



STATE POLICY WORKING GROUP MEETING 1/12/2024

Agenda

1. Budget Shortfall - Impacts to Energy
2. Stakeholder Briefing on Climate Investments Jan 10

Notes

On Monday, the Governor released the January State Budget. It adjusts for a **\$68B** imbalance over the current year (ending June 30) and the budget year (July 1, 2024-June 30, 2025).

- Consider this as a "blueprint" to his priorities with line items that support the proposed funding amounts.
- Typically, this process is the "starting gun" for leadership-level negotiations on big ticket items. **Energy and land use are almost always among them.**

This year, the Governor has signaled that some of the policy documents the Council relies on **will not actually be released until we get closer to the May Revision of the budget.** It is unclear if Trailer Bills will follow the same timeline.

- A lot of things are unclear right now; with more to fill-in as additional details emerge.

Budget Adjustments

- **DEBAP:** A delay of \$50 million General Fund for the **Distributed Electricity Backup Assets Program** at the California Energy Commission (CEC), with \$25 million delayed until 2025-26 and \$25 million delayed to 2026-27. The Budget maintains \$595 million, with \$495 million in 2023-24, \$25 million in 2024-25, \$50 million in 2025-26, and \$25 million in 2026-27 for the program and \$100 million for DWR for this program through 2027-28.
- **Equitable Building Decarbonization**—A reduction of \$283 million General Fund and a shift of \$87 million to the GGRF for the Equitable Building Decarbonization Program at the CEC. The Budget maintains \$639 million to the CEC for this program.

- **Clean Energy Reliability Investment Plan (CERIP)**—A delay of \$400 million General Fund in 2024-25 and \$400 million General Fund in 2025-26 for the CERIP. The Budget maintains the \$1 billion for CERIP, which is consistent with SB 846 (Chapter 239, Statutes of 2022) as follows: \$100 million General Fund in 2023-2024, \$100 million General Fund in 2025-26, \$300 million General Fund in 2026-27, and \$500 million General Fund in 2027-28.
- **Electric Homes**—A reduction of \$6.4 million General Fund in the California Electric Homes Program by the CEC [Assuming this is mostly e-water heaters, but including in case].

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Budget Summary for:

- **CLIMATE CHANGE**
- **INFRASTRUCTURE**

Climate Change

The 2021 and 2022 Budget Acts allocated approximately \$54 billion—the California Climate Commitment—to fully integrate climate solutions with equity and economic opportunity. Along with critical investments in health, education, and jobs, the state’s climate agenda is simultaneously confronting the crisis while building a more resilient, just, and equitable future for all Californians.

The Governor’s Budget maintains approximately \$48.3 billion of these investments over seven years. The Budget prioritizes equity and investments in populations facing disproportionate harm from pollution and the climate crisis. Further, the Budget includes an additional \$159.1 million in new climate investments. The Administration also continues to pursue available federal climate funding, including from the Inflation Reduction Act and the Infrastructure Investment and Jobs Act.

To address the projected budget shortfall, the Budget proposes \$6.7 billion of General Fund solutions in climate-related programs to achieve a balanced budget including: \$2.9 billion in reductions; \$1.9 billion in delays of expenditures to future years; \$1.8 billion in shifts to other funds, primarily the Greenhouse Gas Reduction Fund (GGRF).

Energy

The Budget maintains approximately \$6.6 billion of the planned 2022 energy investments. In addition to the \$944 million reduced in the 2023 Budget Act, the Budget includes \$419 million in General Fund reductions, \$144 million in fund shifts, and \$505 million in delays across various energy-related programs. The Budget also maintains the proposed \$1 billion for the Clean Energy Reliability Investment Plan with the remaining amount proposed over three years beginning in 2025-26.

