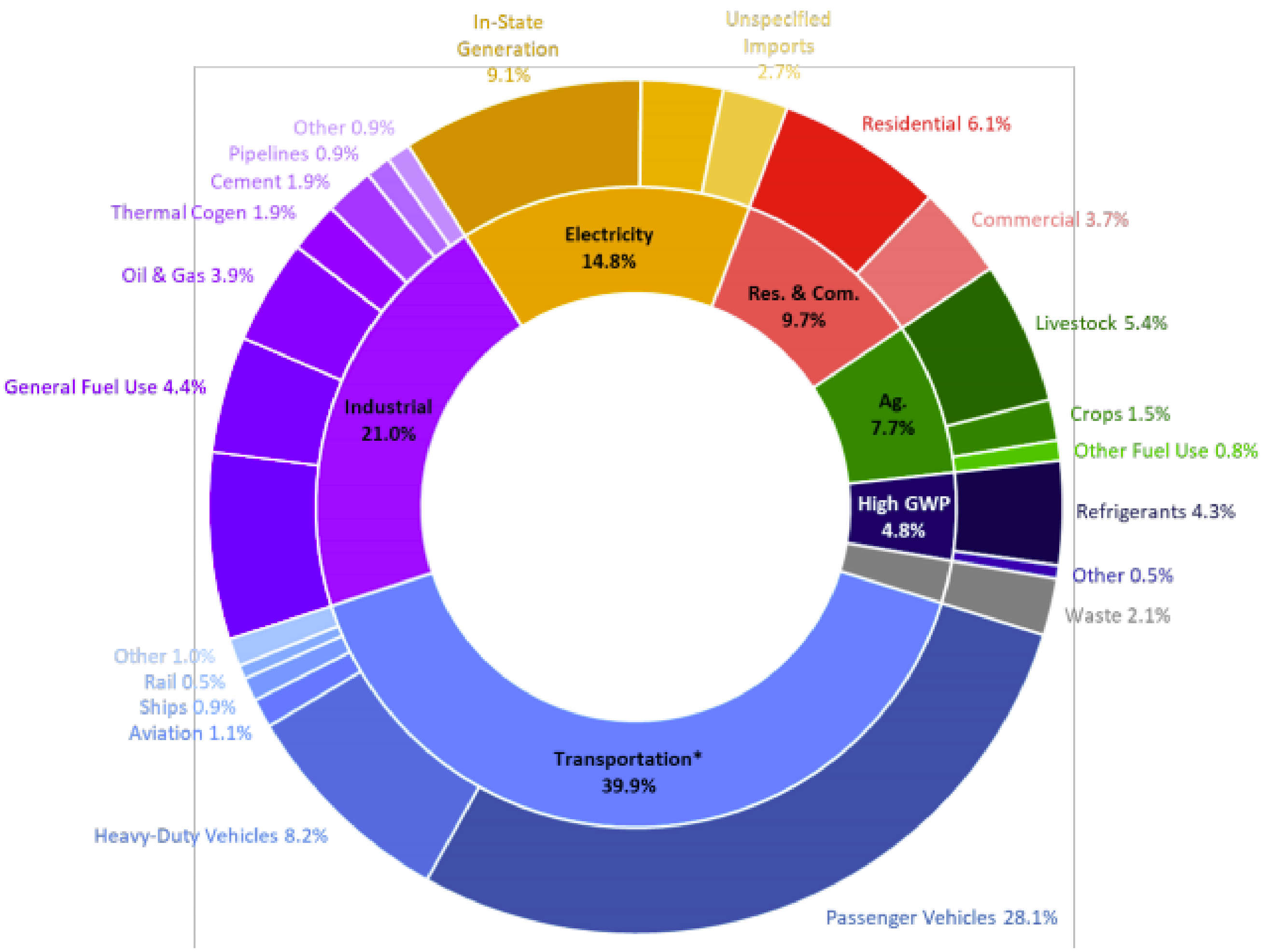
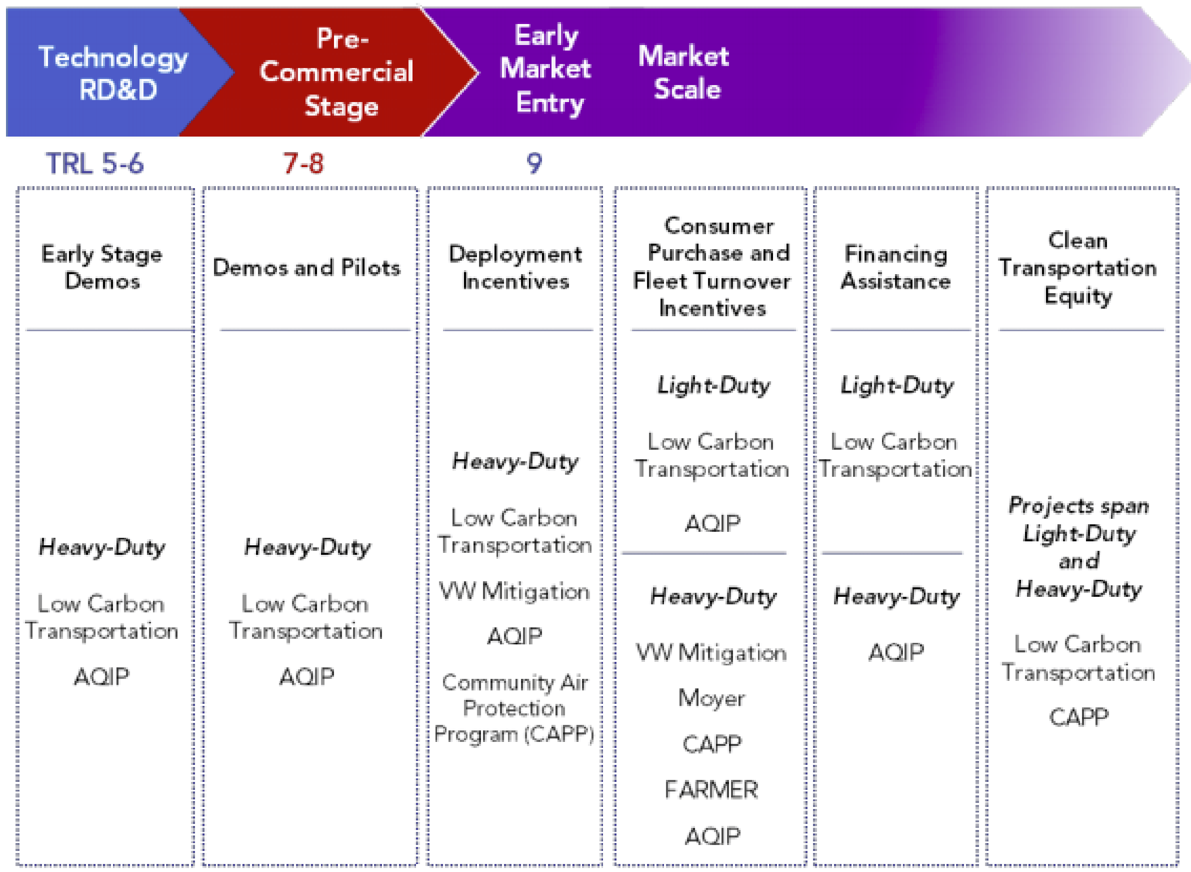



**Figure 4. 2018 GHG Emissions by Scoping Plan Sector and Sub-Sector Category.** This figure breaks out 2018 emissions by sector into an additional level of sub-sector categories. The inner ring shows the broad Scoping Plan sectors. The outer ring breaks out the broad sectors into sub-sectors or emission categories under each sector.

*The transportation sector represents tailpipe emissions from on-road vehicles and direct emissions from other off-road mobile sources. It does not include emissions from petroleum refineries and oil extraction and production, which are included in the industrial sector.

The state has taken several different programmatic approaches to target reductions to mobile source pollution from cars, heavy vehicles, ports, tractors and other off-road vehicles. The flowchart on the following page illustrates the approach the State has used to advance technology for clean vehicles from the research stage through commercialization. This approach has supported the foundation of a viable clean alternative that can sustain itself in the market.

**Figure 1: CARB's Clean Transportation Investment Portfolio**




As the flowchart illustrates, the State has seen success in its nearly three decades of support for zero emission light-duty and passenger vehicles, which are now progressing to market scale. However, medium and heavy-duty vehicles and off road equipment and tractors still remain in early stages of development, including pure research, pilots, and demonstration pilots.

*Investments Targeted Sale of Light-Duty Passenger Vehicles*

The table on the following page reflects six years of investment in clean transportation, illustrating the $2.1 billion spent on these efforts by the State through programs offered by ARB. This table illustrates the diverse portfolio of programs funded that match the different levels of commercial readiness of the technology. Over that period, roughly half of all expenditures were targeting the sale of passenger vehicles.

