AGENDA

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

ASSEMBLYMEMBER STEVE BENNETT, CHAIR

WEDNESDAY, MARCH 8, 2023
9:30 A.M. – STATE CAPITOL, ROOM 447

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NON-PRESENTATION CALENDAR

ITEMS TO BE HEARD

Public Comment

The public may attend this hearing in person or participate by phone. This hearing can be viewed via live stream on the Assembly's website at https://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. 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 47.***

VOTE ONLY ITEMS

0540 CALIFORNIA NATURAL RESOURCES AGENCY

VOTE-ONLY ISSUE 1: BIODIVERSITY AND CONSERVATION PRIORITY ACTIONS AND REPORT (AB 2278)

The Governor's budget requests $792,000 General Fund in 2023-24 and 2024-25 and $432,000 General Fund ongoing to implement the requirements of Chapter 349, Statutes of 2022 (AB 2278). Of this amount, CNRA requests 2 permanent positions and $432,000 in 2023-2024 and ongoing, and the Ocean Protection Council requests funding for two limited-term positions, totaling $360,000 of the request in 2023-24 and 2024-25. This funding request will support prioritization of certain 30x30 implementation actions as established by AB 2278 and annual reporting on the progress toward achieving the 30x30 goal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 2: CALIFORNIA CLIMATE ADAPTATION STRATEGY (AB 1384)

The Governor's budget requests $500,000 General Fund in 2023-24 and ongoing to update the California Climate Adaptation Strategy as required by Chapter 338, Statutes of 2022 (AB 1384).

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 3: CONVERSION OF LONG-TERM TEMPORARY HELP POSITIONS TO PERMANENT

The Governor's budget requests 5 permanent positions to be funded from savings within the baseline budget, various reimbursement agreements, and administrative allowances from recent investments that have significantly increased the size of the agency. These are positions that have been carried in the temporary help blanket but are now needed on a permanent basis to meet the ongoing needs of the Agency.

Staff Recommendation: Approve as budgeted.

3780 NATIVE AMERICAN HERITAGE COMMISSION
0540 CALIFORNIA NATURAL RESOURCES AGENCY

VOTE-ONLY ISSUE 4: DEROGATORY GEOGRAPHIC NAMES (AB 2022)

The Governor's budget requests $433,000 General Fund in 2023-24 and 2024-25, $183,000 General Fund in 2025-26 and ongoing, and one permanent position, and the Native American Heritage Commission requests $75,000 General Fund in 2023-24 and 2024-25 to implement the requirements of Chapter 479, Statutes of 2022 (AB 2022). AB 2022 includes significant scope changes for the existing California Advisory Committee on Geographic Names and requires the removal of derogatory names by public agencies. This request will fund staff, extensive travel statewide, facilitation services for formal tribal consultation and public engagement, and direct expenditures to meet new tracking and reporting requirements.

Staff Recommendation: Approve as budgeted.

0540 CALIFORNIA NATURAL RESOURCES AGENCY
3900 CALIFORNIA AIR RESOURCES BOARD
8570 DEPARTMENT OF FOOD AND AGRICULTURE

VOTE-ONLY ISSUE 5: NATURAL AND WORKING LANDS (AB 1757)

The Governor's budget requests $3.52 million one-time General Fund in 2023-24, $4.1 million ongoing Cost of Implementation Account, and $873,000 ongoing General Fund and 16 permanent positions to implement AB 1757 (Chapter 341, Statutes of 2022). This includes:

The California Natural Resource Agency requests $3.16 million General Fund in 2023-24, $510,000 General Fund in 2024-25 and ongoing, and 2.0 permanent positions to implement Chapter 341, Statutes of 2022 (AB 1757). Specific activities required by AB 1757 include those associated with developing targets, updating the Natural and Working Lands Climate Smart Strategy, and successfully tracking greenhouse gas emissions on natural and working lands across CNRA entities. This work will be undertaken in close coordination with both entities reporting to CNRA and interagency partners.

The California Air Resources Board (CARB) requests 12.0 positions and $4.1 million Cost of Implementation Account (COIA) in 2023-24 and ongoing, including $1.5 million in contract funds, to meet the requirements of AB 1757, which include setting carbon sequestration targets, establishing methods to track greenhouse gases (GHGs) and carbon sequestration from natural and working lands (NWLs) over time, and integrate the targets into the AB 32 Scoping Plan.

The California Department of Food and Agriculture requests $363,000 General Fund and 2.0 positions in 2023-24 and ongoing to provide adequate staffing for the activities required of the Department by AB 1757, including updating the Natural and Working Lands Climate Smart Strategy.

Staff Recommendation: Approve as budgeted.

3125 CALIFORNIA TAHOE CONSERVANCY

VOTE-ONLY ISSUE 6: FOREST MANAGEMENT WORKLOAD SUPPORT

The Governor's budget requests two positions to implement projects funded by reimbursable grants and existing funding. The positions will increase the pace and scale of forest restoration work in the region to reduce risks associated with catastrophic wildfires, drought, and climate change. The positions are needed to carry out projects consistent with recently secured grant funding, as well as the wildfire and forest resilience funding recently appropriated to the Conservancy.

Staff Recommendation: Approve as budgeted.

3340 CALIFORNIA CONSERVATION CORPS

VOTE-ONLY ISSUE 7: MISSION CRITICAL RESOURCES

The Governor's budget requests position authority only for 1.0 Office Technician, 1.0 Conservationist I, 1.0 Conservationist II, 1.0 Building Maintenance Worker, and 1.0 Information Technology Specialist II for FY 2023-24 and ongoing to address critical staffing needs and to provide sufficient resources to help carry out the department's mission. This proposal has a net zero fiscal impact.

Staff Recommendation: Approve as budgeted.

3480 DEPARTMENT OF CONSERVATION

VOTE-ONLY ISSUE 8: SB 1295 CLEAN-UP (CALGEM) TRAILER BILL

The Governor's budget requests trailer bill language to provide technical amendments to SB 1295 (Limon, Chapter 844, Statutes of 2022) that will allow CalGEM to factor assessments added by SB 1295 into their fee schedule over the next two years. The assessments included in SB 1295 were connected to General Fund approved in the 2022 Budget Act agreement for oil well plugging and abandoning, and these technical amendments will allow CalGEM to incorporate the additional SB 1295 assessments into future budget authority.

Staff Recommendation: Approve as budgeted.

3540 STATE LANDS COMMISSION

VOTE-ONLY ISSUE 9: SOUTH ELLWOOD PROJECT – PLATFORM HOLLY CARETAKER PROGRAM

The Governor's budget requests a $3,660,000 one-time General Fund appropriation in FY 2023-24, with an extended encumbrance period through June 30, 2026, to retain the contractors necessary for the Commission to independently monitor, inspect, and timely respond to conditions on and around Platform Holly during the caretaker period following the final plug and abandonment of the platform's 30 wells in early 2023 and commencement of platform decommissioning by ExxonMobil, likely in 2026-2027. During the caretaker period, the platform will be de-staffed and otherwise nonoperational; however, because the platform serves as a potential attraction to illegal trespassers and will require monitoring of systems (i.e., navigation lights/horns, fire suppression, stormwater management, electrical systems), the Commission proposes a limited term caretaker program to provide the capacity to monitor, inspect, respond, and ensure the platform poses no risk to human health and safety or to the environment prior to its decommissioning.

Staff Recommendation: Approve as budgeted.

3810 SANTA MONICA MOUNTAINS CONSERVANCY

VOTE-ONLY ISSUE 10: CONSERVANCY FUND AUTHORITY INCREASE

The Governor's budget requests spending authority of its Santa Monica Mountains Conservancy Fund be increased from $200,000 to $1.5 million to allow the Conservancy to process the Regional Forest and Fire Capacity Program grant it has been awarded and to pass the funding through to its sub-grantees to effectuate the award.

Staff Recommendation: Approve as budgeted.

3825 SAN GABRIEL AND LOWER LOS ANGELES RIVERS AND MOUNTAINS CONSERVANCY

VOTE-ONLY ISSUE 11: EXTEND AND REVISE POSITION AUTHORITY TO SUPPORT LOWER LOS ANGELES/SAN GABRIEL RIVER RECREATION AND PARK DISTRICT AS AUTHORIZED BY SB 1374 AND SB 268

The Governor's budget requests to extend and revise an authorized position to support the Lower San Gabriel River Recreation and Park District implementation efforts through FY 2025-26.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 12: ESTABLISH ONGOING GENERAL FUND REIMBURSEMENT AUTHORITY FOR THE RIO HONDO CONFLUENCE AND WEST COYOTE HILLS PROJECTS. ESTABLISH ONGOING ELPF REIMBURSEMENT AUTHORITY WITH THE JOINT POWERS AUTHORITY

The Governor's budget requests to establish ongoing reimbursement authority of $30,000 for the California Environmental License Plate Fund and $8 million General Fund in increased reimbursement authority through fiscal year 2024-25 to accommodate grants from the California Natural Resources Agency and Wildlife Conservation Board for the Rio Hondo Confluence Signature Project and West Coyote Hills Phase II Acquisition Project, respectively. These requests will result in a net zero cost to the conservancy.

Staff Recommendation: Approve as budgeted.

3835 BALDWIN HILLS AND URBAN WATERSHEDS CONSERVANCY

VOTE-ONLY ISSUE 13: WATERSHED RESILIENCY – BALLONA CREEK AND UPPER DOMINGUEZ CHANNEL (SB 1052)

The Governor's budget requests one-time local assistance funding of $575,000 to study the potential environmental and recreational uses of the Baldwin Hills, southern Ballona Creek Watershed, and Upper Dominguez Channel area. The study will inform site opportunities and constraints for a watershed and open space plan.

Staff Recommendation: Approve as budgeted.

3855 SIERRA NEVADA CONSERVANCY

VOTE-ONLY ISSUE 14: PERMANENT POSITIONS FOR REIMBURSEMENTS AND HUMAN RESOURCES

The Governor's budget requests 2.0 permanent full-time Associate Governmental Program Analyst (AGPA) positions to oversee multi-year agreements with the Department of Conservation and 1.0 permanent full-time Associate Personnel Analyst (APA) position for the Human Resources unit (HR). These positions will be funded with existing funding authority.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 15: REAPPROPRIATION OF 2020-21 GENERAL FUND LOCAL ASSISTANCE

The Governor's budget requests reappropriation of $96,000 of 2020-21 General Fund appropriated for wildfire and forest resilience local assistance funding.

Staff Recommendation: Approve as budgeted.

3600 DEPARTMENT OF FISH AND WILDLIFE

VOTE-ONLY ISSUE 16: CLIMATE PERMITTING SUPPORT

The Governor's budget requests 40.0 permanent positions and $10.2 million in General Fund in Fiscal Year (FY) 2023-24 and $9.6 million ongoing to expedite environmental review workload, including pre-consultation with project proponents, for priority energy and water infrastructure projects throughout the State.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 17: CONTINUATION OF THE CANNABIS REGULATORY AND ENFORCEMENT PROGRAM

The Governor's budget requests 49.0 permanent positions, $7.98 million ($4.21 million Fish and Game Preservation Fund – Lake and Streambed Dedicated Account (FGPF-LSA) and $3.77 million Cannabis Control Fund) in Fiscal Year (FY) 2023-24, $7.98 million ($4.21 Fish and Game Preservation Fund – Lake and Streambed Dedicated Account (FGPF-LSA) and $3.77 million Cannabis Tax Fund) in FY 2024-25 and ongoing to permanently support the Department's Cannabis Regulatory and Enforcement Program (CREP), initially approved in the 2017 Budget Act.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 18: CREATION OF INFORMATION SECURITY AND PRIVACY OFFICE

The Governor's budget requests 2.0 permanent positions, $596,000 Distributed Administration in Fiscal Year (FY) 2023-24, and $579,000 ongoing to create an Information Security and Privacy Office. The information security and privacy practices within the Department are far underdeveloped and unable to effectively provide security and privacy oversight for the Department and its subordinate organizations. Currently, there is not enough staff to meet the demands imposed by the Department's control agencies, the California Department of Technology (CDT), and the California Natural Resources Agency (CNRA), and the Department is unable to effectively be secured from external security threats or privacy implications.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 19: INCIDENTAL TAKE PERMIT FOR LONG-TERM OPERATIONS OF THE STATE WATER PROJECT IN THE SACRAMENTO-SAN JOAQUIN DELTA