ADDRESSING THE BUDGET PROBLEM

The Budget proposes General Fund solutions to achieve a balanced budget. These include:

- **Capacity Building Grants**—A reversion of \$20 million General Fund for the Capacity Building Grants Program at the California Public Utilities Commission (CPUC). The Budget maintains \$10 million for this program.
- **Investments in Strategic Reliability Assets**—
 - **A delay of \$55 million General Fund for the Electricity Supply Reliability Reserve Fund Program from 2024-25 to 2025-26. The Budget maintains the full \$2.37 billion General Fund to the DWR.**
 - **A delay of \$50 million General Fund for the Distributed Electricity Backup Assets Program at the California Energy Commission (CEC), with \$25 million delayed until 2025-26 and \$25 million delayed to 2026-27. The Budget maintains \$595 million, with \$495 million in 2023-24, \$25 million in 2024-25, \$50 million in 2025-26, and \$25 million in 2026-27 for the program and \$100 million for DWR for this program through 2027-28.**
- **Carbon Removal Innovation**—A reversion of \$40 million General Fund for the Carbon Removal Innovation Program at the CEC. The Budget maintains \$35 million to the CEC for this program.
- **Residential Solar and Storage**—A delay of \$200 million General Fund (\$75 million in 2024-25 and \$125 million in 2025-26) for the Residential Solar and Storage Program. Instead, \$100 million in 2026-27 and \$100 million in 2027-28 would be available. The Budget maintains the \$630 million to the CPUC for this program.
- **Incentives for Long Duration Storage**—A shift of \$56.9 million General Fund to the GGRF in 2024-25 for the Long Duration Storage Program at the CEC. The Budget maintains \$330 million for the program with this shift.
- **Oroville Pump Storage**—A delay of \$200 million General Fund (\$90 million in 2024-25 and \$110 million in 2025-26) for the Oroville Pump Storage Project. The delay results in \$100 million General Fund in 2026-27 and \$100 million in 2027-28. The Budget maintains the full \$240 million to the DWR for this project.
- **Food Production Investment**—A reversion of \$18.8 million General Fund for the Food Production Investment Program at the CEC. The Budget maintains \$46.2 million to the CEC for this program.
- **Equitable Building Decarbonization**—A reduction of \$283 million General Fund and a shift of \$87 million to the GGRF for the Equitable Building Decarbonization Program at the CEC. The Budget maintains \$639 million to the CEC for this program.

- **Industrial Decarbonization**—A reversion of \$22 million General Fund for the Industrial Decarbonization Program at the CEC. The Budget maintains \$68 million to the CEC for this program.
- **Hydrogen Grants**—A reversion of \$35 million General Fund for the Hydrogen Grant Program at the CEC. The Budget maintains \$65 million to the CEC for this program.
- **Clean Energy Reliability Investment Plan (CERIP)**—A delay of \$400 million General Fund in 2024-25 and \$400 million General Fund in 2025-26 for the CERIP. The Budget maintains the \$1 billion for CERIP, which is consistent with SB 846 (Chapter 239, Statutes of 2022) as follows: \$100 million General Fund in 2023-2024, \$100 million General Fund in 2025-26, \$300 million General Fund in 2026-27, and \$500 million General Fund in 2027-28.
- **Land Conservation and Economic Development Plan**—A delay of \$150 million General Fund for Land Conservation and Economic Development near Diablo Canyon. The Budget includes \$50 million in funding for the program annually for three years beginning in 2025-26.

OTHER CLIMATE RELATED ISSUES

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the Budget proposes General Fund solutions to achieve a balanced budget. These include:

- **Climate Innovation**—A reduction of the planned investment of \$475 million General Fund in the Climate Innovation Program beginning in 2024-25.
- **Low Carbon Economy Program**—A reduction of \$15 million General Fund for the Low Carbon Economy Grant Program at the California Workforce Development Board. The Budget maintains \$30 million (\$15 million General Fund and \$15 million GGRF) over two years for this program. (See the Labor and Workforce Development Chapter for more information.)
- **Electric Homes**—A reduction of \$6.4 million General Fund in the California Electric Homes Program by the CEC.