**Table 4: Low Carbon Transportation Project Allocations to Date**
(FY 2013-14 through FY 2019-20)

| Project | Funding (millions) |
|---|---|
| **Light-Duty Investments** | |
| CVRP | $943.7 |
| **Clean Transportation Equity Investments** | |
| Clean Cars 4 All | $102[a] |
| Clean Mobility Options | $55.4 |
| Financing Assistance for Lower-Income Consumers | $34.1[a] |
| Agricultural Worker Vanpools | $6 |
| Clean Mobility in Schools | $24.6 |
| Rural School Bus Pilot | $61.6 |
| Sustainable Transportation Equity Project | $19.5 |
| Outreach, Community Transportation Needs Assessments, Technical Assistance, and One-Stop-Shop | $6[a] |
| **Heavy-Duty Vehicle and Off-Road Equipment Investments** | |
| Advanced Technology Freight Demonstrations | $81.2 |
| Zero-Emission Truck and Bus Pilots | $85 |
| Zero- and Near Zero-Emission Freight Facilities | $148.7 |
| Zero-Emission Drayage Truck Pilot | $23.8 |
| Ocean-going Vessels at Berth Capture and Control System | $10 |
| Clean Off-Road Equipment Vouchers | $44.2 |
| HVIP | $488.4 |
| **TOTAL** | **$2,134.2[b]** |

[a] *Funding shown here only includes Low Carbon Transportation Allocations. Clean Cars 4 All and Financing Assistance for Lower-Income Consumers each received $10 million from the Volkswagen settlement funds. One-Stop-Shop also received $5 million from the Volkswagen settlement funds.*
[b] *Total does not include $23 million for State operations.*

*Governor's Plan Reflects Shift to Charging Infrastructure and Cleaner Heavy Vehicle*

The chart on the following page illustrates the complex network for clean vehicle incentives, including programs offered through the State, utility companies, and the VW Mitigation trust. The chart illustrates the shift of resources towards infrastructure, heavy-duty vehicles incentives and development.

**Major Programs Providing Financial Support for Vehicles and Fueling Infrastructure**
*(In Millions)*

| Category/Program | Department | Funding Source | 2019-20 | 2020-21 Revised |
|---|---|---|---|---|
| **Low Carbon Fuel Standard[a]** | **CARB** | **LCFS credits** | **$560** | **$530** |
| Light-duty vehicle EV rebates and programs | | | 370 | 330 |
| Heavy-duty EV charging | | | 190 | 200 |
| **Low Carbon Transportation** | **CARB** | **GGRF** | **$449** | **$239** |
| Light-duty vehicle rebates (CVRP) | | | 238 | — |
| Heavy-duty vehicles and equipment | | | 156 | 165[b] |
| Equity programs | | | 56 | 74[b] |
| **Utility EV infrastructure[a]** | **CPUC** | **IOU ratepayers** | **$255** | **$255** |
| **AB 617 incentives** | **CARB** | **GGRF** | **$209** | **$125[b]** |
| **VW Mitigation Trust—Heavy Duty[a]** | **CARB** | **Legal settlement** | **$117** | **$117** |
| **Clean Transportation Program** | **CEC** | **AB 8 fees** | **$95** | **$146[c]** |
| Light-duty EV infrastructure | | | 33 | 93 |
| Heavy-duty vehicles and infrastructure | | | 30 | 20 |
| Hydrogen fueling | | | 20 | 20 |
| Other | | | 13 | 14 |
| **Carl Moyer** | **CARB** | **AB 8 and other fees** | **$94** | **$94** |
| **VW ZEV Investment Plan[a]** | **CARB** | **Legal settlement** | **$80** | **$80** |
| **EFMP/Consumer Assistance Program** | **BAR/CARB** | **AB 8 and other fees** | **$73** | **$80** |
| **FARMER** | **CARB** | **GGRF** | **$56** | **$90[b]** |
| **Air Quality Improvement Program** | **CARB** | **AB 8 fees** | **$48** | **$28** |
| **Totals** | | | **$2,036** | **$1,784** |

[a] LAO estimate.
[b] Proposed current-year allocation in Governor's budget.
[c] Includes $51 million one-time funding.

CARB = California Air Resources Board; LCFS = Low Carbon Fuel Standard; EV = electric vehicle; GGRF = Greenhouse Gas Reduction Fund; CVRP = Clean Vehicle Rebate Project; CPUC = California Public Utilities Commission; IOU = investor owned utility; AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia); VW = Volkswagen; CEC = California Energy Commission; Chapter 282 1979 (AB 8, L. Greene); ZEV = zero-emission vehicle; EFMP = Enhanced Fleet Modernization Program; BAR = Bureau of Automotive Repair; and FARMER = Funding Agricultural Replacement Measures for Emission Reductions.

This shift in policy reflects the evolution of the clean vehicle market and expectations about where the market will evolve. This agenda discusses light-duty and passenger vehicles first, and then discusses medium and heavy-duty vehicles.

### Light-Duty and Passenger Vehicles

California has supported Zero Emission Vehicles for over three decades and those efforts have dramatically changed the entire automobile industry. In 2010, only 300 electric vehicles were sold in California. Ten years late, the Tesla Model 3 was the best-selling car in the Near-Luxury segment for California, selling 38,580 vehicles, almost four times the number of vehicles second best seller in that segment, the BMW 3 Series. Additionally, the Chevrolet Bolt was the bestselling subcompact in California, with 8,230 vehicles sold. Many major automobile manufacturers have announced their intention to cease production of internal combustion engine-powered vehicles during this decade, reflecting the confidence that the mandates adopted by California and other governments will be implemented.

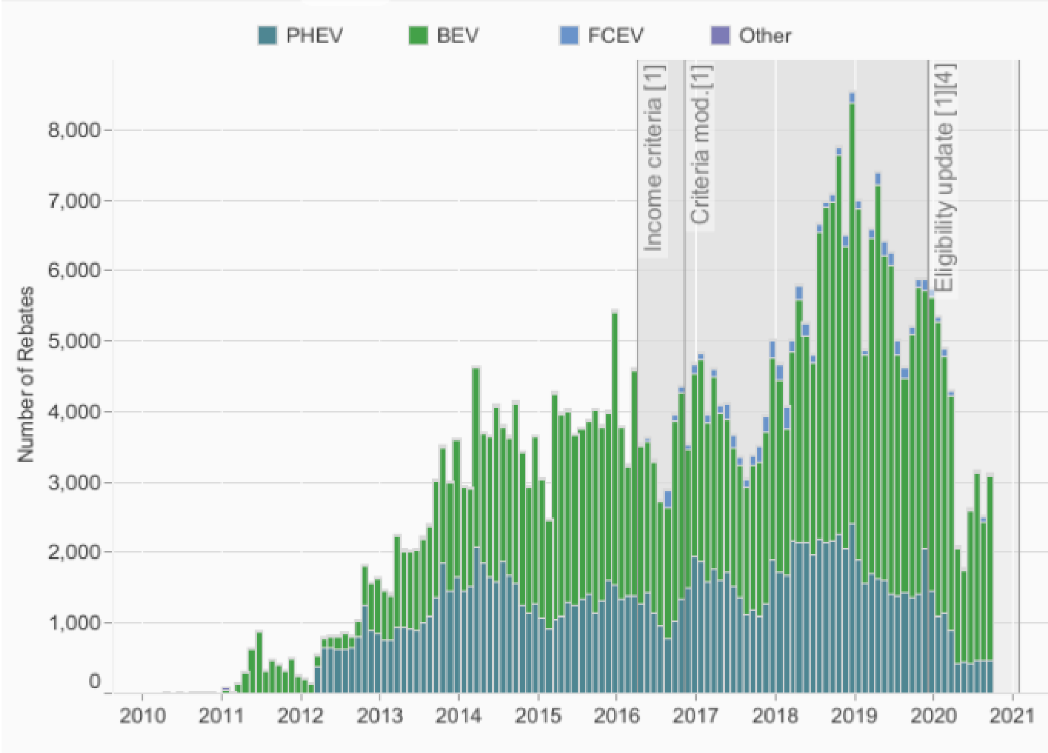
Despite this progress, electric vehicles remain only 6.2 percent of the total market share of new vehicles, with Tesla, an upmarket automaker, accounting for 70 percent of electric vehicles sales in 2020. Additionally, there are few clean vehicle options in the largest, and growing, vehicle segment for 2020—Non-Luxury Sport Utility Vehicles which representing 1 of every 3 new vehicles purchased in 2020.

While electric vehicles have established a strong foothold in the luxury and near-luxury car segment of the market, there remains major barriers towards the widescale adoption of zero emission technology due to a lack of products in different segments, challenges for consumers to access a charging infrastructure, and a lack of vehicles that can reliably perform certain light duty functions, like towing. In addition, state efforts have focused the most resources on the purchase of new vehicles, while ignoring the larger used vehicle market.

The State has an array of programs targeting the passenger light-duty segment that are currently in place:

*Clean Vehicle Rebate Program (CVRP)*

Historically the largest in total investment of all State clean transportation programs, the CVRP has evolved as the market has matured. The chart on the following page illustrated the interaction between market forces, and changes to the program to more precisely target the rebate to market segments and income levels.




This figure displays the total number of rebates by month from 2010 to 2020 as a stacked bar chart with each bar containing number of rebates per vehicle technology type. Plug-in Hybrid Electric Vehicles are represented in blue, Battery Electric Vehicles are represented in green, Fuel-cell Electric Vehicles are represented in light purple, Other vehicle categories are represented in dark purple. Additionally, it contains three date markers that represent program changes – the income criteria on 3/29/2016, the modified income criteria on 11/1/2016, and eligibility update on 12/3/2019.

As of March 1, 2021, the Air Resources Board has $41.7 million of funding still available for CVRP, with $21.4 million of that reserved for low and moderate income consumers. The Governor's budget does not include a proposal for additional funding for 2021-22.

Recent program changes to the CVRP made on December 3, 2019 imposed income eligibility limitations and targeted the incentives to less expensive and longer-range vehicles, reflecting the evolution of the market. Currently the program offers $2,000 rebates on certain electric vehicles, $4,500 for hydrogen fuel cell vehicles, $750 for electric motorcycles and $1,000 for certain extended range plug-in hybrids. Low and moderate income consumers receive an additional $2,500.