The Governor's budget requests 16.0 permanent positions, $2.98 million Reimbursement authority in Fiscal Year (FY) 2023-24, and $2.79 million ongoing to complete the new workload associated with the State Water Project (SWP) Incidental Take Permit (ITP). In 2019, The Department and the Department of Water Resources (DWR) were directed to develop a standalone ITP to regulate operations of the SWP independently of the federal Endangered Species Act (ESA). The Department and DWR are required to collaborate on implementation of all aspects of the ITP, which has created a significant new workload for permitting and monitoring.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 20: KLAMATH FACILITIES REMOVAL: MONITORING, RESTORATION, AND LANDS MANAGEMENT

The Governor's budget requests 5.0 permanent positions, $1.97 million General Fund in Fiscal Year (FY) 2023-24, $1.38 million in FY 2024-25, and $1.35 million ongoing to establish two new programs: the Upper Klamath River Fisheries Monitoring Program (UKRP) and the management of Parcel B Lands. The establishment of these programs are necessary to support fish monitoring, restoration, and land management after removal of the Klamath Dams. The Klamath Hydroelectric Settlement Agreement (KHSA) commits to ensuring anadromous fish passage and recolonization following the removal of Copco 1 Dam, Copco 2 Dam, and Irongate Dam from the Oregon border downstream to Bogus Creek. The KHSA also provides ownership transfer of approximately 7,100 acres of land to the Department to manage.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 21: NUTRIA ERADICATION PROGRAM

The Governor’s budget requests $2.92 million General Fund in Fiscal Year (FY) 2023-24, $2.82 million in FY 2024-25, and $2.82 million in FY 2025-26 to continue its Nutria Eradication Program (NEP) efforts. Due to exhausting grant funding, the NEP is facing a 60% budget deficit beginning in FY 2023-24 and needs funding to continue nutria eradication efforts.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 22: OIL AND POLLUTION RESPONSE RESOURCES

The Governor’s budget requests $1.25 million Oil Spill Prevention and Administration Fund in FY 2023-24, and $896,000 ongoing to perform operations related to oil spill response and support. As part of the follow up assessment to the Pipeline P00547 spill response, the Office of Spill Prevention and Response (OSPR) has identified an immediate need for additional resources to close operational gaps and improve response activities.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 23: WILDLIFE CONNECTIVITY ON THE STATE HIGHWAY SYSTEM (AB 2344)

The Governor's budget requests 8.0 permanent positions and $1.98 million General Fund in Fiscal Year (FY) 2023-24 and ongoing to address the workload associated with the implementation of Assembly Bill (AB) 2344 (2022). The Department will be required to consult with the Department of Transportation (Caltrans) to establish an inventory of wildlife connectivity needs and to perform assessments to identify potential wildlife connectivity barriers on the state highway system.

Staff Recommendation: Approve as budgeted.

3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)

VOTE-ONLY ISSUE 24: IMPLEMENTATION OF NEW FIRE FIGHTER PERSONAL PROTECTIVE EQUIPMENT REGULATIONS

The Governor's budget requests $18.4 million General Fund and 12 positions starting in 2023-24, varying amounts in 2024-25 through 2026-27 (as identified in the fiscal detail sheets below), and $13.3 million General Fund ongoing, phased in over four years, to ensure compliance with revisions made to the California Code of Regulations, title 8, Article 10.1 Safety Orders: Personal Protective Clothing and Equipment for Fire Fighters.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 25: MOBILE EQUIPMENT REAPPROPRIATION

The Governor's budget requests budget bill language in fiscal year 2023-24 to reappropriate $3.3 million ($1.8 million General Fund and $1.5 million Greenhouse Gas Reduction Fund (GGRF)) from the Budget Act of 2020 and $4.5 million ($2.9 million General Fund and $1.6 million GGRF) from the Budget Act of 2021, for an additional year, allowing time to encumber and expend due to manufacturer delays and supply chain issues as a result of the COVID-19 pandemic.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 26: WORKERS' COMPENSATION (AB 1751 AND SB 1127)

The Governor's budget requests $1.5 million ($1.3 million General Fund, $62,000 Special Funds, and $211,000 Reimbursements) and 6.0 positions starting in fiscal year 2023-24, and $964,000 ($719,000 General Fund, $36,000 Special Funds, and $209,000 Reimbursements) ongoing to address the statutory requirements set forth by Chapter 758, Statutes of 2022 (AB 1751) and Chapter 835, Statutes of 2022 (SB 1127). The request includes $556,000 one-time in 2023-24 related to service fee increase from COVID-19 related workers' compensation (WC) claims (AB 1751). The remaining funding and positions are related to SB 1127 to manage WC cases where reductions are made to the existing 90-day liability determination period for specified first responders with specified ailments to 75 days and remove the statute of limitations and extend the length of aggregate disability payments for a single injury to specified first responders to no more than 240 weeks, and for benefits that are unreasonably delayed, provides for a penalty of five times the amount of the benefits, up to $50,000 per claim.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 27: PUBLIC WORKS PROJECTS TRAILER BILL

The Governor's budget requests trailer bill language to clarify CAL FIRE's authority to continue to complete public works projects which include most maintenance and repair projects. Although CAL FIRE staff have completed much of the department's maintenance and repair work for several decades, the Administration was recently made aware of the need to clean up the statute to continue to enable CAL FIRE to complete this work. As CAL FIRE is an emergency services department, it is timelier for internal CAL FIRE staff to continue to complete smaller public works projects. In addition, CAL FIRE staff are subject matter experts on the department's large inventory of mostly rural emergency services facilities. Since CAL FIRE Technical Services' staff costs are primarily supported by the General Fund, rather than charged to specific projects, it is more fiscally prudent to utilize CAL FIRE staff versus the Department of General Services for these types of smaller projects.

Staff Recommendation: Approve as budgeted.

NON-PRESENTATION ITEMS

8570 DEPARTMENT OF FOOD AND AGRICULTURE

ISSUE 1: AUGMENT PLANT PEST DIAGNOSTICS CENTER FACILITIES MAINTENANCE & OPERATIONAL COSTS

The Governor's budget requests $841,000 General Fund in 2023-24, and $858,000 in 2024-25 and ongoing to keep the Plant Pest Diagnostics Center laboratory facility operational to meet the state's diagnostic needs and maintain national and international standards.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 2: EMERGENCY MANAGEMENT PROGRAM RESOURCES

The Governor's budget requests $516,000 General Fund and $77,000 in distributed administration authority in 2023-24, $506,000 GF and $77,000 in distributed administration authority in 2024-25 and ongoing, and 2.5 permanent positions to build a dedicated Emergency Management Program within CDFA to meet current and continued threats to food and agriculture posed by diseases and natural disasters due to climate change.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 3: EMERGING THREATS INFORMATION MANAGEMENT SYSTEM

The Governor's budget requests $6,685,000 ($4,212,000 General Fund [GF] and $2,473,000 Department of Food and Agriculture Fund [AF]) and 3.0 positions in 2023- 24, $12,138,000 ($7,647,000 GF and $4,491,000) in 2024-25 and 2025-26, $6,672,000 ($4,204,000 GF and $2,468,000 AF) in 2026-27 and $5,073,000 ongoing ($3,196,000 GF and $1,877,000 AF) to implement a replacement of the existing legacy Emerging Threats (ET) Information Management System for CDFA's Animal Health and Food Safety Services division, the lead state organization for protecting animal health, public health, and California's economy from catastrophic animal diseases, food safety and other health or agricultural related issues. All costs are split between GF and AF based on the funding split of the programs that will utilize this system.

BACKGROUND

The 2019 Budget Act included $2.5 million one-time GF for consultant services for project planning, data cleanup, system documentation, and the development of a potential information technology solution. The Project Approval Lifecycle (PAL) Stage Gate 1 Business Analysis was completed, and the Stage Gate 2 Alternatives Analysis was submitted to CDT, reviewed, feedback provided, and an updated version is currently under review by CDT. An additional $2.9 million has been approved in the 2022 Budget Act to complete the PAL process and hire a contractor to implement the replacement systems. This proposal requests funding for the project's implementation services.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 4: INFORMATION TECHNOLOGY ENTERPRISE TRANSITION SUPPORT

The Governor's budget $536,000 General Fund (GF) in 2023-24, 2024-25, and 2025-26 to fund CDFA's transition to an Information Technology (IT) Enterprise Solution.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 5: OCAL AND CANNABIS APPELLATIONS BASELINE

The Governor's budget requests an increase of $482,000 in Cannabis Control Fund authority in 2023-24 and ongoing to provide additional authority needed for the OCal Cannabis Certification Program and Cannabis Appellations Program.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 6: SHIPPING POINT INSPECTION ENHANCED INSPECTION OVERSIGHT AND TRAINING

The Governor's budget requests 4.0 permanent positions in 2023-24 and ongoing to support mission critical enhancement of the Shipping Point Inspection Program. Additionally, CDFA requests 0.5 positions and $77,000 in distributed administration funding in 2023-24 and ongoing to perform a variety of support functions related to the new positions, including financial services, human resources, and budgeting

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 7: STAGE GATE 2 PLANNING - CDFA LICENSING AND PAYMENT PORTAL

The Governor's budget requests $1.5 million General Fund in 2023-24 to perform Statewide Information Management Manual (SIMM) 19B – Stage Gate 2 Alternative Analysis (S2AA) planning for the CDFA Licensing and Payment Portal Project.

CDFA's LPP Project will significantly enhance the public's ability to find information on CDFA's licenses, permits, certifications, and registrations (generically termed "Licenses") issued to California individuals and businesses. Additionally, individuals and businesses will be able to apply and pay, by credit card and e-check, online for licenses managed and administered by CDFA through a single sign-on web accessible portal.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 8: WEIGHTS AND MEASURES OVERSIGHT AND SERVICES

The Governor's budget requests $811,000 Department of Food and Agriculture Fund (AF) authority in 2023-24, $714,000 in 2024-25 and ongoing, and 4.0 permanent full-time positions to allow the Department to continue its mandated instruction and oversight of county sealers who inspect commercial weighing and measuring devices in their jurisdiction.

Additionally, CDFA requests 0.5 position and $77,000 in distributed administration authority in 2023-24 and ongoing to perform a variety of support functions related to the new positions, including financial services, human resources, and budgeting.

This includes $122,000 for three vehicles.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

3360 CALIFORNIA ENERGY COMMISSION

ISSUE 9: ELECTRIC VEHICLE CHARGING INFRASTRUCTURE RELIABILITY DATA COLLECTION AND ASSESSMENT (AB 2061, TING)

The Governor's budget requests $351,000 annually from the Alternative and Renewable Fuel and Vehicle Technology Fund (Fund 3117) and 2.0 permanent positions to implement the requirements of Chapter 345, Statutes of 2022 (AB 2061), to collect, manage, and analyze reliability data collected for electric vehicle chargers and charging stations.

STAFF COMMENTS

The budget change proposal references calculating the uptime by charging station location, not per individual charger. The Commission should clarify if it intends to calculate the uptime, by charging station and individual charger, as stated in statute and is consistent with federal guidelines.

Staff Recommendation: If the Commission clarifies the implementation per the staff comment and absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 10: RESOURCES TO GATHER AND REPORT MEDIUM-DUTY AND HEAVY-DUTY (MDHD) FLEET DATA (AB 2700, MCCARTY)

The Governor's budget requests $391,000 from the Cost of Implementation Account annually and 1.0 permanent position as part of its new requirements under Chapter 354, Statutes of 2022 (AB 2700). These requirements include coordinating with the California Air Resources Board (CARB) and other agency partners, processing and quality checking the data, providing additional analysis and integration of the data within existing work products at the CEC, and ensuring proper transition and maintenance of the data. The request comprises $191,000 for a 1.0 permanent Electric Generation System Specialist (EGSS I) position and $200,000 annually for integrating the data with the Integrated Energy Policy Report forecast in a way that makes it useful for utilities to anticipate load.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 11: MEASURING AND REDUCING THE CARBON INTENSITY IN CONSTRUCTION MATERIALS (AB 2446, HOLDEN)

The Governor's budget requests $238,000 from the Cost of Implementation Account in 2023-24 and ongoing for 1.0 permanent Senior Mechanical Engineer position to implement the requirements of AB 2446 (Holden, 2022). AB 2446 requires the California Air Resources Board to consult with the CEC and other state agencies to develop a framework for measuring and reducing the carbon intensity in the construction of new residential and nonresidential buildings.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

3900 CALIFORNIA AIR RESOURCES BOARD

ISSUE 12: CARB SCOPING PLAN COMMUNITY ENGAGEMENT (SB 1020)

The Governor's budget requests 1.0 Air Pollution Specialist and $711,000 ($210,000 ongoing), including $500,000 in one-time contract funds, from the Air Pollution Control Fund starting in 2023-24 for its Environmental Justice Program. These resources will be used to fulfill the requirements of Chapter 361, Statutes of 2022 (SB 1020, Laird) for CARB to enhance community engagement efforts in coordination with the AB 32 Environmental Justice Advisory Committee in areas designated as federal extreme nonattainment that have communities with minority populations, communities with low-income populations, or both.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 13: EMBODIED CARBON EMISSIONS: CONSTRUCTION MATERIALS (AB 2446) AND TRAILER BILL

The Governor's budget requests $5.7 million Cost of Implementation Account (COIA) and 15 permanent positions for 2023-24 and 2024-25, and $4.5 million COIA in 2025-26 and ongoing. The costs include $2.5 million per year for the first two years and $1.3 million annually thereafter for contracts to develop and implement a framework to reduce embodied carbon emissions from building materials pursuant to AB 2446 (Holden, 2022).