INFRASTRUCTURE

FEDERAL INVESTMENTS

With the passage of federal legislation, the state has received billions of dollars and is expecting to receive billions of dollars more for a wide array of infrastructure projects:

- **American Rescue Plan Act**—California has allocated nearly \$7.1 billion in State Fiscal Recovery Funds for constructing and preserving affordable housing; acquiring, rehabilitating, and converting buildings for long-term housing for those experiencing homelessness; investing in infrastructure to expand access to behavioral health services; and broadband infrastructure.
- **Infrastructure Investment and Jobs Act**—As of November 2023, the state is expected to have received **\$45.3 billion** in formula funding and **\$7.9 billion** in competitive funding (a total of \$53.2 billion) for transportation infrastructure, broadband, and climate resilience projects.
- **Inflation Reduction Act**—As of November 2023, the state is expected to have received \$816 million with \$369 billion more available nationwide for energy and climate change investments.

OTHER

TAX PROPOSALS The Budget includes several tax proposals, as described below. These revenue solutions combined are estimated to increase General Fund revenues by a total of \$402 million in 2024-25 and lead to ongoing revenue gains outside of the budget window.

NET OPERATING LOSS CONFORMITY Under current federal law, as part of the Tax Cuts and Jobs Act, the use of NOLs carried forward from prior years is limited to 80 percent of subsequent year's net income and carrybacks are disallowed. Carrybacks allow businesses to apply losses to preceding years to receive a refund. California conformed in 2019 to also disallow carrybacks; however, the state did not conform to the 80-percent limitation. **The Budget proposes to conform state law to federal law by limiting NOLs that are carried forward from prior years to 80 percent of any subsequent year's net income, joining the majority of states in restricting NOL usage to 80 percent or less of taxable income.** The change is proposed for tax years beginning on or after 2024 and is projected to lead to revenue gains of \$300 million in 2024-25, followed by ongoing annual gains of \$200 million thereafter.

ELIMINATION OF BAD DEBT DEDUCTION Since 2000, current California law allows retailers, lenders, and retailers' affiliates to deduct or claim a refund for sales and use tax paid on accounts used to purchase taxable goods on credit that are found worthless or charged off (subsequently referred to as "bad debt"). Typically, loans to purchase goods are offered by retailer-affiliate lenders such as banks, credit unions, and other financial companies who price in default risks through interest rates and late payment fees. Lenders can claim the deduction or refund even if a profit was made on the bad debt through interest and penalties paid. The Budget proposes to eliminate the bad debt deduction and refund, effective in January 2025, joining the majority of states in disallowing deductions for non-retailer lenders for sales tax paid on bad debts. This proposal is projected to increase General Fund revenues by \$23.5 million in 2024-25 and about \$50.6 million per year thereafter.

Jan 10, 2024 | Stakeholder Briefing on Climate Investments

WHO:

- Lauren Sanchez, Senior Climate Advisor in the Office of the Governor
- Wade Crowfoot, Secretary of the California Natural Resources Agency
- Yana Garcia, Secretary of the California Environmental Protection Agency
- Toks Omishakin, Secretary of the California State Transportation Agency
- Karen Ross, Secretary of the California Department of Food and Agriculture
- Samuel Assefa, Director of the Governor's Office of Planning and Research
- Christine Hironaka, Senior Advisor for Energy in the Office of the Governor

Notes

- Lauren Sanchez, Senior Climate Advisor in the Office of the Governor
 - 48.3 billion in Climate investments
 - 36 billion has already been appropriated
- Wade Crowfoot, Secretary of the California Natural Resources Agency
 - 3.5 billion in funding will be delayed
 - 54 billion dollars of generational climate investments
 - Forest and Wildfires:
 - 2.8 billion dollars of funding for wildfire resilience projects
 - 2.7 billion dollars will be maintained in this year's budget
 - Over 1000 of these projects are already on their way
 - CalFire's budget has almost doubled in the last 2 years
 - Nature Based Solutions
 - 36 million to restore delta wetlands
 - 30x30 helped protect additional 1,000 sq miles of land over CA