*Clean Cars 4 All*

Previously known as the Enhanced Fleet Modernization Plus-Up Program, this program provides funding for lower-income consumers living in and near disadvantaged communities who scrap their old vehicles and purchase new or used gas vehicles, hybrid, plug-in hybrid, or ZEV replacement vehicles. The program is administered by four Air Districts: South Coast (which covers parts of Los Angeles, Riverside, San Bernardino, and Orange counties), San Joaquin, Bay Area, and Sacramento. Two of the bigger programs are better known as Replace Your Ride (South Coast) and Drive Clean in the San Joaquin region. Eligible individuals can receive up to $9,500 towards the purchase of a new or used conventional gas vehicle, hybrid, plug-in hybrid electric (PHEV), battery electric (BEV), or fuel cell electric vehicle (FCEV); or choose up to $7,500 in incentives to access public, private, and shared mobility options. The highest incentive amount under this program is for participants with the lowest income, living in a disadvantaged community, and that choose the cleanest vehicle technology, such as a fuel cell or electric vehicle.

In 2020-21 the Air Resources Board allocated $3 million for Clean Cars 4 All. The Governor's budget proposes $150 million for "Clean Cars 4 All and Transportation Equity Projects" which would allow the Air Resources Board discretion to determine the ultimate funding for this program.

*Other "Equity Projects" Targeting Passenger and Light Duty Transportation*

- <u>Clean Vehicle Assistance Program.</u> The Air Resources Board offers this program administered by the Beneficial State Foundation (BSF) and offers eligible applicants price buy-down grants of up to $5,000 and affordable financing opportunities (≤ 8% interest); including up to $2,000 for a Level 2 home charger installation for eligible vehicle purchases or a $1,000 prepaid charge card and a free portable Level 1 charger. As of January 15, 2021 this program has awarded 1,728 grants for total of $8.3 million in grants.

- <u>Clean Mobility Options.</u> This newly proposed program for 2020 provides funding for zero-emission car sharing, carpooling/vanpooling, bike sharing/scooter-sharing, innovative transit services, and ride-on-demand services in underserved communities. $20 million was made available for grants for this purpose in the current year, with applications being accepted after October 20, 2020.

*State Facility ZEV Infrastructure*

In 2016, the Department of General Services embarked on a five-year plan to install electric charging infrastructure at state offices, properties, parking garages, and other facilities as part of the 2016 State ZEV plan. The 2021-22 Governor's budget proposes a final fifth year of $51.6 Million ($50 million General Fund) funding for this program to install 2,015 charging ports at state facilities.

*Low Carbon Fuel Standard*

The Low Carbon Fuel Standard is designed to decrease the carbon intensity of California's transportation fuel pool and provide an increasing range of low-carbon and renewable alternatives, which reduce petroleum dependency and achieve air quality benefits. The California Public Utilities Commission directs the investor-owned electric and natural gas utilities to allocate the Low Carbon Fuel Standard revenue to their customers. These Low Carbon Fuel Standard rebate programs are in addition to the existing state and federal EV incentives.

Previously, utilities offered different rebate sizes and approaches to this program, with Southern California Edison offering up to a $1,000 “on the hood” rebate for purchase of a new vehicle and San Diego Gas and Electric offering a $500 annual credit on its electrical bills for vehicle owners.

In November 2020, this program was transformed into the Clean Fuel Rewards Program. Clean Fuel Rewards provides a $1,500 “on the hood” rebate for the purchase of a new or used vehicle plug in hybrid or battery electric vehicle at participating auto dealers.

*ZEV Refueling Infrastructure*

The largest clean vehicle proposal in the 2021 budget is the proposal to securitize the AB 8 revenue that supports ZEV charging/refueling infrastructure and then allow CEC discretion to determine the amount and type off investment moving forward. The CEC administers its portion of the AB 8 funds through the Clean Transportation Program (CTP). The primary funding source is a $2 vehicle registration fee per vehicle per year on all vehicles, and a smog abatement fee of $4 per vehicle per year on vehicles that are eight or less model-years old.

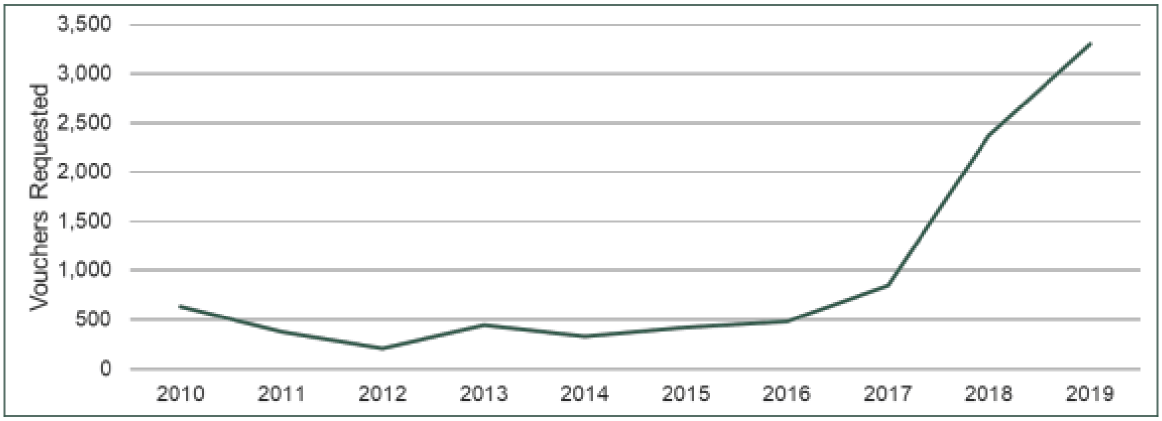
The 2020 – 2023 CTP Investment Plan was the first multi-year plan issued by the CEC. For Fiscal Year 2020-2021 the plan allocated approximately $90 million for light-duty charging (of which $50 million was from one-time funds approved in a 2020-21 budget change proposal). The Plan allocated $20 million to medium-duty and heavy-duty zero-emission vehicles and infrastructure (including both electric and hydrogen vehicles), and allocated $20 million to public hydrogen fueling infrastructure which is primarily focused on light-duty fuel-cell vehicles. The CEC anticipates that future allocations will shift a greater portion of the limited annual funding to medium-duty and heavy-duty vehicle infrastructure investments.

Additionally, certain charging projects, like the “Clean Mobility in Schools” program, would be an eligible use for funding provided for “Transportation Equity” funding proposed in the GGRF plan by the Air Resources Board.

**Heavy Duty Vehicles**

California has long had an active role in promoting the adoption of cleaner heavy and medium duty vehicles and equipment to help address air quality goals, but this effort has only shifted in recent years to a zero-emissions focused strategy. While the technology, products, and market for zero emission heavy vehicles lags behind passenger cars, parts of this segment are beginning to evolve into a more mature market. For example, the growth in vehicle rebates requests from the state Hybrid and Zero Emissions Truck and Bus Voucher Incentive Program (HVIP) show an upwards demand for vouchers that resembles a similar pattern experienced by CVRP five years earlier:

**Figure 2: HVIP Vouchers Requested by Year**




[6] California Air Resource Board. *2020 Annual Report to the Legislature on California Climate Investments Using Cap-and Trade Auction Proceeds*. March 2020. https://ww3.arb.ca.gov/cc/capandtrade/auctionproceeds/2020_cci_annual_report.pdf.

The proposed budget includes funding three programs targeting heavy vehicles, which reflect the current market condition of the program.

*Hybrid and Zero Emissions Truck and Bus Voucher Incentive Program (HVIP)*

As mentioned earlier, the HVIP program provides grants for various heavy and medium duty vehicles to encourage the adoption of clean transportation technology. The voucher amount varies with the type of vehicles and includes modifiers to target the program, shown in the table below from the ARB 2020 report:

**Table 9: Proposed Streamlined Voucher Table**

**Proposed ZEV Incentives**

| Vehicle Weight Class | Base |
|---|---|
| Class 2b | TBD |
| Class 3 | $45,000 |
| Class 4-5 | $60,000 |
| Class 6-7 | $85,000 |
| Class 8 | $120,000 |
| Class 8 Drayage Truck Early Adopter* | $150,000 |

**Drayage tractor voucher amounts revert to Class 8 voucher amounts on 12/31/21*

| Voucher Modifiers (plus-ups and discounts) | |
|---|---|
| Disadvantaged Community | +10% |
| Class 8 Fuel Cell | +100% |
| Public Transit Agencies | +15% |
| School Buses for Public School Districts | +65% |
| Plug-in Hybrid (>35 mi AER) | -50% |
| In-Use Converted/Remanufactured | -50% |

Since the HVIP program was established, it has assisted in the purchase of over 6,000 heavy vehicles, with over 3,000 of those being fully Zero Emissions vehicles.

*Advanced Technology Demonstration Pilot Project*

The purpose of the Advanced Technology Demonstration Projects is to help accelerate the next generation of advanced technology vehicles, equipment, or emission controls which are not yet commercialized. Typically, local air districts, other public agencies, and California-based non-profit organizations would be eligible to apply for these projects to demonstrate promising technologies to reduce emissions. This program has funded over 20 projects since 2009 including funding for trucks, port equipment, tugboats, lawn and garden equipment projects, and off-road vehicles and equipment.

*Clean Off-Road Equipment Voucher Incentive Project*

The Clean Off-Road Equipment (CORE) Voucher Incentive Project is designed to accelerate deployment of cleaner off-road technologies by providing a streamlined way for fleets ready to purchase specific zero-emission equipment to receive funding to offset the higher cost of such technologies. This project is analogous to the HVIP program, but will specifically target zero-emission off-road freight equipment that is currently in the early stages of commercial deployment.