Additionally, CARB is proposing trailer bill language to delay deadlines in the bill. The trailer bill would delay the deadline to measure (and reduce) the carbon intensity of buildings/materials from July 1, 2025 to December 31, 2026 (18 months). It delays the deadline to adopt strategies to reduce emissions 40 percent as soon as possible but no later than December 31, 2035 from July 1, 2025 to December 31, 2028 (3.5 years). It delays the deadline to evaluate the feasibility and cost impact of the strategy from July 1, 2029 to December 1, 2029 (6 months).

The trailer bill language can be found here:
https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/780.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 14: ENHANCE CARB'S OZONE AIR MONITORING NETWORK TO MEET MANDATED REGULATORY REQUIREMENTS

The Governor's budget requests $1.9 million from the Air Pollution Control Fund (APCF) in 2023-24 and $1.1 million ongoing for 5.0 permanent positions to operate, audit, and maintain the monitoring stations and equipment therein, which includes $128,000 ongoing funding for operational costs and $787,000 in one-time funding for equipment and supplies. These resources are needed to expand CARB's ozone monitoring program for 2023-24 and beyond to comply with mandated U.S. EPA requirements defined in the Code of Federal Regulations. This request is to establish a Photochemical Assessment Monitoring Stations (PAMS) program in San Joaquin Valley and add two new monitoring stations (Eastern Kern County and Western Nevada County) in ozone non-attainment areas.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 15: FUND SHIFT FOR THE TRANSPORT REFRIGERATION UNIT PROGRAM

The Governor's budget requests to shift the funding of 1.75 existing Transport Refrigeration Unit (TRU) Program positions from the Motor Vehicle Account (MVA) to Certification and Compliance Fund (CCF). In addition to the fund shift for existing TRU Program positions, CARB requests a one-time shift of $1.6 million from MVA to CCF for TRU operational costs (compliance labels, envelopes, and postage) in 2023-24. Beginning in 2024-25 and annually thereafter, CARB requests $859,000 from CCF for ongoing TRU operational costs (compliance labels, envelopes, and postage).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 16: HEAVY-DUTY VEHICLE INSPECTION AND MAINTENANCE PROGRAM PER SENATE BILL 210

The Governor's budget requests $14.1 million in 2023-24 to implement and enforce the Heavy-Duty Inspection and Maintenance (HD I/M) program as required by Chapter 298, Statutes of 2019 [Senate Bill (SB) 210]. The resource request includes 19.0 new, permanent, on-going positions starting in 2023-24 and 4.0 new, permanent, on-going positions starting in 2024-25, as well as contract funding of $10.3 million for 2023-24, $10.2 million for 2024-25, $10.5 million for 2025-26, and $10.7 million in ongoing funding for 2026-27 and beyond. These positions and ongoing contract funding are necessary to implement and operate CARB's HD I/M regulation approved by the Board for adoption at the December 9, 2021 public hearing, and as directed by SB 210.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 17: IMPLEMENTING EVALUATIONS AND RECOMMENDATIONS FOR HYDROGEN TO SUPPORT DECARBONIZING THE CALIFORNIA ECONOMY (SB 1075)

The Governor's budget requests $3.1 million Cost of Implementation Account (COIA) and 4.0 permanent positions in 2023-24, including $2.3 million in one-time contract funding to develop and publish an evaluation and provide policy recommendations on the use of hydrogen, and specifically the use of green hydrogen, as required by Senate Bill (SB) 1075.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 18: IN-USE LOCOMOTIVE REGULATION IMPLEMENTATION AND ENFORCEMENT

The Governor's budget requests $1.65 million from the Air Pollution Control Fund (APCF) and 10.0 permanent positions in 2023-24, $1.69 million in 2024-25, and $1.64 million in 2025-26 and ongoing to implement and enforce the In-Use Locomotive Regulation. Additionally, CARB requests to shift funding for 6.6 existing positions from the Motor Vehicle Account to APCF in 2023-24. The Locomotive Regulation includes an annual administrative payment that will be collected from locomotive operators and deposited into the Certification and Compliance Fund (CCF) starting July 1, 2024 and is intended to be used for all of CARB's Locomotive Regulation costs. Beginning in 2024-25 and ongoing, CARB requests to shift funding for 6.6 existing positions and 9.5 positions being requested in this proposal from APCF to the CCF. Beginning July 1, 2024, CCF would fully fund the program cost for Locomotive Regulation on an ongoing basis and only funding for 0.5 Air Resources Supervisor II would remain funded by APCF. A statewide locomotive surveillance system will be established with 10 cameras or other surveillance equipment throughout the state at a cost of $50,000.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 19: LOW CARBON FUEL STANDARD ADMINISTRATION

The Governor's budget requests 3.0 permanent positions and $451,000 in 2023-24 and on-going from the Cost of Implementation Account (COIA) to address the growing workload of the Low Carbon Fuel Standard (LCFS) program. Increasing staffing resources for the LCFS will reduce processing times for fuel pathways submitted under the LCFS, which will encourage additional investments in low-carbon fuels, increase confidence in the program, and increase support for the LCFS as an exportable/model policy for addressing climate change.

STAFF COMMENTS

The Subcommittee may wish to for a high level overview of the LCFS regulation and market given the upcoming regulatory updates to the program, including:

- What is the breakdown of how credits are being generated? For example, what percentage of credits have been generated by the building of ZEV charging and fueling infrastructure?
- What portion of the credits are generated outside of the state? What are the types of credits that make up most of the out-of-state credits?
- We've seen some significant decreases in the amount of LCFS credit earnings from at least some categories of credit generators (hydrogen fuel supply), can you tell us what is happening with the market trends and credit values?
- Concerns have been raised that the LCFS pathways do not fully capture lifecycle emissions, particularly for biomethane from livestock operations. How does ARB account

for GHGs generated before and after manure digestion including entrap emissions? How does ARB account for GHGs that may result from increased herd size or consolidation? Do the regulations consider other air and water pollution impacts from these operations?
- What mechanism does CARB use to track and address any double-counting of methane reduction from different programs aimed at reducing methane emissions from livestock operations, like the Dairy Digester Research and Development Program?

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 20: STAFF AUGMENTATION FOR PROJECT MANAGEMENT OFFICE

The Governor's budget requests $8.2 million from Air Pollution Control Fund (APCF) and 7.0 positions in 2023-24 , including $6.7 million in one-time contract funding, and $1.5 million APCF in 2024-25 and ongoing for a staffing augmentation of the Project Management Office to transition from a contract-heavy to a state employee-centric unit.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

DISCUSSION ITEMS

3360 CALIFORNIA ENERGY COMMISSION
3900 CALIFORNIA AIR RESOURCES BOARD

ISSUE 1: ZERO EMISSION VEHICLE PACKAGE IMPLEMENTATION UPDATES AND GENERAL FUND SOLUTIONS

Over the 2021 and 2022 Budgets, the Legislature adopted almost $10 billion for Zero Emission Vehicles (ZEV) over five fiscal years across multiple fund sources and agencies. This is on top of some special fund sources, significant federal investment, utility funds, and the Low Carbon Fuel Standard market. The allocations can be found here:

Recent and Planned Zero-Emission Vehicle (ZEV) Augmentations

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

Program	Department	2021-22	2022-23	2023-24	2024-25	2025-26	Totals
Light-Duty Programs		**$1,210**	**$396**	**$495**	**$170**	**$80**	**$2,351**
ZEV Fueling Infrastructure Grants	CEC	$515	$15	$210	$90	$40	$870
Clean Vehicle Rebate Project	CARB	525[a]	—	—	—	—	525
Clean Cars 4 All and Other Equity Projects	CARB	150[b]	381[a]	125	—	—	656
Equitable At-Home Charging	CEC	20	—	160	80	40	300
Heavy-Duty Programs		**$1,627**	**$2,635**	**$1,205**	**$488**	**$225**	**$6,180**
School Buses and Infrastructure	CARB	$130	$1,260[c]	$135	—	—	$1,525
	CEC	20	390[c]	15	—	—	425
Clean Trucks, Buses, and Off-Road Equipment	CARB	500[a]	600[a]	—	—	—	1,100
	CEC	299	—	315	$31	$25	670
Transit Buses and Infrastructure	CARB	70	70	200	110	70	520
	CEC	30	30	90	50	30	230
Drayage Trucks and Infrastructure	CARB	157	75	165	48	—	445
	CEC	181	85	185	49	—	500
Ports	CARB	—	—	60	120	70	250
	CEC	—	—	40	80	30	150
ZEV Manufacturing Grants	CEC	125	125	—	—	—	250
Near-Zero Heavy-Duty Trucks	CARB	45	—	—	—	—	45
Drayage Trucks and Infrastructure Pilot Project	CARB	40	—	—	—	—	40
	CEC	25	—	—	—	—	25
ZEV Consumer Awareness	GO-BIZ	5	—	—	—	—	5

Other		**$514**	**$137**	**$407**	**$200**	**$155**	**$1,413**
Transportation package ZEV	CalSTA	$407[b]	$77[d]	$77[d]	$77[d]	$76	$714
Sustainable community plans and strategies	CARB/CalSTA	—	—	200	80	59	339
Emerging Opportunities	CARB	53	—	35	12	—	100
	CEC	54	—	35	11	—	100
Charter boats compliance	CARB	—	60[a]	40	—	—	100
Hydrogen Infrastructure	CEC	—	—	20	20	20	60
Totals		**$3,351**	**$3,168**	**$2,107**	**$858**	**$460**	**$9,944**

[a] Includes Greenhouse Gas Reduction Fund.
[b] Includes $200 million Public Transportation Account and $80 million federal funds.
[c] Proposition 98 General Fund.
[d] Federal funds.

CEC = California Energy Commission; CARB = California Air Resources Board; Go-BIZ = Governor's Office of Business and Economic Development; and CalSTA = California State Transportation Agency.

To address the general Fund Deficit, the Governor has proposed cuts of $1.1 billion, and $1.4 billion of fund shifts, which if approved would leave $8.8 billion total. These changes can be found here:

Governor's Proposed Zero-Emission Vehicle (ZEV) Budget Solutions

(In Millions)

Program	Total Augmentations	General Fund Reductions 2023-24	General Fund Reductions 2024-25 and 2025-26	GGRF Backfill (2023-24 Through 2025-26)	Net Reductions	New Proposed Amounts
Programs Proposed for Solutions						
School Buses and Infrastructure (CARB)	$1,525	-$135	—	—	-$135	$1,390
School Buses and Infrastructure (CEC)	425	-15	—	—	-15	410
ZEV Fueling Infrastructure Grants	870	-210	-$130	$130	-210	660
Clean Cars 4 All and Other Equity Projects	656	-125	—	125	—	656
Transit Buses and Infrastructure (CARB)	520	-176	-180	293	-63	457
Transit Buses and Infrastructure (CEC)	230	-66	-80	130	-16	214
Drayage Trucks and Infrastructure (CARB)	445	-80	-48	128	—	445
Drayage Trucks and Infrastructure (CEC)	500	-85	-49	134	—	500
Sustainable community plans and strategies	339	-140	-44	25	-159	180
Equitable At-Home Charging	300	-160	-120	280	—	300
Clean Trucks, Buses, and Off-Road Equipment	299	-98	-56	154	—	299
Ports (CARB)	250	-60	-190	—	-250	—
Ports (CEC)	150	-40	-110	—	-150	—
Charter boats compliance	100	-40	—	40	—	100
Emerging Opportunities (CARB)	100	-35	-12	—	-47	53
Emerging Opportunities (CEC)	100	-35	-11	—	-46	54
Subtotals	($6,809)	(-$1,500)	(-$1,030)	($1,439)	(-$1,091)	($5,718)
All Other ZEV Package Funding	$3,135	—	—	—	—	$3,135
Totals	**$9,944**	**-$1,500**	**-$1,030**	**$1,439**	**-$1,091**	**$8,853**

GGRF = Greenhouse Gas Reduction Fund; CARB = California Air Resources Board; and CEC = California Energy Commission.