CORE provides vouchers to California purchasers and lessees of zero-emission off-road freight equipment on a first-come, first-served basis, with increased incentives for equipment located in disadvantaged communities. CORE expended over $40 million in the first half of 2020 and now has a waitlist of over $40 million in projects.

*Funding Agricultural Replacement Measures for Emission Reductions (FARMER)*

The Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program provides funding through local air districts for agricultural harvesting equipment, heavy-duty trucks, agricultural pump engines, tractors, and other equipment used in agricultural operations. This program was established in the 2017 GGRF plan and has funded over 2,800 projects including 1,980 tractors and harvesters and 1,567 agriculture utility terrain vehicles.

*Carl Moyer Program*

The Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program) provides grant funding for cleaner-than-required engines, equipment, and other sources of air pollution. The Carl Moyer Program is implemented as a partnership between CARB and California's 35 local air districts. CARB works collaboratively with the air districts and other stakeholders to set Guidelines and ensure the Program reduces pollution and provides cleaner air for Californians. Funding from existing air fees provide approximately $94 million for this program.

*Clean Transportation Program*

The California Energy Commission's Clean Transportation Program (CTP) provides grants and other incentives to support the State's adoption of zero-emission medium- and heavy-duty vehicles. The CTP has built relationships with and supported California's seaports, transit operators, and other fleets to aid their adoption of zero-emission vehicles through planning grants, infrastructure support, and pilot projects. For Fiscal Year 2020-2021 the CTP Investment Plan allocates $20 million to support the deployment of electric and hydrogen infrastructure for zero-emission medium- and heavy-duty vehicles.

**AB 617 and the Role of Air Quality Management Districts**

AB 617 (C. Garcia, Chapter 136, Statutes of 2017) allows air pollution data collection and reporting; requires expedited pollution control retrofit of large stationary sources; increases penalties for air pollution violations; requires enhanced air pollution monitoring; requires ARB to adopt a statewide emissions reduction strategy targeting pollution-burdened communities; and requires ARB and air districts to implement community emissions reduction programs.

Since 2017 the California Legislature has budgeted $704 million to support Assembly Bill (AB) 617 (C. Garcia, Chapter 136, Statutes of 2017) with incentives directed by local air districts to put advanced technologies to work for cleaner air in the California communities that are most heavily impacted by disproportionate levels of air pollution. In order to ensure swift action, the Legislature directed that air districts must spend funds according to two existing mobile source incentive programs: the Carl Moyer Memorial Air Quality Standards Attainment Program, and the Proposition 1B Goods Movement Emission Reduction Program. After the first year of AB 617 allocations, eligible projects were expanded to include stationary sources not subject to Cap-and-Trade and measures to support community emissions reduction programs.

The AB 617 program funds Community Air Protection Program where community members work with local air districts to conduct air monitoring and prepare community emissions reduction programs. These include a mix of strategies to reduce air pollution or exposure at the community level, including new regulations, targeted incentive funding, enhanced enforcement, and coordinating efforts with other agencies based on community priorities. New community air monitoring has been initiated in all communities selected since the start of the program. Since the implementation of AB 617, 13 unique community steering committees have been formed, seven Community Emissions Reduction Programs were approved by the Board, and several strategies have been developed to fight air pollution generated by agricultural activities, heavy duty trucks, railyards, and industry. Three additional communities were added in 2020 to this program.


## GOVERNOR'S BUDGET PROPOSAL

The Governor's budget includes funding in the proposed Greenhouse Gas Reduction Plan, a proposal to securitize air pollution fees for infrastructure, and statutory changes to allow the Air Resources Board and the Energy Commission more control over future funding allocations and decisions.

*Greenhouse Gas Reduction Funding for Clean Vehicles*

The proposed GGRF spending plan includes $465 million for two broad spending priorities specifically for clean vehicles with the anticipation of new funding in both 2020-21 and 2021-22.

| Program | Department | 2020-21 | 2021-22 |
|---|---|---|---|
| **Low Carbon Transportation** | | | |
| Heavy-duty vehicle and off-road equipment | Air Resources Board | 165 | 150 |
| Transportation equity programs | Air Resources Board | 74 | 76 |
| **Community Air Protection Program (AB 617)** | | | |
| Local air district programs to reduce air pollution | Air Resources Board | $125 | $140 |
| Local air district administrative costs | Air Resources Board | —[c] | 50 |
| Technical assistance to community groups | Air Resources Board | — | 10 |
| **Agriculture** | | | |
| Agricultural diesel engine replacement | Air Resources Board | $90 | $80 |

The proposed funding structure would provide dedicated funding for clean transportation in two distinct categories, with the actual allocation for specific programs being determined by the Air Resources Board:

- $315 million over two years for heavy vehicles, including:
  - HVIP
  - Advanced Technology Demonstration Pilots, and;
  - Clean Off-Road Equipment Vouchers

- $150 million over two years for "transportation equity programs" funding, including:
  - Clean Cars 4 All
  - Financing Assistance for Lower-Income Consumers
  - Clean Mobility Options
  - Agricultural Worker Vanpools
  - Clean Mobility in Schools
  - Sustainable Transportation Equity Project
  - Rural School Bus Pilot

The Administration does not include additional funding for the Clean Vehicle Rebate Program in the proposed GGRF spending plan.

*Continuous Appropriation Clean Transportation Projects and Extension of Existing AB 8 Fees*

The Governor's proposal includes three main parts: (1) extending the sunset for all AB 8 fees until 2046; (2) securitizing the AB 8 fee revenue that supports the Clean Transportation Program to accelerate funding for ZEV infrastructure; and, (3) continuous appropriation of only the fee revenue that supports the Clean Transportation Program to facilitate the securitization. The proposal would provide authority for the California Infrastructure and Economic Development Bank (IBank) to issue up to $1 billion in revenue bonds to support ZEV infrastructure through CEC's Clean Transportation Program. The $1 billion results from securitizing only the revenue from the $2 vehicle registration fee. The proposal does not propose to securitize the $4 smog abatement fee. However, continuous appropriation is sought for both revenue streams in order to lower interest rates on the bond and minimize the costs of securitization.

Under current law, AB 8 fees continue through 2023.

The chart below illustrates the proposed Clean Transportation Program Funding:

**Proposed Clean Transportation Program Funding[a]**
*(In Millions)*

| Category | 2021-22 | 2022-23 |
|---|---|---|
| **Baseline Funding** | **$95** | **$62** |
| Light-duty EV charging | 30 | TBD |
| Medium and heavy-duty EV charging | 30 | TBD |
| Public hydrogen fueling[b] | 20 | 20 |
| Alternative fuel production and supply | 10 | TBD |
| Manufacturing | 3 | TBD |
| Workforce training and development | 2 | TBD |
| **Proposed Bond Funds** | **$300** | **$200** |
| Light-duty infrastructure | 200 | 100 |
| Heavy-duty infrastructure | 100 | 100 |
| **Estimated Bond Debt Service** | **—** | **$33** |
| **Total** | **$395** | **$295** |

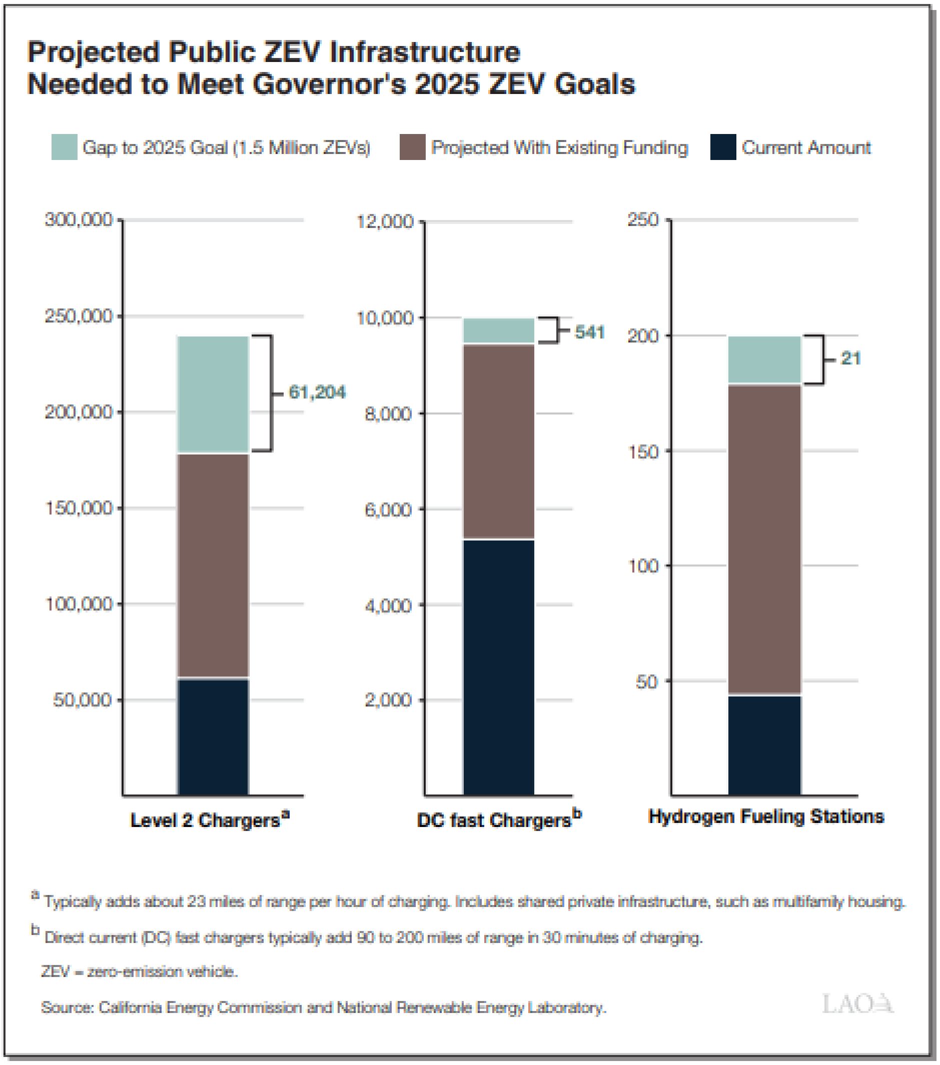
[a] Actual allocation to specific purposes will be determined through CEC investment plan process
[b] Minimum amount required in statute.

EV = electric vehicle; TBD = to be determined; and CEC = California Energy Commission.

*Securitization of Clean Air Funds for ZEV Infrastructure*

The Administration plans to issue $500 million in bonds in late 2021 to support an expansion of ZEV infrastructure in the next two years. Of this total, $300 million would be for light-duty vehicle infrastructure (electric and hydrogen) to meet the state's projected 2025 infrastructure need, and $200 million would support heavy-duty vehicle infrastructure which could include support for both EV charging and hydrogen fueling. The investments in heavy-duty vehicle infrastructure will help de-risk the transition to ZEVs for fleets and businesses. The estimated annual debt service would be $33 million, paid from vehicle registration fee revenue. The CEC would determine whether to issue the additional $500 million in bonds at a future date, based on its assessment of ZEV infrastructure needs.

According to the LAO, the proposed investment in ZEV infrastructure would fit within existing state ZEV goals, as illustrated by this table of total projected need:




*Delayed Property Tax Assessment of Zero-Emission Vehicle Charging and Fueling Stations*

The January Budget proposes statutory changes to exclude the construction or addition of electric vehicle charging and hydrogen fueling stations completed by January 1, 2024. Staff from the Department of Finance have communicated to community staff that the Administration is no longer pursuing this proposal.

## LAO COMMENTS

### Issues for Legislative Consideration

In concept, we think both aspects of the Governor's proposal generally have merit, but there are important questions and issues the Legislature will want to consider before taking action on this proposal:

- ***Should Funding for AB 8 Programs Be Extended?*** The fees support key emission reduction activities, including many programs that are not specifically targeted at ZEVs. However, there have been significant policy changes since they were last extended. The Legislature will want to consider the Governor's proposal in the context of its overall climate and air quality strategies.

- ***Do All Fees Need to Be Extended This Year?*** The Governor's securitization proposal requires an extension of a portion of AB 8 fees. However, the fees do not sunset until the end of 2023 and do not need to be extended this year in order to continue programmatic funding over the next couple of years. Even if the Legislature adopts the Governor's securitization proposal, a large portion of the fees do not need to be extended this year.

- ***What Is the Best Source of Funding for Mobile Source Programs?*** Assembly Bill 8 fees are a reasonable source of funding for these programs, but the Legislature could consider modifying the current fee structure in ways that shift the burden borne by different households and/or businesses. For example, this could include assessing fees in a way that more closely reflects the amount of pollution coming from different types of vehicles.

- ***Which Programs Should Be Funded?*** The proposal lacks detailed outcome information that is presented in a way that could be used to identify the mix of programs that achieves the Legislature's climate and air quality goals most effectively. More information might be available in the coming months. Absent such information, it will be difficult for the Legislature to weigh the wide variety of relevant policy and program design questions.

- ***Should Funding Continue to Focus on ZEV Infrastructure?*** If the Legislature supports long-term ZEV adoption goals, continuing to focus CTP funding on fueling infrastructure has merit. Fueling infrastructure is a key barrier to ZEV adoption and some research has shown that supporting infrastructure is a relatively effective approach for promoting ZEVs.

- ***Does Accelerating Funding for Infrastructure Make Sense?*** Several aspects of the proposal to securitize future CTP funding have merit, but long-term funding needs are still unclear. The Legislature will need to weigh a short-term increase in funding with a long-term reduction in project funding.

- ***How Will CTP Projects Be Implemented?*** Implementation of bond funding will largely rely on the existing CTP program structure. CEC plans to use ongoing analyses of infrastructure distribution to inform expanded efforts to improve statewide equity. The Legislature will want to ensure that the proposed implementation strategy is consistent with its goals and priorities.

- ***Should All CTP Funds Be Continuously Appropriated?*** Continuous appropriation authority for all CTP funding is likely not needed to implement the proposal and would limit legislative discretion over future programmatic funding.

**Recommendations**

In order to address some of the above issues, we recommend the Legislature:

- Consider extension in context of overall climate and air quality strategy.

- Direct the Administration to provide additional information at budget hearings on program outcomes.

- Direct the Administration to report at budget hearings on ongoing Clean Transportation Program funding needs.

- Consider authorizing $500 million bond, rather than $1 billion.

- Limit continuous appropriations to only what is needed to secure bonds.

**STAFF COMMENTS**

The Administration provides a complex and multi-faceted response to advancing ZEV and other clean vehicle goals. This agenda tries to outline the various programs to try to drive the conversation back to the overall strategic policy goals of the state.

The LAO's analysis thoroughly illustrates many of the questions for the legislature, especially when considering the proposed extension of the Clean Transportation Program at CEC. Staff wishes to add these additional questions for consideration:

**Does the Proposed Investment Plan Best Advance the State's ZEV Goals?**

The State's ZEV program is a mosaic of different programs, funding sources, and actors that work together to advance the goal of reduction air pollution. Taken together, they tell a story of a State refocusing efforts from creating a market ZEV passenger cars to shifting the program to be more focused on heavy vehicles. Is the State taking the progress in light passenger vehicle sales for granted? While there is evidence that ZEV vehicles have become mainstream alternatives in some segments of the automotive market, is that progress enough to create momentum for the entire market? Is infrastructure the only key barrier or do certain segments of the market still needs support?

**How much authority should the Legislature delegate to ARB and CEC?**

The proposed budget includes several provisions to continuously appropriate revenue and provide funding in large categories, rather than specific programs, to give both entities discretion in allocating funding. The additional discretion allows both entities to react to market conditions, changes in technology, and demand for program funding. However, this approach also potentially sidelines the Legislatures ability to provide policy direction and conduct oversight.

**Should we move from Statewide Programs to More Regional Approaches?**

As the State invests more in the AB 617 program to reduce pollution and relies on the LCFS program for vehicle incentives rather than CVRP, the State will see more variance in ZEV incentive and investment programs. While this approach helps mirror the reality that air pollutions is more severe in certain parts of the State, it also means that consumers will be offered different level of incentives and rebates based on their air district. The State needs to consider how to coordinate this additional complexity to meet a unified statewide ZEV goal.

**What happens to CVRP?**

As one of the ZEV flagship programs, the CVRP has been foundational for the adoption of clean vehicles over the last 11 years. The proposed budget includes no funding for the program, which leads to unanswered questions about how that program would continue for the next year. Will the ARB consider additional limitations to the program? What happens when the program exhausts its current funding? Does the program stop accepting new rebate applications?

**Staff Recommendation: Hold open. Staff hopes that the Subcommittee discussion will generate feedback and direction on the Assembly's position on these items. The Subcommittee may revisit this discussion later in the budget process.**

## 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
## 8860 PUBLIC UTILITIES COMMISSION

### ISSUE 7: CALIFORNIA SOLAR INITIATIVE UNSPENT FUNDING

The Subcommittee will consider the use of unspent New Solar Home Partnership funding.

#### PANEL

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

- Natalie Lee, California Energy Commission
- Ross Brown, Legislative Analyst's Office
- Damien Mimnaugh, Department of Finance
- Mark Monroe, Department of Finance

#### BACKGROUND

The New Solar Home Partnership (NSHP) program was created as part of a statewide solar incentive program called the California Solar Initiative (CSI). Launched in January 2007, the NSHP program is the California Energy Commission's (CEC) component of the CSI to provide incentives for the integration of solar energy systems in new home construction in investor-owned utility (IOU) territories. The program created 1.2 million solar projects, generating 10,038 Megawatts of potential generation.

The NSHP program is no longer accepting new reservations for solar incentives but continue to complete payment of claims submitted. The program was funded by $288.22 million from a combination of Public Good Charge accounts and Renewable Resource Trust Fund as well as one-time funding from a CPUC Decision 16-06-006 that made $111.78 million available for this purpose.

The CEC expects that $72 million will be unspent from this program once all encumbrances are liquidated.

#### STAFF COMMENTS

Advocates have suggested the Legislature re-appropriates the unspent New Solar Home Partnership funding, in lieu of returning it to ratepayers.

Specifically, the advocates request 72 percent of these funds for "Grid Smart New Solar Homes" which would be homes build with solar that is either: (a) an all-electric with one grid-responsive technology, like a demand flexible water heater; or, (b) a home that includes an energy storage system. The remaining 28 percent of the funds would provide education and technical assistance to local governments seeking to improve their permitting processes for technologies that reduce greenhouse gas emissions from homes. These funds would continue to only be spent in IOU territories.