Governor's Proposed Use of GGRF for ZEV Program Backfills
(In Millions)

Program	Department	Backfill General Fund With Fund Shift to GGRF 2023-24	2024-25	2025-26	GGRF Three-Year Totals
Transit Buses and Infrastructure	CARB	$38	$56	$199	$293
	CEC	25	40	65	130
Equitable At-Home Charging	CEC	160	80	40	280
Clean Trucks, Buses, and Off-Road Equipment	CEC	98	31	25	154
Drayage Trucks and Infrastructure	CARB	80	48	—	128
	CEC	85	49	—	134
ZEV Fueling Infrastructure Grants	CEC	—	90	40	130
Clean Cars 4 All and Other Equity Projects	CARB	125	—	—	125
Charter boats compliance	CARB	—	20	20	40
Sustainable community plans and strategies	CARB/CalSTA	—	—	25	25
Totals		**$611**	**$414**	**$414**	**$1,439**

GGRF = Greenhouse Gas Reduction Fund; ZEV = zero-emission vehicles; CARB = California Air Resources Board; CEC = California Energy Commission; and CalSTA = California State Transportation Agency.

CARB submitted estimates on how many vehicles would not be funded due to these cuts (CEC is infrastructure):

Project*	Original ZEV Package Total Funding (M)	Revised ZEV Package Total Funding	Change in Deployments (Vehicles)**	Notes
Transit Buses & Infrastructure**	$520	$457	-370 transit buses	Outcomes calculated based on per-vehicle incentive for the HVIP Transit Bus set-aside. Outcomes calculated based on per-vehicle incentive for the HVIP Transit Bus set-aside.
School Buses & Infrastructure**	$1,525	$1,390	-300 school buses	Outcomes calculated based on per-vehicle incentive for the HVIP School Bus set-aside.

Ports	$250	$0	-1,600 vehicles/equipment	Outcomes calculated based on per-vehicle incentives from CORE, which funds off-road port equipment.
Community-Based Plans, Projects & Support/ Sustainable Community Strategies	$339	$180	-2,400 vehicles, -3 large scale community projects, -60 planning/capacity building projects	Outcomes calculated assuming the same relative distribution of funding among Clean Mobility Options, Clean Mobility in Schools, Sustainable Transportation Equity Projects, and Planning/Capacity Building as FY 2022-23 Funding Plan.
Emerging Opportunities	$100	$53	-150 vehicles/equipment	Estimates calculated based on comparable technology costs seen in the Advanced Technology Demonstration and Pilot Projects.

PANEL

- Dr. Sydney Vergis, Division Chief, Mobile Source Control Division, California Air Resources Board
- Hannon Rasool, Director, Fuels and Transportation Division, California Energy Commission
- Jeff Bell, Assistant Program Budget Manager, Department of Finance
- David Evans, Finance Budget Analyst, Department of Finance
- Brandon Merritt, Staff Finance Budget Analyst, Department of Finance
- Christian Beltran, Principal Program Budget Analyst, Department of Finance
- Sarah Cornett, Fiscal and Policy Analyst, Legislative Analyst's Office

LAO COMMENTS

Recent and Planned Funding Augmentations

2021-22 and 2022-23 Budget Acts Included $9.9 Billion in Planned Investments for ZEV Programs. The previous two budgets committed significant funding for programs intended to promote purchase and use of ZEVs. This funding is spread across five years, including $6.5 billion already provided and $2.1 billion intended for 2023-24. The majority of this funding is from the General Fund ($6.3 billion), but also includes $1.6 billion from Proposition 98 General Fund (for school buses), $1.3 billion from GGRF, $307 million from federal funds, and

$366 million from other special funds. Most of the funding is for continuing or expanding existing programs, such as rebates for purchasing vehicles and incentive payments for developing charging infrastructure. ZEV funding is primarily split between the California Air Resources Board (CARB) and the California Energy Commission (CEC). CARB oversees vehicle incentive programs, while CEC oversees ZEV charging infrastructure programs. The majority of planned ZEV augmentations ($5.5 billion) support heavy-duty vehicle programs.

Package Represents Unusually Large State-Level Investment in ZEV Programs. The large investments reflect the state's policy goals of reducing GHGs from transportation. Transportation is the single largest source of GHGs—responsible for 40 percent of emissions—making the sector a critical area for seeking reductions. In the fall of 2022, CARB adopted regulations to require all new cars sold in California to be ZEV or hybrid-electric by 2035. While the state has historically administered a variety of programs intended to promote ZEVs, the funding is significant compared to previous amounts, as is the use of General Fund. For example, in 2019-20, the state invested a total of $435 million for ZEV programs, from GGRF. Certain vehicle fees commonly known as "AB 8" fees have provided another consistent source of funding for ZEV and mobile source emission reduction programs. These fees provide about $170 million annually for programs that support ZEVs and lower-emission vehicles. (As we discuss in a separate publication, a portion of these fees are scheduled to sunset in 2023, and the Governor is proposing that the Legislature renew them to continue to support existing programs.)

Governor's Proposal

Reduces General Fund Spending and Partially Backfills With GGRF for Net Reduction of $1.1 Billion. The administration proposes to reduce General Fund spending on ZEV programs by a total of $2.5 billion, including $1.5 billion in 2023-24. However, the Governor proposes using $1.4 billion from discretionary GGRF revenues across three years to backfill some of these reductions. This amount includes $611 million in 2023-24. The Governor also proposes pledging $414 million in annual discretionary GGRF revenues in 2024-25 and 2025-26 to partially backfill proposed reductions in those years. Largely because of this proposed use of GGRF, the majority of ZEV programs would be unaffected by the Governor's proposed reductions, including Clean Cars 4 All (CC4A, which provides rebates to lower-income individuals for purchasing ZEVs), and a program shared by CARB and CEC to support ZEV and lower-emission drayage trucks and infrastructure. For most of the programs that would receive reductions, the Governor would maintain at least 50 percent of funding. The one exception is the proposed elimination of a new program shared by CARB and CEC aimed at reducing mobile source emissions from port equipment. Overall, the Governor proposes maintaining $8.9 billion, or 89 percent, of intended funding for ZEV programs across the five years.

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

Administration Plans to Seek Federal Funds to Offset Other Reductions. The administration indicates plans to use potential federal funding from IIJA and the Inflation Reduction Act to help further offset the proposed decrease in state funds. For example, the administration has identified federal funding for activities that reduce GHG emissions at ports ($3 billion total available), support charging infrastructure ($2.5 billion total available), and support ZEV buses and bus infrastructure ($5.6 billion total available)—three areas proposed for General Fund reductions.

Assessment

Consider Highest-Priority Goals When Making Funding Decisions. The large number of ZEV-related programs reflects diversity in approaches to achieve various state goals, such as reducing air pollution, lowering GHG emissions, and providing subsidies and infrastructure benefiting low-income and disadvantaged communities. Prioritizing among these complementary goals and assessing how effective each program is at attaining them can help guide the Legislature's decisions about where to make funding reductions. For example, if the Legislature's highest-priority goal is to reduce air pollution from mobile sources, then it may want to prioritize maintaining funding for programs that incentivize medium- and heavy-duty ZEVs, as these are more effective at achieving that objective than programs that focus on passenger vehicles or charging infrastructure. Alternatively, if the most important goal is reducing GHGs, then maintaining funding for programs that promote passenger ZEVs make sense. (Please see our 2022 report, *The 2022-23 Budget: Zero-Emission Vehicle Programs*, for more information on the effectiveness of ZEV programs by goal.)

Governor's Proposed Solutions Appear Generally Reasonable. We find merit in the Governor's approach of focusing budget solutions on newer programs and in areas with potential federal funding availability. For example, eliminating funding for the ports program is less likely to cause disruption as compared to some existing programs, given that this program has not begun implementation. Furthermore, federal funds for similar activities at ports are available to help offset a loss in state funds. We also see value in the Governor's approach of retaining funding for programs that reduce emissions and air pollution in low-income/disadvantaged communities, including the drayage truck programs and CC4A. These communities are more likely to be located in heavy transit corridors with higher levels of air pollution, so they represent a worthwhile area of state focus and intervention. This is consistent with the Legislature's historical prioritization of programs that provide ZEV funding for low-income and disadvantaged communities. Finally, a rationale exists for making reductions in ZEV charging infrastructure support, as the market for charging is maturing and the same level of state intervention may no longer be needed to spur development. Additionally, new federal funding is becoming available for charging infrastructure.

Consider Refining Some Programs to Focus on Highest-Priority Needs. As it considers making funding reductions, the Legislature may want to also consider narrowing the scope of certain ZEV programs. This could help to ensure that remaining funding is specifically targeted towards achieving the Legislature's highest-priority goals. For example, this might include more narrowly focusing benefits on lower-income Californians who are not eligible for federal subsidies and efforts where state investments could be most effective at spurring growth in ZEV infrastructure. Two possible approaches include:

- ***Focusing Light-Duty ZEV Charging Funding on Chargers That Would Otherwise Not Be Developed.*** The state has invested heavily in chargers and these investments have helped support a private market for public charging stations. More chargers likely will be deployed with or without additional state investments due to increased availability of federal funding and the growth of companies that install chargers in public locations. This is particularly true for passenger light-duty vehicles in locations with higher concentrations of ZEVs, which tend to be higher-income areas. The Legislature may want to consider whether the state should focus less on funding light-duty chargers and instead prioritize infrastructure investments in areas that do not have as much private investment. This could include helping to subsidize installment of chargers in multiunit dwellings and in lower-income neighborhoods. This also could include prioritizing funding for medium- and heavy-duty vehicles and hydrogen vehicles rather than light-duty electric chargers. While these types of chargers and fueling stations may also qualify for federal funds, they are more emergent technologies and may need additional support before reaching the same availability as passenger electric vehicle chargers.

Legislature Will Need to Weigh Whether ZEV Programs Represent Its Highest Priority for GGRF Discretionary Funds… The Governor proposes to use the majority of discretionary GGRF funds for ZEV programs. Together with $250 million proposed for backfilling a reduction to the AB 617 air quality improvement program (discussed in the "Community Resilience" section of this report), this represents nearly all of the administration's projected 2023-24 discretionary GGRF expenditures. Typically, the Legislature and Governor negotiate annually to allocate discretionary GGRF revenue for a variety of programs and priorities. As such, directing these revenues towards only two program areas is unusual. The Governor's proposal presents the Legislature with the key decision of whether sustaining ZEV programs is its highest priority for the 2023-24 discretionary GGRF revenue. However, should the Legislature reject the Governor's GGRF approach, this could mean deeper reductions to ZEV or other programs compared to what the administration proposes if it wants to realize the same amount of General Fund savings.

…And Whether It Wants to Commit Out-Year GGRF Revenues Now. In addition to the $611 million of discretionary GGRF revenues in 2023-24, the Governor proposes using $414 million annually in future GGRF discretionary funds to backfill ZEV programs in 2024-25 and 2025-26. This is somewhat unusual—in general, after allocating funding for statutorily required expenditures, uses for remaining GGRF funds typically are determined by the Governor and Legislature on an annual basis as part of the deliberations on the budget for the fiscal year in which they would be spent. Committing future GGRF revenues now would reduce the discretionary funds available in future years that could support other programs and preclude the Legislature's ability to weigh whether it might have different spending priorities in 2024-25 and 2025-26.

GGRF Trigger Proposal Also Raises Concerns. We have concerns about the Governor's proposal to allow DOF to allocate potential midyear increases in GGRF revenues. Historically, the Legislature has opted to delay action on any additional discretionary GGRF revenues that materialize midyear and allocate them as part of the subsequent year's budget package. This standard approach allows the Legislature the discretion to consider its highest priorities for that spending as part of a more comprehensive discussion. When midyear adjustments have been necessary due to GGRF revenues coming in lower than expected, the administration has cut programs proportionally (rather than making discretionary decisions to prioritize some over others). Allowing the administration to select which ZEV programs it would fund with any potential new monies and at what levels—without any statutory direction from the Legislature—shifts too much decision-making authority away from the Legislature to the administration.