**Staff Recommendation: The Subcommittee may wish to direct staff to work with CEC, PUC, and advocates to create a proposal that could be included in the June budget package.**

## 2740 CALIFORNIA DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles and the California Highway Patrol are predominantly funded by the Motor Vehicle Account (MVA), which has been fiscally constrained for a number of years. While recent budgetary actions have stabilized the fund to some degree, it is still precariously balanced and remains a concern. As shown below, based on projections in the proposed January budget, the fund is projected to have a negative fund balance beginning in 2024-25:

**Motor Vehicle Account (0044) Fund Condition**
**(dollars in millions)**
**2021-22 Governor's Budget**

| | Past Year 19-20 | Current Year 20-21 | BY 21-22 | BY+1 22-23 | BY+2 23-24 | BY+3 24-25 | BY+4 25-26 |
|---|---|---|---|---|---|---|---|
| **BEGINNING RESERVES** | $602 | $388 | $178 | $155 | $100 | $100 | -$160 |
| | | | | | | | |
| **REVENUES & TRANSFERS** | | | | | | | |
| *Revenues* | | | | | | | |
| Registration Fee | $3,423 | $3,556 | $3,652 | $3,764 | $3,877 | $3,997 | $4,120 |
| Other Fees | $576 | $675 | $549 | $594 | $606 | $617 | $622 |
| REAL ID Fee Revenue - Conversions | $0 | $30 | $129 | $0 | $0 | $0 | $0 |
| **Total Fee Revenue** | **$3,999** | **$4,261** | **$4,330** | **$4,358** | **$4,483** | **$4,614** | **$4,742** |
| | | | | | | | |
| *Transfers & Loans* | | | | | | | |
| Loan of CS 3.90 Savings to GF per CS 3.92 | $0 | -$266 | -$266 | $0 | $0 | $0 | $0 |
| Patrol Member Retirement Contribution Transfer | -$25 | -$25 | -$25 | -$25 | $0 | $0 | $0 |
| | | | | | | | |
| Transfers To Other Funds | -$3 | -$3 | -$3 | -$3 | -$3 | -$106 | -$109 |
| Repayment of CS 3.92 Loan | $0 | $0 | $0 | $86 | $248 | $198 | $0 |
| **Total Resources** | **$4,573** | **$4,355** | **$4,213** | **$4,571** | **$4,828** | **$4,806** | **$4,473** |
| | | | | | | | |
| **EXPENDITURES** | | | | | | | |
| *Baseline Support Expenditures* | | | | | | | |
| CHP - Base Budget | $2,439 | $2,276 | $2,252 | $2,546 | $2,753 | $2,962 | $3,172 |
| DMV - Base Budget | $1,346 | $1,309 | $1,082 | $1,209 | $1,260 | $1,330 | $1,403 |
| DMV - Proposed Extension of REAL ID and Operational Improvements | $0 | $0 | $186 | $106 | $86 | $31 | $32 |
| DMV - Digital Experience IT Project | $0 | $0 | $21 | $49 | $49 | $44 | $44 |
| ARB - Base Budget | $139 | $142 | $140 | $156 | $165 | $175 | $184 |
| Other (Other Departments, Local Assistance, Assessments including Pro Rata) | $259 | $263 | $311 | $317 | $320 | $323 | $327 |
| SB 84 Loan Repayment | $0 | $178 | $66 | $69 | $72 | $74 | $77 |
| **Total, Support Expenditures** | **$4,183** | **$4,168** | **$4,058** | **$4,452** | **$4,705** | **$4,939** | **$5,239** |
| *Cap Outlay-Committed Lease/Debt Service* | | | | | | | |
| CHP | $0 | $9 | $0 | $8 | $12 | $14 | $15 |
| DMV | $2 | $0 | $0 | $0 | $0 | $0 | $0 |
| ARB/CDFA | $0 | $0 | $0 | $11 | $12 | $13 | $15 |
| **Subtotal, Capital Outlay** | **$2** | **$9** | **$0** | **$19** | **$24** | **$27** | **$30** |
| | | | | | | | |
| **Expenditure Total** | **$4,185** | **$4,177** | **$4,058** | **$4,471** | **$4,729** | **$4,966** | **$5,269** |
| | | | | | | | |
| **FUND BALANCE** | **$388** | **$178** | **$155** | **$100** | **$100** | **-$160** | **-$796** |

## ISSUE 8: EXTENSION OF REAL ID RESOURCES AND OPERATIONAL IMPROVEMENTS

The budget includes 1,612 positions and $186.3 million in 2021-22, including one-time and ongoing funding, to continue implementation of the federally mandated REAL ID Act. This includes ongoing resources to fund a communication campaign and customer service improvements such as the REAL ID Automated Document Verification Project (RADVP) and a range of online chat services to improve access to DMV's services outside of the field offices. Additionally, this proposal will continue funding operational improvements such as increased management, training, kiosks, and Office of Public Affairs staffing.

### PANEL

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

- Steve Gordon, Director, Department of Motor Vehicles
- Lee P. Scott, Chief Budget Officer, Department of Motor Vehicles
- Matthew Macedo, Finance Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

**REAL ID Act.** The federal government enacted the REAL ID Act in 2005 that requires state-issued driver licenses and identification cards to meet minimum identity verification and security standards in order for them to be accepted by the federal government for official purposes—such as accessing most federal facilities or boarding federally regulated commercial aircraft.

- *Extended Deadline.* Previously, the REAL ID requirements were to go into effect beginning October 2020. Due to the pandemic, the federal government extended the enforcement deadline to October 1, 2021.

- *Recent Federal Action.* In December 2020, Congress passed the REAL ID Modernization Act to reduce some of the administrative challenges associated with issuing REAL ID-compliant driver licenses and identification cards. The changes allow states to accept identity documents through electronic transmission methods, reuse existing photographs from individuals' official state records, and lessen documentation requirements for social security numbers.

**Impact of REAL ID Implementation on DMV.** Despite receiving additional funding to support this increased workload (discussed below), DMV field offices began reporting a significant increase in customer wait times. At its peak, some individuals visiting certain offices could experience wait times of a few hours. For example, in August 2018, average wait times were nearly two hours in the largest DMV field offices.

**DOF Performance Audit and Strike Team Report.** Due to the increasing wait times associated with REAL ID workload, in 2019, DMV underwent two evaluations—one by the Department of Finance (DOF) and another by the DMV Reinvention Strike Team led by the Government Operations Agency—to improve its operations, customer service, and information technology (IT) functions. Both reports found the DMV lacked an efficient organizational and reporting structure, which undermined the Department's ability to provide consistent customer service. In addition, the reports found the Department's IT infrastructure to be outdated and unstable, leading to frequent outages.

**Funding DMV Workload.** Recent state budgets have provided additional resources to DMV to support the increased workload related to REAL ID, as well as make other operational improvements.

**REAL ID and Operational Improvements Funding History**

*Motor Vehicle Account (Dollars in Millions)*

| | REAL ID Workload | | Operational Improvements | |
|---|---|---|---|---|
| Year | Funding | Positions | Funding | Positions |
| 2017-18 | $23.0 | 218.0 | — | — |
| 2018-19 | 63.2 | 780.0 | — | — |
| 2019-20 | 196.0 | 1,903.3 | $46.1 | 148.8 |
| 2020-21 | 173.0 | 1,820.9 | 26.8 | 171.0 |

- *REAL ID Workload*. To serve the additional customers requiring REAL IDs at field offices, DMV has received funding for temporary field office staff, security and janitorial services to extend field office hours, media outreach, and document verification services. The limited-term funding expires at the end of the current year.

- *Operational Improvements.* The 2019-20 budget provided two-year limited funding to implement operational, customer service, and IT improvements, consistent with recommendations in the DOF and strike team reports. This included funding for additional online support services, employee training, and regional managers, among other activities.

**The background was summarized by the LAO in their February 8, 2021, Handout.*

## LAO COMMENTS

- *Governor Proposes to Continue Funding for REAL ID and Operational Improvements.* The 2021-22 Governor's Budget includes $186 million and 1,612 positions (decreasing to $32 million and 258 positions upon full implementation) to continue previously approved temporary resources to address the increased Department of Motor Vehicles REAL ID workload and operational improvements.

- *Resources for Operational Improvements are Reasonable.* The LAO finds that the request is consistent with the recommendations of the two recent evaluations of the Department, and improvements in department performance suggest that the additional resources have had positive impacts on the Department's performance.

- *Uncertainty Regarding REAL ID Workload.* The Department's estimates of the temporary field office staff required and the auxiliary costs of addressing the REAL ID workload are highly dependent on several factors, such as potential federal action, customer behavior in a pandemic, and changing customer preferences, some of which are fairly uncertain.

- *Recommend Approving Operational Improvements Request, but Only Budget-Year* Funding for REAL ID Workload. The LAO recommends the Legislature approve the components of this request related to customer service, operational improvements, and information technology improvements, but only approve the funding for REAL ID workload in 2021-22. In this way the Legislature could provide oversight of the Department's workload by requiring the Department to come back next year with a new funding proposal, which could be informed by another year of data on customer behavior and possible federal actions.

## STAFF COMMENTS

The implementation of the REAL ID was going to be a challenge for the DMV prior to the pandemic. The pandemic adds a layer of complication with new social distancing rules. The DMV has recently moved away from significant criticism brought about by very long wait times. How the DMV approaches the implementation of the federal requirements will undoubtedly characterize the DMV moving forward. In order to create a success story, the Legislature should ensure that the DMV has the resources and support it needs to succeed.

The Subcommittee may wish to ask DMV the following:

1. How confident is the DMV that the State can implement the REAL ID requirements by the federal deadline with the current social distancing requirements in place?

2. What is the current process for uploading documents to apply for the REAL ID? From an equity perspective, for uploading documents to apply for a REAL ID, how accessible is this technology?

**Staff Recommendation: This issue reflects a policy proposal that may require the Subcommittee revisit it at a later time.**

## 2600 CALIFORNIA TRANSPORTATION COMMISSION

### ISSUE 9: LOCAL STREETS AND ROADS TRAILER BILL LANGUAGE

The Governor's budget includes trailer bill language that makes changes to the Maintenance of Effort (MOE) requirement for local governments that receive funding from the state for their local streets and roads.

### PANEL

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

- Tanisha Taylor, Chief Deputy Director, California Transportation Commission
- Steve Wells, Principal Program Budget Analyst, Department of Finance
- Frank Jimenez, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

In order to receive state funds for local streets and roads, funds, cities and counties are required to meet a MOE requirement. This ensures that state roads funds do not supplant existing levels of general revenue spending on local streets and roads. MOE requirements are calculated annually.

The Governor's trailer bill language proposes the following:

- Suspends the MOE expenditure requirement for cities and counties 2019-20.
- Require the Controller to adjust the minimum MOE expenditure requirements in 2020-21 and 2021-22 in proportion to any decrease in taxable sales within the applicable city or county.
- Authorizes a city or county to petition the Controller to use the transient occupancy tax revenues, in lieu of taxable sales, for purposes of making these adjustments.

### STAFF COMMENTS

The Subcommittee may wish to ask CTC the following:

1. Please provide an explanation as to why the trailer bill language fully suspends the MOE requirement for 2019-20 and only partially suspends it in subsequent years?
2. How many jurisdictions have requested the suspension for the three-year period identified? Are there jurisdictions who are still meeting the MOE requirement during the pandemic?

**Staff Recommendation: This issue reflects a policy proposal that may require the Subcommittee revisit it at a later time.**

## 0521 CALIFORNIA STATE TRANSPORTATION AGENCY

### ISSUE 10: TRANSPORTATION DEVELOPMENT ACT TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to make changes to the Transportation Development Act (TDA) related to the distribution and uses of funding for transit.

### PANEL

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

- Chad Edison, Chief Deputy Secretary, Rail and Transit, CalSTA
- Steve Wells, Principal Program Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

The Mills-Alquist-Deddeh Act (SB 325) was enacted by the California Legislature to improve existing public transportation services and encourage regional transportation coordination. Known as the TDA of 1971, this law provides funding to be allocated to transit and non-transit related purposes that comply with regional transportation plans.

TDA established two funding sources: the Local Transportation Fund (LTF), and the State Transit Assistance (STA) fund. Providing certain conditions are met, counties with a population under 500,000 (according to the 1970 federal census) may also use the LTF for local streets and roads, construction and maintenance. The STA funding only can be used for transportation planning and mass transportation purposes. AB 90 (Committee on Budget), Chapter 17, Statutes of 2020, and AB 107 (Committee on Budget), Chapter 264, Statutes of 2020, as part of the 2020 Budget Act, provided temporary statutory relief for transit agencies. Specifically, the bills:

- Temporarily held harmless transit operators that receive state funding and whose ridership levels have been negatively impacted by COVID-19.

- Temporarily eliminated financial penalties for non-compliance with transit funding efficiency measures in the Transportation Development Act and the State Transit Assistance Program.

- Allowed for increased flexibility in the use of funds transit operators receive from the State Transit Assistance - State of Good Repair program and the Low Carbon Transit Operations program.

This trailer bill language proposes the following:

- Requires the Department of Transportation to consult with transportation planning agencies, county transportation commissions and transit development boards, and conduct a review of opportunities to streamline current performance audit requirements and identify more effective performance measures. The report is required by November 30, 2021.

- Extends the hold harmless provisions of AB 90 by one additional year.

- Provides exclusions from a transit agency's farebox recovery calculations for the full costs of Americans with Disability Act-mandated paratransit services, general public demand response services, and micro-transit services, so that providing those required services do not negatively impact the ability to provide fixed route service with TDA funding. It also provides exclusions from these costs for the calculation for an agency's operating costs per vehicle revenue hour, which is required for certain funding programs.

- Provides exclusions from a transit agency's farebox recovery calculations for the costs of improved payment and ticketing systems and services, the costs of key planning efforts related to improving transit operations, network integration with other operators and agencies, the transition to zero emission fleet and facilities, and for compliance with state and federal mandates.

- Provides the ability to use STA funds for operations as long as local funding for transit operations is maintained at or above 2018-19 levels for five years.

- Extends the use of pre-pandemic data for funding allocation through the STA from 2021-22 to 2022-23.

- Provides a five-year exemption from the requirement to meet operating cost per revenue vehicle hour inflation requirements for operators that can demonstrate a level of local funding for transit operations that is continued at or above the level that was spent in fiscal year 2018-19.

## STAFF COMMENTS

Many sectors including transit agencies have been hard hit by the pandemic. Last year, in order to provide relief, AB 90 and AB 107 were included as part of the 2020 Budget Act.

This proposed trailer bill language extends the relief by an additional year. However, the Subcommittee may need to further examine how transit ridership will work post-pandemic to understand what the future needs of transit agencies and transit funding are.

**Staff Recommendation: This issue reflects a policy proposal that may require the Subcommittee revisit it at a later time.**

## 2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION (CALTRANS)

### ISSUE 11: HAZARDOUS MATERIAL REMOVAL AT ENCAMPMENTS

The Governor's budget includes a permanent increase in State Highway Account (SHA) funds of $20,600,000 beginning in 2021-22, for the Division of Maintenance (Maintenance) at Caltrans to dedicate resources for Hazardous Material Removal at Encampments.

### PANEL

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

- Steven Keck, Deputy Director, Finance, Caltrans
- Benjamin Pollack, Finance Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

Caltrans maintenance of the State Highway System (SHS) includes mitigating homelessness issues that impact system safety. The Governor's Executive Order N-23-20 identifies numerous impacts to Californians related to homelessness within public right-of-way and calls for innovative solutions to address these impacts. Caltrans recently committed to utilizing dedicated contract resources for hazardous material removal.

During 2019-20, Caltrans received more than 7,400 requests for service concerning encampments through its Customer Service Request (CSR) system. This represents a 154 percent increase since 2016-17, when there were only 2,910 CSRs. The presence of unsheltered people and encampments on state highways creates a safety hazard for both unsheltered individuals and motorists. Encampments also potentially pose a public health and safety risk to Caltrans workers, contractors, and the public.

Starting in November 2019, Caltrans began executing contracts with qualified hazmat remediation companies specifically targeting hazardous material removal at encampment sites. Currently, Caltrans has 21 contracts in place. In FY 19-20, Caltrans expended $7,757,000 in redirected funding on these contracts. Between the time contracts began to be used in November and the time cleanup efforts were impacted by COVID-19, Caltrans estimates receiving between approximately 19 and 20 weeks of full cleanup services. Given this expenditure rate, Caltrans projects to expend approximately $20,600,000 in 2020-21.

## LAO COMMENTS

Increasing number of customer service requests as well as growing expenditures indicates that the need for hazardous material removal has risen significantly over the past several years, resulting in additional workload. However, the estimate of the annual costs for hazardous material removal is based on the expenditures of about 20 weeks of contract services, from November 2019 to February 2020. The Department used the expenditure rate from such a limited period of time because the pandemic has limited cleanup activity in more recent months. However, incomplete annual expenditure data might inaccurately capture the cost of services. For example, in 2018-19, the last year for which we have complete annual data, Caltrans spent about $14.9 million on encampment removal, which is still less than the amount requested in this proposal by several millions of dollars ($20.6 million). Given the uncertainty around the ongoing costs for hazardous material removal, we recommend the Legislature approve two-year limited-term funding.

## STAFF COMMENTS

Although the state is providing resources to address homelessness, the solutions are likely going to take time. The requested resources for hazardous abatement are necessary, however additional data is needed to better determine the exact costs for the hazardous abatement. This data should cover at a minimum of a year and also include some data that is post-pandemic to see how the workload changes to better understand ongoing needs.

**Staff Recommendation: This issue reflects a policy proposal that may require the Subcommittee revisit it at a later time.**

## ISSUE 12: OFFICE SPACE RELATED COSTS

The Governor's budget includes a total of $8,295,000 comprised of a one-time operating expense increase of $7,340,000 in 2021-22 and a permanent operating expense of $955,000 beginning in 2021-22 for Caltrans. This increase in the State Highway Account (SHA) funds will be utilized for office space modifications, internal staffing relocations, modular systems furniture (MSF) reconfigurations and mobile workforce technology to enhance the ability of Caltrans to telework and explore further innovations related to housing employees.

### PANEL

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

- Steven Keck, Deputy Director, Finance, Caltrans
- James Monroe, Finance Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

According to Caltrans, this is the second and final request related to housing additional employees hired due to the increase of transportation funding provided by the Road Repair and Accountability Act of 2017 (SB1). Caltrans occupies 13 headquarters office buildings statewide (12 state-owned and one leased) as well as 18 other Administration Program-funded space leases. Caltrans has grown due to SB1 workload; exceeding the amount of available space in certain districts. Resources provided in the 2020-21 budget began the work of office space modifications and restacking. This included the deployment of 648 mobile workforce packages (laptop computers and smartphones) for the administration program.

### STAFF COMMENTS

The Caltrans workforce has grown and continues to grow during the COVID-19 pandemic. The pandemic has also accelerated a remote work model and shifted the traditional office design to a new office space model that accommodates "hoteling" configurations and teleconference rooms.

Staff has no concerns with these resources. However, the Subcommittee may wish to ask Caltrans whether they consider remote work to be a long term action or just a current response to the pandemic?

**Staff Recommendation: This issue reflects a policy proposal that may require the Subcommittee revisit it at a later time.**

## 2720 CALIFORNIA HIGHWAY PATROL

### ISSUE 13: RADIO CONSOLE REPLACEMENT PROJECT III

The Governor's budget proposes a one-time augmentation (Motor Vehicle Account) of $2.271 million in 2021-22 and $2.223 million in 2022-23 to address cost increases associated with services provided by the California Governor's Office of Emergency Services, Public Safety Communications related to the Dispatch Radio Console Replacement Project approved in 2018-19.