Potential for Higher GGRF Revenues Highlights Importance of Identifying Legislative Spending Priorities. We believe a strong possibility exists that additional GGRF revenues will be available to spend in 2023-24, as the administration historically underestimates cap-and-trade auction revenues. This makes it particularly important for the Legislature to consider its priorities for these discretionary funds—and to maintain decision-making over how to spend potential midyear increases. Extra GGRF revenues could be especially helpful this year, given the potential for a worsening budget picture. The Legislature could consider using such funds to support other climate-related activities that might otherwise need to be reduced.

Federal Funds May Help Offset Some Reductions, but No Guarantee. The Governor has identified federal funding opportunities for ports ($3 billion total), school and transit buses ($5.6 billion total), and ZEV charging ($2.5 billion total). The administration believes this funding could offset reductions in state funding for various ZEV programs. However, applicants for the funding would most likely be individual entities (such as transit agencies interested in purchasing electric buses, charging developers, or ports pursuing lower-emission technologies) rather than state departments. Such applicants would be competing for funding against entities from around the country. As such, while this funding could help offset reductions to similar state programs, California entities would not necessarily be the beneficiaries of the same amounts or allocations of federal funding.

Funding to Prepare State Properties for ZEV Transition Could Make Sense to Add to ZEV Package. DGS is subject to the Advanced Clean Fleets regulation planned for adoption this year by CARB, which will require government vehicle fleets to be zero-emission by 2035. As noted above, the Governor proposes $35 million in new General Fund spending outside of the ZEV package to install charging stations at state-owned and leased facilities to help meet this requirement. Given the General Fund condition and the fact that overseeing the state fleet is a core state responsibility, the Legislature may want to consider whether it should prioritize funding for this activity within the ZEV package over paying for privately owned vehicles and charging stations. Making room for this activity within the existing ZEV package would necessitate making deeper reductions to the programs if the Legislature wants to avoid an additional $35 million net General Fund cost. However, we think such action could be justified to enable the state to comply with ZEV fleet requirements and given budget constraints.

Recommendations

Adopt Package of Solutions From ZEV Programs Reflecting Legislative Priorities. We recommend the Legislature begin with the Governor's proposals, which we find reasonable, but also consider additional or alternative reductions across ZEV programs based on its goals and highest priorities. As it considers additional reductions, we recommend the Legislature consider whether it wants to further refine certain ZEV programs—such as support for ZEV charging infrastructure and CC4A—to have a narrower scope and focus on the highest-priority populations, locations, and emerging technologies. We also recommend the Legislature consider whether ZEV programs represent its highest-priority for GGRF discretionary spending and whether it wants to commit future-year GGRF revenues for ZEV programs now. The Legislature may also want to determine whether it wants to accommodate funding the costs for installing chargers at state-owned and leased facilities within the existing ZEV package rather than as a new additional General Fund expenditure—though this could come at the expense of other intended ZEV expenditures.

Reject or Modify Governor's GGRF Trigger Approach, Maintain Legislative Flexibility. We also recommend the Legislature either: (1) follow its historical approach of waiting to allocate any unforeseen increases in 2023-24 GGRF revenues as part of the 2024-25 budget process; (2) appropriate such revenues by passing a midyear spending bill in early 2024; or, (3) adopt language that directs the administration specifically how it should allocate additional GGRF revenues, such as to which programs—ZEV or otherwise—and at which levels. Any of these approaches would better preserve the Legislature's authority over making spending choices as compared to the Governor's proposal.

STAFF COMMENTS

Staff recommends rejecting the GGRF Trigger in order retain legislative oversight of programs and retain flexibility especially with additional information coming out about federal investments, the ZEV market, and changing General Fund conditions.

This Subcommittee may wish to opine if the revised ZEV package strikes the right balance of priorities and may wish to ask the following questions:

Both Depts:

- How many rebates/vehicles/chargers, etc., will not be subsidized/purchased because of these cuts?

- What federal funds are available for similar purposes? Either that the state will receive, can or has applied for, or consumers can apply for directly?

CEC (Infrastructure):

- What criteria can be used to determine when EV charging and hydrogen refueling will be self-sustaining and not need state subsidization (or at a minimum only in low income or rural communities)?

- What effort is CEC taking to reduce state subsidization (like implementing TERPA)?

- Are you working to develop a hydrogen heavy and medium duty corridor that connects our ports and freeways to reduce emissions in long distance goods movement?

- How much funding will remain for freight corridor infrastructure?

- With the cuts to ports, how much money do you anticipate going to ports with the larger competitive funds?

- What portion of our EV infrastructure is privately funded versus state, federal, and utility funded? How do you expect this to change over time?

- For the multi-family charging funds, what efforts are you taking to ensure these chargers utilize low-cost at-home utility charging rates versus pushing low income renters into more expensive charging rates?

- Given interconnection delays and grid component supply chain delays, what strategies are you working on to ensure new chargers are built and interconnected in a timely manner?

- How is the CEC ensuring that funded infrastructure is working and reliable?

CARB (Vehicles):

- What efforts are you taking to ensure that these dollars are cost effective (especially in deployment programs) or that we are funding high mileage vehicle replacements which can reduce more emissions?

- The scoping plan says that transitioning to ZEVs is not enough to reach our emissions goals and we also need to reduce vehicle miles traveled (VMT) 25% below 2019 levels by 2030.

    - What strategies is the state taking to reach this goal? Are we investing enough in these strategies to reach this goal?

    - Is there a worry that subsidizing private car ownership, like many items in the ZEV package do, runs counter to those goals and may increase VMT?

- What criteria can be used to determine when the used ZEV market will be self-sustaining and not need state subsidization (CC4A, Financing Assistance, etc.)?

- You recently significantly raised the maximum grant awards for your light duty equity programs to address inflation in the car market. These grant limits are so high, that, especially when combined with federal and utility incentives, low income drivers may be able to receive a free car (new or used). This Subcommittee may wish to ask:

    - With the higher rebate amounts, how many vehicles do you anticipate to fund under the Clean Cars for All, Financing Assistance, and equity Clean Vehicle Rebate Project?

- Did you consider the reformed federal tax credit both for new and used vehicles when adopting these grant limits? How about utility LCSF equity program limits?

- Why did you double the charging card amount to $4,000 for new vehicle purchasers? What efforts are you making to educate and encourage lower-cost at-home charging?

Staff Recommendation: Hold Open.

ISSUE 2: REAUTHORIZATION OF THE CLEAN TRANSPORTATION PROGRAM FEES AND PROGRAM AMENDMENTS; REAUTHORIZATION OF AIR QUALITY IMPROVEMENT PROGRAM AND ENHANCED FLEET MODERNIZATION PROGRAM FEES TRAILER BILL

The Governor's budget proposes a trailer bill to extend the sunset, from January 1, 2024 until June 30, 2035, on various vehicle and vessel registration and identification fees and smog abatement fees that fund clean vehicles and associated infrastructure. These fees provide approximately $173 million per year in revenue.

The language also proposes the following minor changes to the Energy Commission's Clean Transportation Program (CTP):

- Narrowing the CTP to zero-emission fuel and technology where feasible and near zero-emission elsewhere;
- Expanding sole source and advance payment flexibilities to include private entities that manage a Department of Energy national lab; and,
- Expanding eligibility for Native American Tribes and Tribal Organization to access CTP funds.

The language can be found here: https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/854.

PANEL

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LAO COMMENTS

Summary

In this brief, we assess the Governor's proposal to extend the sunset of certain-vehicle related fees that support clean transportation activities. Fees that are scheduled to sunset on January 1, 2024—often referred to as AB 8 fees—generate revenues totaling about $175 million annually, which are used to support three different programs that encourage adoption of zero-emission vehicles (ZEVs) and upgrades to cleaner vehicle technology. (While these charges are commonly referred to as fees, under the State Constitution they qualify as taxes, and therefore will require a two-thirds vote of the Legislature to extend.) While the associated fee levels are modest, vehicle registration fees in California already are quite high compared to other states. In light of significant policy and funding changes to support ZEVs and cleaner transportation since these fees were last reauthorized in 2013, we recommend the Legislature think carefully about how the revenues complement existing efforts and how essential they are to achieving state goals given the costs they represent to households. Should it choose to reauthorize AB 8 fees, the Legislature could consider changing how the funds are used to support different clean transportation programs, or fund entirely different activities with the revenues, depending on the state's highest priorities.

Background

Vehicles Are a Major Source of Greenhouse Gas (GHG) Emissions and Air Pollution. The state has undertaken a variety of steps to try to limit the magnitude of climate change and reduce GHG emissions. Transportation is the largest single source of GHG emissions—responsible for about 40 percent of total GHG emissions overall, with 25 percent of the total coming from passenger vehicles. This makes vehicles a key area of focus for achieving GHG reductions. Additionally, vehicles—particularly heavy-duty trucks—are major sources of air pollution. Numerous counties in the state are out of attainment with federal air quality standards, and several counties in the Central Valley and Southern California are classified as extreme non-attainment communities. Air pollution from mobile sources is responsible for about 80 percent of nitrogen oxide emissions and 90 percent of diesel particulate matter emissions, both of which are harmful to human health. Communities with larger percentages of low-income households and people of color are disproportionately exposed to air pollution.

AB 8 Fees Include Various Vehicle-Related Taxes. Chapter 750 of 2008 (AB 118, Núñez) established several different vehicle-related fees that primarily support climate and air quality programs. Chapter 401 of 2013 (AB 8, Perea) extended these fees until January 1, 2024. Throughout this brief, we refer to the vehicle charges imposed by AB 8 as "fees," which is generally consistent with how they are characterized in statute. However, under the State Constitution, these charges qualify as taxes. **These fees include an annual smog abatement fee for vehicles six years old or less ($8), an annual vehicle registration fee ($3), an annual vehicle identification fee ($5), and a vessel registration fee ($20 every other year).** These vehicle fees are only charged for light-duty passenger vehicles and, in the case of the vessel fee, boats. (These numbers reflect the share of these fees that go to AB 8 programs; the state also charges some additional vehicle fees that are not reflected here.)

Fee Revenue Supports Five Vehicle Emissions-Related Programs. The revenue from these fees supports five environmental and clean transportation programs, most of which are targeted at mitigating climate change and improving air quality. The amounts shown reflect approximate AB 8 annual revenues, based on statutory formula allocations.

- ***Clean Transportation Program (CTP, $110 Million).*** The CTP program, administered by the California Energy Commission, provides grants to accelerate development and deployment of clean vehicles, including ZEV fueling infrastructure, alternative vehicle technologies, and alternative fuels. According to the administration, about 50 percent of funded projects are located in low-income or disadvantaged communities experiencing disproportionate levels of pollution.

- ***Enhanced Fleet Modernization Program (EFMP, $33 Million).*** The EFMP provides subsidies to retire older, high-polluting vehicles and replace them with newer vehicles, with higher subsidies for low-income households. The Bureau of Automotive Repair (BAR) implements the scrap-only portion of the program statewide, which receives about 90 percent of the funds, through its Consumer Assistance Program. Under the program, low-income consumers are eligible for a $1,500 incentive to retire higher-polluting older vehicles at a BAR-contracted dismantler. CARB administers the scrap-and-replace portion of EFMP, which provides a retirement incentive and additional compensation towards the purchase of a cleaner hybrid or zero-emission replacement vehicle. Participants must make 400 percent or less of the federal poverty level (FPL) to qualify for the scrap-and-replace option.

- ***Air Quality Improvement Program (AQIP, $29 Million).*** AQIP is a mobile source incentive program that focuses on reducing criteria pollutants and diesel particulate emissions. In recent years, CARB has allocated these revenues to the Truck Loan Assistance Program, which helps small-business fleet owners secure financing for cleaner truck upgrades in order to meet regulatory requirements. To be eligible, program participants must earn less than 225 percent of the FPL annually.

Portion of Fees Scheduled to Expire at End of 2023. In 2022, the Legislature enacted Chapter 355 (AB 2836, E. Garcia), which extended the portion of the AB 8 fees that support the Carl Moyer Program and the Waste Tire program until 2034. The portion of the fees that supports the three remaining programs—AQIP, EFMP, and CTP—however, has not been extended, and is scheduled to sunset on January 1, 2024. Figure 1 displays the annual fees that are scheduled to sunset and how they currently are allocated across programs. **As shown, the fees represent a total cost of up to $16 annually per vehicle for a typical vehicle owner and $20 per vessel every other year for boat owners.**

Allocation of Sunsetting AB 8 Fees by Program *(In Dollars) Figure 1*

Fee	AQIP	CTP	EFMP	Totals
Vessel Registration Fee[a]	$10.00	$10.00	—	$20.00
Smog Abatement Fee[b]	4.00	4.00	—	8.00
Vehicle Identification Fee	2.50	2.50	—	5.00
Vehicle Registration Fee	—	2.00	$1.00	3.00
Totals	**$16.50**	**$18.50**	**$1.00**	**$36.00**

[a]These fees are applied for boat registrations and are charged every other year rather than annually.

[b]Applies to vehicles six years old or less.

AB 8 = Chapter 401 of 2013 (AB 8, Perea); AQIP = Air Quality Improvement Program; CTP = Clean Transportation Program; and EFMP = Enhanced Fleet Modernization Program.

Governor's Proposal

Proposes Reauthorization of Vehicle Fees Set to Expire. The Governor proposes to extend authorization for the sunsetting AB 8 fees from January 1, 2024 through 2035. Because these fees are constitutionally a tax, the extension would need to be approved by a two-thirds vote of the Legislature. Under the proposal, the fees would be kept at existing rates and continue to generate roughly the same level of revenues, estimated to be about $175 million annually. The proposal would continue to designate fee revenue for the same programs it currently supports: CTP, AQIP, and EFMP.

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

Assessment

Proposal Would Require Californians to Continue Paying Existing Taxes. In concept, it is reasonable for the state to have drivers bear some of the costs of efforts to reduce the impacts of mobile emissions, given they represent a key source of the resulting pollution and GHG emissions. Moreover, continuing to charge the AB 8 fees would not represent a new cost to or increase in taxes for vehicle owners, but rather maintain existing, relatively modest levels ($8 in annual registration fees and $8 in annual smog abatement fees for cars six years old or less). However, vehicle owners essentially already pay an additional fee to help mitigate pollution and reduce GHG emissions resulting from the cap-and-trade program, which adds about 22 cents to the cost of each gallon of gas. (This takes into consideration the costs that fossil fuel companies—covered under the cap-and-trade program—add to each gallon of gas, reflecting their program compliance costs that they choose to pass on to customers.) Moreover, although AB 8 fees are modest, they represent a direct cost to vehicle owners—including to lower-income households, which are more likely to be negatively affected by higher registration prices. California vehicle owners already pay high registration fees compared to other states and have experienced significant increases in the past decade. For example, average total annual fees paid per vehicle have increased from $143 for automobiles in 2013 to $245 in 2020, not including air quality fees such as the smog fee. Given these trends, together with inflationary pressures and the exceptionally high cost of living in California, it will be important for the Legislature to carefully consider how important AB 8 revenues are to meeting the state's goals and whether they are worth the costs they place on households.

Significant New Policy Goals Since AB 8 Fees Were Enacted and Reauthorized… The state has adopted new, more ambitious GHG reduction goals since the AB 8 fees were reauthorized in 2013. For instance, Chapter 249 of 2016 (SB 32, Pavley) updated the state's GHG reduction limit from 1990 levels by 2020 to 40 percent below 1990 levels by 2030.

Chapter 337 of 2022 (AB 1279, Muratsuchi) requires the state to achieve net-zero GHG emissions by 2045. In addition to these goals, the administration has introduced new regulations to promote ZEV adoption. The Advanced Clean Cars II rule, adopted by CARB in 2022, requires 100 percent of new cars and light-duty trucks sold in California to be ZEVs or hybrid-electric by 2035. The proposed Advanced Clean Fleets rule, which CARB anticipates adopting this spring, would require all new trucks and buses sold to be ZEVs by either 2036 or 2040 (CARB has not yet decided which year). The state also has undertaken numerous efforts to improve air quality, especially in communities that are out of attainment with federal air quality standards. Taken together, the challenge of meeting ambitious goals, carrying out regulatory requirements, and addressing continuing air quality problems may provide some rationale for a continued need for AB 8 fee revenues.

…But Also Significant New Other Sources of Funding to Support Those Goals. While the state's goals have evolved notably since the Legislature enacted AB 118 and AB 8, so too have the sources and amounts of funding to improve air quality and vehicle emissions. For example, cap-and-trade auction revenues that flow into the Greenhouse Gas Reduction Fund (GGRF) have increased from $257 million in 2012-13 to more than $3 billion annually in recent years. Much of this funding has been allocated to mobile source emissions reduction programs, including "AB 617" community air pollution reduction efforts as well as various clean transportation programs. The state also committed roughly $10 billion over five years for ZEV programs, primarily from the General Fund, in the 2021-22 and 2022-23 budgets. Although the Governor's 2023-24 budget proposes making some reductions to this funding, it would maintain the significant majority. In addition to these state investments, recent federal spending bills provided considerable funding to support ZEVs and other clean transportation efforts. Federal programs include tax incentives for households to purchase ZEVs, grants for charging infrastructure, funding for electric buses and truck electrification, and funding to promote cleaner vehicle technologies.

Extending AB 8 Fee Revenues Could Provide Reliable Funding Source and Help Offset Potential Budget Reductions. Though the state's commitments of General Fund and GGRF revenues are significant, these sources are not consistently reliable into the future. Should the Legislature believe deeper investments in clean transportation efforts are necessary through 2035, reauthorizing the AB 8 fee revenues could provide a consistent funding source without raising new taxes or fees. Moreover, extending these fees could help the Legislature continue to pursue its goals at the same time it needs to address the state's current budget problem. For example, the Legislature could opt to reduce General Fund expenditures from the ZEV package for similar activities currently being supported by AB 8 fee revenues. While this would result in a net reduction to ZEV program spending, it could allow the Legislature to achieve General Fund savings while feeling confident that some level of its desired activities will still be conducted.

Potential Reauthorization Presents Opportunity to Consider Highest-Priority Use of Funds. When initially authorized, these fees were intended to support then-emerging lower-emission/ZEV technologies and help transition car owners to less-polluting vehicles. The landscape of ZEV adoption and other clean transportation incentive programs has changed significantly since that time, however, with greater consumer demand, more available incentives for purchasing ZEVs, and expanded availability of infrastructure to support them. For example, about 20 percent of all new cars sold in California in 2022 were ZEVs (compared to about

10 percent in 2020), and there are currently about 80,000 ZEV chargers in California. Research suggests roughly half of the households that receive an incentive to purchase a ZEV would have purchased one anyway, revealing the extent to which the ZEV market has matured and thus may not need as many government incentives to further develop compared to when these fees were last authorized. Therefore, should the Legislature determine that AB 8 fee revenues still are essential for meeting the state's clean air and GHG reduction goals, it may also want to reconsider the highest-priority uses for the funds to ensure they are being used effectively to achieve desired outcomes. For example, the Legislature could consider:

- ***Revising the Focus of Existing Programs.*** As discussed earlier, the Governor is proposing some minor eligibility changes for CTP. The Legislature could consider additional revisions to the current AB 8-funded programs that would allow them to better support the state's GHG and air quality goals. For example, new state regulations will promote greater adoption of medium- and heavy-duty ZEVs. Given that this is already the direction in which the state is heading, rather than using AQIP AB 8 funds to support purchases of trucks with traditional combustion engines (as is allowed under current program rules), the Legislature could consider requiring AQIP to focus exclusively on upgrades to ZEVs. In addition, the Legislature could consider adopting statutory changes to further modify the focus of CTP. For instance, the administration has reported that about 50 percent of funded projects have been located in low-income or disadvantaged communities. The Legislature could require the program to further prioritize these communities, such as by adding a focus on multiunit dwellings, given that existing chargers are more heavily located in affluent areas. The Legislature could also consider requiring CTP investments to support newer, more emergent technologies such as hydrogen charging and medium- and heavy-duty chargers, which are less prevalent than passenger vehicle chargers but will be needed as more hydrogen-powered and large ZEVs enter the market.

- ***Funding Different Clean Vehicle Programs and Activities.*** The Legislature also could fund a different mix of programs and activities to ensure AB 8 funds are used to strategically complement other ZEV activities. For example, AB 8 fee revenues could be used to support more ZEV heavy-duty truck and bus vouchers, which are one of the most cost-effective mobile source programs for reducing GHG emissions.

Legislature Could Consider Restructuring Fees. The Legislature also could consider restructuring the way these fees are charged. For example, one option would be to adopt a more progressive structure that takes vehicle value into consideration. Some other transportation fees—such as the Transportation Improvement Fee, which funds road improvements—vary charges based on the value of the vehicle. Should the Legislature take this approach, it could help reduce some of the negative impacts on low-income households and create a more equitable structure. However, depending on how it was structured, such an approach likely would increase the cost burden for some other vehicle owners and might generate a different amount of overall revenue. In addition, AB 8 fee revenues are collected from passenger light-duty vehicles, but about half of the fee revenues are used to support programs that target heavy-duty vehicles. Another option the Legislature could consider is to also charge these fees to heavy-duty vehicle owners, given that such vehicles cause air pollution and GHG emissions at an even greater level than passenger vehicles and currently are an area of focus for expenditures of this funding.

Recommendations

Consider Whether AB 8 Fee Revenues Still Are Essential to Meeting State Goals. We recommend that the Legislature weigh whether AB 8 revenues still are vital to helping the state pursue its clean air and GHG emission reduction goals, given the continued—albeit modest—tax burden they represent for California vehicle owners. Significant changes in policies and funding for ZEVs and clean transportation have occurred since the fees were last reauthorized in 2013. While the state's desire to pursue more aggressive goals could argue for a continued need for the revenues, significant other funding sources have become available to help support those efforts. As part of its deliberations, we recommend the Legislature consider whether the state needs a consistent and ongoing fund source along with the significant, but limited-term, General Fund, GGRF, and federal funds for these purposes. We also recommend the Legislature assess the merits of directing AB 8 fee revenues to help it solve the state's current budget problem, such as by using them for some ZEV programs and making corresponding General Fund reductions.

If Fees Are Reauthorized, Consider Highest Priorities for Funding. Much has changed since these fees were last reauthorized in 2013—a more robust ZEV market, greater funding for ZEVs, and an increased need to support lower-income communities in making the vehicle transitions the state is now requiring. Should it choose to reauthorize AB 8 fees, we recommend the Legislature consider its highest-priority goals for the associated funding. The Legislature could consider revising existing programs, supporting a different mix of clean vehicle efforts, or using the funds for other budgetary priorities.

Consider Restructuring Fees. Unlike some other vehicle registration fees, AB 8 fees are set at equal levels regardless of the cost of the vehicle. If the Legislature decides to reauthorize the fees, it also could consider restructuring them, such as to require more expensive vehicles to pay a higher rate than lower-cost vehicles. This could create a more progressive structure and ease cost burdens for some lower-income vehicle owners, though it would represent a notable shift in policy approach and could change the amount of annual revenues generated. The Legislature could consider also charging fees for heavy-duty vehicles, as larger diesel vehicles exacerbate air pollution and GHG emissions at greater rates than light-duty passenger vehicles. Moreover, this category of vehicle owners currently receives significant benefits from AB 8 program expenditures.

STAFF COMMENTS

These fees were always passed as a policy bill and never as a budget trailer bill. Since these statutes were originally adopted, the state's policy and fiscal commitment to zero-emission vehicles, as well as the federal government's funding, have matured greatly. Given the drastic increase in stakeholders and increased funding at the state and federal level, the discussion on which portions of incentives need longer term funding, if and how the programs should be restructured, and which fees and the level of fees are most appropriate for the funded programs may need longer discussion and revision than the budget committee process can provide. These decisions would benefit from being part of the policy bill process.

If this Subcommittee would prefer to advance this proposal as a budget trailer bill solely or concurrently, the Subcommittee members may wish to consider:

- Is roughly $173 million per year the correct amount?

- Should the programs be shifted more toward funding medium and heavy duty vehicles/infrastructure or infrastructure in rural or low income communities?

- Based on priority programs to fund and the amount of funded desired, are the current fees the correct structure? Do the breakdown of the fees revenues between AQIP, CTP, and EFMP reflect the state's upcoming needs and priorities?

Staff Recommendation: Hold Open.

3900 CALIFORNIA AIR RESOURCES BOARD

ISSUE 3: ELECTRIC VEHICLE SUPPLY EQUIPMENT PAYMENT STANDARDS TRAILER BILL

The Governor's budget proposes trailer bill language to repeal regulations requiring that publicly available electric vehicle charging stations that require payment to have a chip credit card reader and instead require:

- Electric vehicle (EV) charging stations, installed or made public after this section is adopted, accept contactless payment of major credit cards and debit cards, and either an automated toll-free phone number or a short message/messaging system (SMS) that provides the EV charging customer with the option to initiate a charging session and submit payment.