### PANEL

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

- Mike Alvarez, Special Representative to the Legislature, California Highway Patrol
- Amanda Ray, Commissioner, California Highway Patrol
- Kathy McCloud, Finance Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

The CHP states it is experiencing a significant increase in failures with the antiquated systems. This increase creates an escalating statewide risk which must be addressed. When radio consoles have failed, requests for assistance received from the 9-1-1 system could not be communicated by dispatchers to the CHP officers on patrol. Likewise, officers at or responding to an incident were left unable to make radio calls for backup or coordinate for additional emergency resources. During each failure, Cal OES-PSC was able to restore service only after obtaining parts salvaged from decommissioned systems. These failures highlight the diminishing inventory of available used parts, and the critical need to complete the radio console replacement project as quickly as possible.

### STAFF COMMENTS

Staff has no concerns about the need to update the state's safety infrastructure. The only concern is funding the infrastructure from the MVA on an ongoing basis.

**Staff Recommendation: This issue should be considered in conjunction with the overall status of the MVA and may require the Subcommittee revisit it at a later time.**

## ISSUE 14: REPLACEMENT OF PORTABLE RADIOS

The Governor's budget proposes $8.604 million permanent augmentation from the Motor Vehicle Account to replace portable radios and accessories that have exceeded the life expectancy, are out of warranty, and unserviceable.

### PANEL

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

- Mike Alvarez, Special Representative to the Legislature, California Highway Patrol
- Amanda Ray, Commissioner, California Highway Patrol
- Kathy McCloud, Finance Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

Prior to the initial acquisition of Motorola APX portable radios, the CHP had an inventory of 9,600 EF Johnson single band portable radios. This inventory included a 10 percent surplus to allow for breakage, loss, or special needs. The EF Johnson single band portable radio proved to be poorly suited to the varying operational environments of the CHP. Due to unprecedented failure rates, unreliable repairs, and the inherent risk to officer safety, the EF Johnson radio was removed from service. In 2015-16, the CHP purchased 8,153 Motorola APX portable multi-band radios and sufficient accessories to deploy to CHP uniformed staff. This initial inventory did not include a surplus of spare equipment. The Motorola APX has proven to be a reliable and durable hand-held radio. The Motorola APX portable radios have an expected service life of five to seven years depending on the mode of operational environment. These radios have been in the field since early 2015 and are showing signs of wear and tear due to daily use. In addition, the existing stock of consumable accessories such as batteries, antennas, and lapel microphones are insufficient to fully support continuing needs.

| Item | Total Inventory | 20% of Inventory | Cost per Radio | Total Amount (Rounded to Thousand) |
|---|---|---|---|---|
| APX8000 Dual Band Portable Radio | 8,148 | 1,630 | $5,278 | $8,604,000 |

### STAFF COMMENTS

Staff comments are similar to the item above. Ensuring CHP has equipment to do their job is important. The only concern is funding the infrastructure from the MVA on an ongoing basis.

**Staff Recommendation: This issue should be considered in conjunction with the overall status of the MVA and may require the Subcommittee revisit it at a later time.**

## ISSUE 15: WIRELESS IN-CAR CAMERA SYSTEM MAINTENANCE AND OPERATIONS SUPPORT

The budget includes a permanent augmentation of $14.2 million from the MVA for the ongoing maintenance and operation of the Wireless In-Car Camera System, including ongoing funding for 12 previously approved positions.

### PANEL

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

- Mike Alvarez, Special Representative to the Legislature, California Highway Patrol
- Amanda Ray, Commissioner, California Highway Patrol
- Kathy McCloud, Finance Budget Analyst, Department of Finance
- Eunice Roh, Fiscal and Policy Analyst, Legislative Analyst's Office

### BACKGROUND

The Wireless In-Car Camera System project replaces existing standalone Digital Video Disc (DVD) - based Mobile Video Audio Recording Systems in patrol cars with a high-resolution recording solution and the option to integrate body worn cameras (BWC) in the future. When completed, the project will increase the percentage of marked black and white enforcement vehicles with an in-car camera system from 66 percent to 100 percent. It includes a wireless data transfer process that reduces personnel hours spent handling data and increases evidence security and reliability. Additionally, the new Wireless In-Car Camera System provides an integrated solution for all video evidence captured in-car and with BWCs if that option is exercised in the future.

The Budget Act of 2018 authorized 12 positions and $52.5 million to address the three-year implementation phase of the Wireless In-Car Camera System project. These resources are set to expire in 2020-21. The maintenance phase of the project is projected to begin in 2021-22.

### STAFF COMMENTS

The CHP has indicated that the full rollout of the in-car system will be completed by November 2022. Specifically, they have indicated that installation of hardware at pilot sites (East Sacramento Area and Placerville Area) is complete. Pilot Testing began on September 14, 2020, and will be completed on January 13, 2021. 11 of 18 On-premise sites (Sacramento Headquarter, Mt. Shasta, Quincy, Trinity River, Gold Run, Placerville, Buttonwillow, Bridgeport, Bishop, Needles, and Barstow) already have the server installed. Training will be provided to each division before rollout activities. New Vehicle Builds and a two-phase rollout will run parallel and continuously until CHP completes approximately 2,600 new vehicles equipped by the end of the project in November 2022.

The resources requested are reasonable to complete this project.

**Staff Recommendation: This issue should be considered in conjunction with the overall status of the MVA and may require the Subcommittee revisit it at a later time.**

## 2665 CALIFORNIA HIGH SPEED RAIL AUTHORITY

### ISSUE 16: HIGH SPEED PROPERTY FUND

The Governor's budget includes an increase of $3.25 million in 2021-22 through 2022-23 for a total appropriation of $4 million and an increase of $1.75 million ongoing for a total appropriation of $2.5 million from the leases and rents proceeds received that have been deposited into the Property Fund as part of the acquisition and ownership of real property for the High Speed Rail Authority (Authority).

### PANEL

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

- Brian Annis, Chief Financial Officer, California High-Speed Rail Authority
- Matthew Macedo, Finance Budget Analyst, Department of Finance
- Brian Brown, Legislative Analyst's Office

### BACKGROUND

The Property Fund was established by the Office of the State Treasurer for the purpose of depositing revenue received from the sale, lease, or grant of any interest in or use of real property owned or managed by the Authority. The revenues in the Property Fund only can be used for the development, improvement and maintenance of the HSR system. Commencing with the 2017 Budget Act, each annual budget act has appropriated $750,000 from the Property Fund to the Authority for the purposes of PUC 185045. Annual revenue received by the fund has exceeded the annual appropriation and expenditures, and as of November 30, 2020, the cash balance of the fund was $9.8 million.

The Authority has identified necessary property-maintenance activities that are appropriate to be funded from the Property Fund. At the Project's current phase, the Authority will use these funds to pay for: taxes and fees on the acquired properties; utilities connected to the properties; fix minor property deficiencies that may potentially be state liabilities; security; the hiring of local, small businesses for property management purposes until the construction package vendors can take possession of the properties, and other uses. The first two years of expenditure needs are higher to address items that directly impact the safety of the public, which are critical and need to be addressed in a timely manner. These items include orchard and/or structure demolitions, building repairs, and property maintenance.

**STAFF COMMENTS**

The Subcommittee should consider this request in the context of the Authority's overall Business Plan.

**Staff Recommendation: This issue is part of a larger policy discussion on the Authority's Business Plan that may require the Subcommittee revisit it at a later time.**

## ISSUE 17: IT OFFICE TRANSITION

The Governor's budget proposes a workload budget adjustment, which results in a net annual savings of $4.61 million and a net reduction of 8.4 Full-Time Equivalents (FTE) positions for the CA High Speed Rail Authority. This budget adjustment reduces 25.4 consultant position FTEs for an annual savings of $7.34 million and adds 17 permanent state positions and $2.73 million in 2021-22, and ongoing.

### PANEL

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

- Brian Annis, Chief Financial Officer, California High-Speed Rail Authority
- Matthew Macedo, Finance Budget Analyst, Department of Finance
- Brian Brown, Legislative Analyst's Office

### BACKGROUND

Established in 1996, the Authority is responsible for planning, designing, building, and operating the first high-speed rail system in the nation. The Authority contracted with WSP (formerly Parsons Brinckerhoff) to perform the role of the Rail Delivery Partner (RDP). Over the term of the contract, from July 2015 to June 2022, the RDP is tasked with providing various services to assist in delivering the nation's first high-speed rail system. Those services include program delivery support, rail operations and support, project controls, project financial support, and IT services. The Authority used the RDP to help build the systems, policies, processes, and stand-up operational units in an effort to deliver this large infrastructure delivery program

The Authority indicates that this proposal will meet several objectives at the state and the Authority including the following:

1. Enabling a remote workforce and reducing spending by increasing permanent state positions, while continuing to provide increased support and security to the expanded remote workforce.
2. Responding to the finding from the California State Auditor to finalize the transition of IT services from the RDP. This request responds to the 2018 Audit that called out the Authority's reliance on contractors as a key risk area to the ongoing success of the program.
3. Aligns with the 2018 California State Rail Plan with the California Transportation Plan 2040 to ensure the delivery of IT services to support the high-speed rail program.
4. Aligns with the California Department of Technology's goal and Cybersecurity Strategy for 2019-2023.

**STAFF COMMENTS**

This proposal will eliminate all RDP consultants working on IT. The Authority does anticipate future need for a reduced level of specialty IT services going forward. These future requests likely will be procured by the Authority directly and not through RDP.

**Staff Recommendation: This issue reflects a policy proposal that may require the Subcommittee revisit it at a later time.**

# PUBLIC COMMENT