- Direct current fast charging (DCFC) stations, installed or made public after this section is adopted, to also include Plug and Charge payment capabilities using the ISO 15118 standard no later than one year after the effective date of this section.

- Authorizes CARB to add or subtract to these requirements through regulation, but no earlier than January 1, 2028.

The language to the trailer bill can be found here:
https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/852.

BACKGROUND

In 2019, CARB adopted regulations implementing SB 454 (Corbett, 2013) that sought to make EV charging accessible to all Californians. These regulations required publicly available EV charging stations that require payment to accept chip credit and debit cards and offer a phone number to process payments. These requirements take effect on January 1, 2022 for DCFC and July 1, 2023 for level 2 (or when they are replaced, but no later than July 1, 2033).

Contactless payment could include tap/RFID credit or debit cards, mobile phone applications like Apple Pay, or an EV charging company's membership subscription.

On February 15, 2023 the federal government released guidelines on federally funded chargers. This trailer bill aligns with the federal requirements. However, those guidelines do not supersede State requirements.

ISO 15118 is an international standard for vehicle to grid communication interface for bi-directional charging/discharging of electric vehicles. The standard provides multiple use cases like secure communication, smart charging and the Plug and Charge feature used by some electric vehicle networks. Plug and Charge allows EV chargers and vehicles to communicate and automatically process payment and enable charging. Some EVs support the Plug and Charge standard, including the model year 2021 Porsche Taycan, Mercedes-Benz EQS, Lucid

Air, Ford Mustang Mach-E, and the Rivian R1T. Other electric vehicles could possibly be updated to support the standard, including the Volkswagen ID.4. Some cars need hardware updates. All Tesla vehicles since 2012 have a proprietary version of plug and charge.

PANEL

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- Sarah Cornett, Fiscal & Policy Analyst, Legislative Analyst's Office

STAFF COMMENTS

Stakeholders have attempted for years to repeal the CARB regulation by citing increased costs, higher likelihood of chargers offline, and wide availability of contactless/tap payment methods.

However, in February 2022, CARB published a report of a survey of the industry and consumer preferences and found that it was premature to remove chip credit card readers:

"The available data indicate that drivers continue to experience a number of barriers to accessing public charging, with inoperable stations and payment issues being the most frequently cited challenges. Furthermore, while credit card companies are deploying new, contactless credit card technologies, available information from the credit industry indicates that tap-enabled cards are not yet widely available and that EMV chip-enabled cards will continue to be the foundation for payment transactions until tap becomes more broadly deployed. Furthermore, while tap technologies have the potential to offer advantages to under- and unbanked drivers, the survey data collected as part of this effort suggest that lower-income drivers may have less access to tap-enabled cards and tap-enabled smartphones than higher-income drivers at this time.

Though there is more to learn, based on these findings, this report concludes that immediate changes to the EVSE Standards Regulation are not warranted at this time. Nevertheless, payment technologies are evolving and therefore the availability and use of different payment methods, including by drivers with varying levels of income and access to traditional banking, requires ongoing monitoring so that staff may recommend changes at the appropriate time in the future."

The report also estimates costs: "Upfront costs for EMV chip readers were estimated at $371 per unit on average, a cost which could occur at each EVSE, or could be shared at a common kiosk for a parking facility. Ongoing annual operating and maintenance costs were estimated to be $270 per unit per year. For context, in 2019, staff estimated the cost of replacing a public Level 2 EVSE unit to be $6000. Staff have not seen any evidence that this cost is reducing the number of EVSE units installed in California."

When data was collected in late 2021, chip cards were still the majority of cards: "California drivers and credit card companies were surveyed about the deployment of tap cards. Visa conveyed in its fourth quarter earnings call from 2021 that they have 400 million tap cards deployed nationally, which accounts for roughly 15 percent of the Visa card market in the country. Mastercard is estimating the U.S. market is roughly 24 months away from having 25 percent of cards issued being tap-enabled."

The report compares security of the technologies: "The rulemaking analysis also found that EMV chip cards are as secure as contactless cards because they both use the same security standards for transactions. Every chip and contactless transaction uses a one-time use cryptographic code that prevents counterfeit fraud. Whether a customer is using a tap-to-pay card or inserting your EMV chip card, the sensitive information sent is encrypted. A unique, one-time-use code is created for the transaction instead of sending a customer's name, billing address, CVV code, or zip code. This is called "tokenization." So, even if a thief intercepted a contactless or chip transaction, they could not use that to replicate a card."

However the survey shows that 70% of California drivers (that responded to the survey and have a plug in electric vehicle) have at least one tap card, but 15% of those drivers never use tap.

While the guidelines for federally fund chargers are consistent with this trailer bill, the federal guidelines will only apply to chargers built in the future, so likely not for a few more years, whereas this trailer bill could take effect this summer and apply to existing chargers.

This Subcommittee may wish to opine on their comfortability in switching to contactless payment methods (including a phone number and/or text message payment). The Subcommittee may wish to ask:

- What percentage of major credit and debit cards in circulation in California are tap enabled?

- What percentage of Californians, or Americans, currently use tap cards and/or mobile payment methods?

This Subcommittee may wish to move this code section and responsibilities to the California Energy Commission, who handles electric vehicle charging.

Staff Recommendation: Hold Open.

ISSUE 4: GREENHOUSE GAS REDUCTION FUND SPENDING PLAN AND GENERAL OVERVIEW

The Governor's budget requests to adopt a $2.8 billion Greenhouse Gas Reduction Fund (GGRF) spending plan as follows:

2023-24 Governor's Budget Cap-and-Trade Spending Plan (Dollars in Millions)		
Revenues	Estimated Auction Proceeds[1]	$2,481
	Estimated Interest Earnings	$20
	Additional Net Current Year Proceeds[2]	$161
	Utilization of Fund Balance	$117
	Total Available Proceeds	**$2,779**
Statutory Obligations	State Responsibility Area Fee Backfill	($79)
	Manufacturing Tax Credit	($97)
	Healthy and Resilient Forests	($200)
Continuous Appropriations[1]	High-Speed Rail Project	($526)
	Affordable Housing & Sustainable Communities Program	($421)
	Transit and Intercity Rail Capital Program	($210)
	Low Carbon Transit Operations Program	($105)
	Safe & Affordable Drinking Water Program	($105)
Other	Baseline Operations	($150)
	Safe & Affordable Drinking Water Program Backfill	($25)
Discretionary	General Fund Solution - AB 617 Community Air Protection (CARB)	($200)
	General Fund Solution - AB 617 Local Air District Implementation (CARB)	($50)
	General Fund Solution - Zero Emission Vehicle Package Shift to GGRF (CARB)	($243)
	General Fund Solution - Zero Emission Vehicle Package Shift to GGRF (CEC)	($368)
	Remaining Available Proceeds	**$0**

[1]Does not account for new floor prices and estimated allowance allocations for 2023-24 per regulatory requirements. These updates will be included in the May Revision.

[2]Accounts for November 2022 Auction Proceeds.

GENERAL FUND SOLUTIONS

The Governor's Budget also proposes the following general fund reductions and fund shifts to address the deficit:

- **AB 617 Implementation: $250 million fund shift from General Fund to GGRF.**

- **AB 617 Implementation: $50 million reduction.** This is proposed for restoration in the General Fund trigger.

    - As noted above, the 2022 budget adopted $300 million total General Fund for AB 617 implementation in FY 2023, a program which funds emission reduction measures with community input in the State's most disadvantage communities. So far 19 communities have been accepted into the program. Some air districts have stated that they are hesitant to submit new communities due to lack of funds. This $50 million reduction represents a 16% reduction.

- **Equitable Building Decarbonization - Accelerating Adoption of low-GWP refrigerants:** $20 million General Fund reduction of $40 million total.

    - This program replaces existing high global warming potential refrigerants used in air conditioning units and refrigerators with ultralow global warming potential refrigerants.

PANEL

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- Christian Beltran, Principal Program Budget Analyst, Department of Finance

LAO COMMENTS

Background

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

February Cap-and-Trade Auction Update

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

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

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

Governor's Proposal

Governor Proposes $861 Million in Discretionary Spending. The Governor's budget assumes cap-and-trade revenues of $2.8 billion in 2023-24, as shown in Figure 1. This includes $2.5 billion from projected budget-year auction proceeds and $298 million from other GGRF revenues (such as interest earnings, additional current-year revenues from the November 2022 auction, and utilizing the existing GGRF fund balance). Under the Governor's proposal, about $1.6 billion would go to continuously appropriated programs, $351 million would go toward other existing commitments, and $861 million would be used for proposed discretionary spending (all to backfill proposed General Fund cuts, as described below). We note that the $376 million for other statutory obligations includes $25 million to "make up" the full $130 million intended for drinking water programs, since under the Governor's estimates, the required 5 percent of continuously appropriated revenues would not fully fund that intended amount.

Figure 1

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

(In Millions)

Continuous Appropriations	
High-Speed Rail Project	$526
Affordable Housing and Sustainable Communities Program	421
Transit and Intercity Rail Capital Program	210
Healthy and Resilient Forests	200
Low Carbon Transit Operations Program	105
Safe and Affordable Drinking Water Program	105
Subtotal	($1,567)
Other Existing Commitments	
Baseline Operations	$150
Manufacturing Tax Credit	97
State Responsibility Area Fee Backfill	79
Safe and Affordable Drinking Water Program Backfill	25
Subtotal	($351)
Discretionary	
General Fund Backfill—Zero Emission Vehicle Package (CEC)	$368
General Fund Backfill—Zero Emission Vehicle Package (CARB)	243
General Fund Backfill—AB 617 Community Air Protection	200
General Fund Backfill—AB 617 Local Air District Implementation	50
Subtotal	($861)
Total	**$2,779[a]**

[a] Includes $2.5 billion in auction proceeds and $300 million from: interest earnings, fund balance utilization, and additional November 2022 auction proceeds.

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

Proposal Mostly Backfills Zero-Emission Vehicle (ZEV) Programs Proposed for Reductions. As shown in Figure 1, the Governor would commit $611 million of GGRF discretionary funds to backfill proposed General Fund reductions to recent ZEV funding commitments. (Please see our recent report, *The 2023-24 Budget: Crafting Climate, Resources, and Environmental Budget Solutions*, for a more detailed discussion of which programs would receive GGRF funds under the proposal.) In addition, the Governor would direct $250 million in 2023-24 discretionary GGRF revenues to backfill a proposed General Fund reduction to the AB 617 Community Air Protection program. This program—established by Chapter 136 of 2017 (AB 617, C. Garcia)—has historically been supported using discretionary GGRF revenues, however, the 2022-23 budget package planned to provide it with General Fund in the budget year.

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

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

Assessment

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

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

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

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

Issues for Legislative Consideration

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

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

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

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

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

STAFF COMMENTS

While the 2022 Budget shifted many programs that are historically funded by GGRF to General Fund due to the surplus, the Governor proposes to shift many funding categories that are traditionally funded by GGRF back, namely zero-emission vehicle programs and AB 617. Staff recommends approving these fund shifts.

Staff recommends rejecting the GGRF trigger as it removes legislative oversight and flexibility.

Given the LAO's analysis that the administration uses a conservative estimate for GGRF revenues, this Subcommittee may wish to restore the full $300 million appropriation that was agreed to.

This Subcommittee may wish to ask the following questions:

- Why did the administration not propose to cut any discretionary GGRF funded programs in order to shift deeper General Fund programs to GGRF?

- What is the status of implementation of recently funded GGRF programs including FARMER, small off-road engines, San Joaquin Valley alternatives to agriculture burning, methane satellites, mobile air monitoring, and the various methane reduction programs?

- What implementation measures will likely not be funded in the AB 617 program as a result of the proposed decreased GGRF investments in that program?

Staff Recommendation: Hold Open.

8570 DEPARTMENT OF FOOD AND AGRICULTURE

ISSUE 5: GENERAL FUND SOLUTIONS AND PREVIOUS FUNDING IMPLEMENTATION UPDATE

Over the 2021 and 2022 budgets, the California Department of Food and Agriculture has received historic funding for various sustainable agriculture, food resiliency, fairground infrastructure projects, and drought programs.

To address the 2023 general fund deficit the Governor has proposed the following reductions:

Figure 22

Governor's Proposed Sustainable Agriculture, Circular Economy, and Other Budget Reductions

2021-22 Through 2023-24 (In Millions)

Program	Department	Total Augmentations	Proposed Reductions	New Proposed Amounts
Sustainable Agriculture Programs Proposed for Solutions				
Healthy Soils Program	CDFA	$170[a]	-$15	$155
Conservation Agriculture Planning Grants	CDFA	39	-22	18
Pollinator Habitat Program	CDFA	30	-15	16
Climate Catalyst Fund Program—agriculture	IBank	25	-25	—
Healthy Refrigeration Grant Program	CDFA	20	-9	11
Farm to Community Food Hubs Program	CDFA	15	-15	0
Urban Agriculture Program	CDFA	12	-6	6
Research in GHG reduction	CDFA	10	-5	5
Invasive Species Council	CDFA	10	-5	5
Farmer training and manager apprenticeships	CDFA	10	-5	5
Sustainable Cannabis Pilot Program	CDFA	9	8.5	0.5
Subtotals		($350)	(-$128)	($222)
All Other Sustainable Agriculture Funding	Various	$833	—	833
Sustainable Agriculture Totals		**$1,183**	**-$128**	**$1,055**

And **$40 million for the State Water Efficiency and Enhancement Program (SWEEP)** from the $160 million total.

The following items and amounts are proposed in the General Fund Trigger:

- Farm to Community Food Hubs Program ($14.8 million)
- Urban Agriculture ($5.8 million)
- Sustainable California Grown Cannabis ($8.5 million)
- State Water Efficiency and Enhancement Program (SWEEP) ($40 million)
- Healthy Refrigeration Grant Program ($8.9 million)
- Healthy Soils Program ($15 million)
- Pollinator Habitat Program ($14.5 million)
- Technical Assistance for Conservation Management Plans ($21.5 million)
- Research into Greenhouse Gas Reductions ($4.7 million)
- Invasive Species Council ($5 million)

- New and Beginning Farmer Training ($4.7 million)
- Climate Catalyst Fund – Agriculture ($25 million)

PANEL

- Karen Ross, Secretary, Department of Food and Agriculture
- Christian Beltran, Principal Program Budget Analyst, Department of Finance
- J.T. Creedon, Finance Budget Analyst, Department of Finance
- Frank Jimenez, Senior Fiscal & Policy Analyst, Legislative Analyst's Office

LAO COMMENTS

Recent and Planned Funding Augmentations

Recent Budgets Committed $1.2 Billion for Sustainable Agriculture Activities, Mostly From General Fund. As shown in Figure 20, recent budgets have committed a total of $1.2 billion on a limited-term basis over three years—$684 million in 2021-22, $487 billion in 2022-23, and $13 million intended for 2023-24—to support sustainable agriculture activities. About 80 percent of the $1.2 billion total—$915 million—is from the General Fund. The remaining amounts are from GGRF ($225 million) and the Air Pollution Control Fund ($43 million). While most of this funding was included as part of a 2021-22 budget package focused on sustainable agriculture, some of the funding shown was originally included in an extreme heat package or as standalone proposals.

Figure 20

Recent and Planned Sustainable Agriculture Augmentations

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

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

[a] Includes funding from the Greenhouse Gas Reduction Fund.
[b] Includes funding from Air Pollution Control Fund.
[c] Includes the following programs: (1) impact assessment and alignment of reporting, (2) integrated pest management technical assistance (previously in the extreme heat package), (3) canine blood bank, and (4) Senior Farmers Market Nutrition Program.

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

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

Sustainable Agriculture Activities Historically Not Significant Recipients of General Fund. The state has traditionally not provided significant General Fund support for most of these activities. Some of the programs shown in Figure 20 are new and their creation was made possible by the robust condition of the General Fund. Examples of new programs include: (1) the Fresno-Merced Future of Food Innovation Initiative; (2) the Conservation Agriculture Planning Grants Program; (3) the Pollinator Habitat Program; (4) the Urban Agriculture Program; (5) the Farm to Community Food Hubs Program; and, (6) the Climate Catalyst Fund, which provides low-interest loans to projects that advance the state's climate mitigation and adaptation goals in the agricultural sector. (We also discuss this program in the "Wildfire and Forest Resilience" section of this report because separate funding focusing on the wood products sector was included in that package.)

Some other programs shown in Figure 20 have received funding from the state in the past, but typically from sources other than the General Fund. For example, CARB's FARMER Program has been supported by GGRF and the Air Pollution Control Fund (which receives revenue from fees and penalties paid by various emitters of air pollution), and the Healthy Soils program has historically been supported by GGRF. As noted in the figure, these two programs received support from those special funds in 2021-22, but in subsequent years funding shifted to the General Fund.

Governor's Proposals

Proposes Various Reductions Affecting Multiple Programs. The Governor proposes some notable reductions in the areas of sustainable agriculture, circular economy, and other activities, as shown in Figure 22 above. Specifically, for sustainable agriculture activities, the largest reduction proposed—$25 million—is the elimination of the Climate Catalyst Program's funding for agriculture-related loans. Some other notable reductions include: (1) $22 million from the Conservation Agriculture Planning Grants Program; (2) $15 million from the Healthy Soils Program; (3) $15 million from the Pollinator Habitat Program; and, (4) $15 million from the Farm to Community Food Hubs Program.

Assessment

Proposed Solutions Generally Appear Reasonable. All of the Governor's proposed solutions come with trade-offs. However, after weighing these trade-offs, we think the Governor's proposals generally are reasonable in light of the state's anticipated budget challenges. In particular, while many of these programs aim to achieve worthy environmental goals, they generally focus on less pressing climate change-induced challenges than some of the other thematic areas discussed in this report (such as wildfire, sea-level rise, and drought). Accordingly, we think targeting uncommitted funding from these programs is a worthwhile approach to pursuing budget solutions. (We think it would be overly disruptive to take away funding that has already been committed to specific projects.) Below, we discuss several specific proposals for which we think the Governor proposes reasonable reductions, and we also identify other potential reductions that we think warrant legislative consideration.

Climate Catalyst Program Is New and Untested. We find justification for the Governor's proposal to eliminate the $25 million provided in 2022-23 for offering agricultural-related loans through the Climate Catalyst Fund Program. As we discussed in the "Wildfire and Forest Resilience" portion of this report, funding was initially allocated in 2020-21 to establish a version of this program focused on creating a sustainable wood products market. However, the program has taken time to launch and no awards have been made thus far for either wood products or sustainable agriculture activities. We note that the Governor proposes to maintain some funding for the wildfire portion of the program, which could be used to test its effectiveness as a strategy for spurring market development. Depending on the results of that effort, the Legislature could consider whether to reauthorize funding for an agriculture-related expansion in future years.

Legislature Could Consider Reducing Farm to School Incubator Grant Program, Further Reductions for Healthy Soils. Should the Legislature want to consider alternative or additional budget solutions than those proposed by the Governor, we believe two additional agriculture-related programs merit consideration.

- ***Farm to School Incubator Grant Program.*** The Governor does not propose changes for this program—which provides funding to schools to purchase locally grown foods, coordinate educational opportunities, and further collaboration and coordination between schools and producers—but we think the Legislature could consider reducing its funding. Recent budgets provided $90 million for this relatively new program—$30 million in 2021-22 and $60 million 2022-23. Given that the program is still in its early implementation stages (it began in 2020-21), the Legislature could reduce funding and allow it to continue operating at a scaled-down level (offering fewer grants). The state could then gather information about how effectively the program met its intended goals before considering additional augmentations. (An existing program evaluation report is due to the Legislature by January 2024.) The program has awarded all of its 2021-22 funding to grantees, but has not yet made awards from the 2022-23 amount, and has $60 million in unspent funds as of February 2023.

- ***Healthy Soils Program.*** While the Governor proposes a $15 million reduction for this program, we find that additional reductions could be warranted. As we discuss in our 2021 report, *Assessing California's Climate Policies—Agriculture*, the program provides only modest GHG benefits at a relatively high cost per ton when compared to other programs we reviewed. While a deeper reduction for the program would result in fewer overall projects, the program received a significant augmentation from the $75 million provided in 2021-22. Data indicate that roughly $8 million in funding from that augmentation remains unspent as of this writing and the program has not yet awarded any of its $85 million in funding from 2022-23.

STAFF COMMENTS

Staff recommends adopting the proposed cuts to the climate catalyst fund, Sustainable California Grown Cannabis, and the Technical Assistance for Conservation Management Plans program due to their new, discretionary nature.

This Subcommittee may wish to consider funding $35 million for the California Nutrition Incentives Program which provides federal match funding for CalFresh recipients to purchase fresh, local fruits and vegetables at farmers markets.

The Subcommittee may wish to ask the following questions:

- Despite a historic sustainable agriculture funding package, small and socially disadvantaged farmers have often been left out of these programs, or their proposals not funded. How has the Department considered equity in their various programs and efforts to do outreach and technical assistance to small famers and socially disadvantaged farmers, including those with language barriers?

- Can you provide an update of implementation of the sustainable agriculture package, if these programs reached their goals, and updates on other appropriations from the drought package, GGRF, and one time capital investments?

Staff Recommendation: Hold Open.

ISSUE 6: OVERSIGHT COSTS TRAILER BILL LANGUAGE FOR AB 1499 (2017)

The Governor's budget requests Trailer Bill Language to allow the Department to use revenue collected pursuant to Assembly Bill 1499 (Chapter 798, Statutes of 2017) to fund existing Fairs and Expositions (F&E) Branch positions and operating expenses.

BACKGROUND

Pursuant to Business and Professions Code (BPC) section 19620, CDFA is responsible for providing oversight activities carried out by each California fair. CDFA fulfills its oversight responsibilities through the F&E Branch and services provided by CDFA's Human Resources Branch, Legal Office, Audit Office, Office of Civil Rights (OCR), and Executive Office. Examples of oversight activities include:

- Review of DAAs' annual Statements of Operation
- Review of the annual proposed budget for all fairs that are in the Fairs on the Watch program
- Prepare for the State Controller's Office (SCO) financial and actuarial analysis for each DAA
- Conduct compliance audits
- Provide legal guidance for litigation, threatened litigation, contracts, property rights, water rights and OCR issues.
- Coordinate emergency services for the fairgrounds
- Track training compliance for DAAs Chief Executive Officers
- Oversee civil service personnel transactions
- Monitor fair compliance with the statutorily mandated fiscal inspection schedule
- Provide training and administrative and policy guidance to the DAAs
- Attend the most critical DAAs meetings throughout the year

Prior to Fiscal Year (FY) 2009-10, funding support for fairs was generated through pari-mutuel horse racing licensing fees; a funding source established in 1933 that legalized gambling on horse racing. This funding source was utilized by CDFA for a variety of mandated activities. Monies were also allocated to fairs to assist with day-to-day operations.

In FY 2009-10, $32 million General Fund replaced horse racing licensing fees, due to the decline in horse racing revenues and was appropriated until FY 2011-12, when all General Fund support for the fairs was eliminated. After funding was eliminated, there was limited CDFA staff to provide fiscal, administrative, and policy oversight to the fairs. The existing positions and operational expenses have been paid through reserves in the F&E Fund.

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

PANEL

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- Frank Jimenez, Senior Fiscal & Policy Analyst, Legislative Analyst's Office

STAFF COMMENTS

The Administration projects that the AB 1499 sales tax portion that is annually deposited into the CDFA's Fairs and Expositions Fund averages $18-$20 million a year. This number was lower during the COVID-19 pandemic due to many fairs being cancelled. Annual revenue numbers are provided by the California Department of Tax and Fee Administration every November. The funding is typically used for capital improvement projects. The 2021 Budget provided roughly $316 million General Fund for fairground capital improvement projects as well.

This branch currently has 10 authorized staff, which total a maximum of $2,033,000 annually. While actual costs are usually lower than the authorized amount, the authorized amount will slowly increase over time due to raises. If the administration's fund revenue projections are accurate, this would redirect 10-11% of the annual revenue to state administration costs.

Stakeholders express concern that revenues collected have been much lower in previous years and these administrative costs would have used closer to 25-50% of the funds, undermining the original purpose of the legislation to provide capital improvement funds to fairgrounds. Additionally stakeholders note that the revenue generated from AB 1499 is collected from all Network members (District Agricultural Association, county fairs, etc.); statute dictates that CDFA's oversight and assistance is only to be offered to District Agricultural Associations.

Given that the final revenue numbers from a full year of relatively normal fairground activity will not be available until after the Legislative session ends this year, which would enable the Legislature and stakeholders to assess the health of the fund, this Subcommittee may wish to opine on their level of support approving this proposal this year.

Staff Recommendation: Hold Open.

This agenda and other publications are available on the Assembly Budget Committee's website at: https://abgt.assembly.ca.gov/sub3hearingagendas. You may contact the Committee at (916) 319-2099. This agenda was prepared by Shy Forbes.