- 12,000 acres of land returns for tribes
 - Coastal Resilience
 - 660 million of coastal resilience will be maintained in this budget from the 1.3 billion in last year's budget
 - Grant program to enable coastal communities to incorporate sea level rise on their coastal planning
 - 7.3 billion in investments for flooding and drought resilience
 - 65 million for restoration of Salton Sea
- Yana Garcia, Secretary of the California Environmental Protection Agency
 - Maintaining critical investments in drought response
 - Drinking water emergency funding
 - Advancing human right to water
 - 444 million to improve access to drinking water for low income CAs
 - 1.2 billion for water resilience and drinking water projects
 - 6.1 million to protect state's wetlands
 - 33.3 million phased over 6 years for Pesticide Dept
 - Funding to streamline pesticide evaluation and permitting
 - Support innovative research for safe alternatives for certain high risk pesticides
 - Maintains most of the \$10B ZEV agenda over the past couple of years
 - Focus on improving public health in disadvantaged and low income communities
- Toks Omishakin, Secretary of the California State Transportation Agency
 - Some funding shifts and delays, we're able to maintain roughly 99% of funding in the Gov's historic transportation package
 - Putting people first. Focusing on 4 core priorities.
 - 2023 - CA awarded more than \$3B for public transportation projects. Received nearly \$35B in federal funding in a little more than 2 years. More than \$24B for transportation related projects. \$3.1B for high speed rail project that president Biden announced last month.

- Solutions will have no impact on the overall funding of previously awarded projects
- Fund shift is swapping out some general fund with cap and trade dollars.
- Still intend to fund the full projects awarded by the ctc
- Continue to make progress implementing the climate action plan. Calsta is finalizing its 2nd annual report under capti.
- Karen Ross, Secretary of the California Department of Food and Agriculture
 - Historic investment in a number of programs that are still new to Ag.
 - Over the 3 year budget cycle, over \$1B investments
 - Funding has included \$155M for healthy soils - this proposed budget maintains the funding
 - \$120M invested for on farm water use efficiency program - fund swap
 - \$80M for livestock methane reduction program
 - \$90M invested for farm to school program
 - \$150M committed to fairground facilities as community resilience centers.
 - Over 3,000 projects of climate smart Ag programs
 - Conservation is happening on our farms as we speak
 - Invest in technical assistance has created an infrastructure network to provide ongoing info to our farms and workers
 - Farm to school program - 1.5 million school children have benefited. We will maintain that money
 - Gov has proposed \$22.1M for emergency response to one of the largest fruit fly infestations in CA history
 - \$22.7M to help us make the repairs for Tulare lab
- Samuel Assefa, Director of the Governor's Office of Planning and Research
 - This year's budget maintains \$1.2B of investments
 - Has awarded 29 projects that are focused on climate adaptation

- Focus on CA's most climate vulnerable communities. Partnerships with cities, NGOs, community based, native american tribes, universities, and local govts.
- 2023 was the hottest year on record for the planet
- Releasing a request for proposal for \$20M for funding next month
- Calfire awarded to green 180 school yards
- This year's budget maintains for heat ready CA
- Christine Hironaka, Senior Advisor for Energy in the Office of the Governor
 - 2022 budget had a total of \$7.9B
 - The budget maintains \$6.6B
 - Funding delays such as those to reliability, those are not cuts. Proposed changes to the schedule for allocation of those funds.
 - Delaying some of the outstanding appropriations for the clean energy reliability investment plan.
 - Admin remains focused on accelerating clean energy future

Q&A

- You described the cuts as limited, but huge cuts. Can you elaborate on huge numbers?
 - DOF: Year to year differences are almost entirely explained through one time dollars falling off in the budget year. During surplus, we dedicated about 90% of those dollars to one time expenditures. For CNRA dollars, gen fund solutions are approx \$1.2B. Associated with one time expenditures falling off.
- Climate bond. Can you provide any info on the admin position on the likelihood of a November climate bond?
 - Lauren Sanchez: Not too much detail that we can offer. Admin is closely tracking 2 climate bond proposals. Remain open to discussion with our partners in the legislature.
- Methane and air quality. Given urgent need, could the budget increase funding be used to accelerate zero emission appliances?

- David Hoschschild: Yes - we are doing a big push for additional federal dollars right now to support the adoption of heat pumps in CA. There is a new goal that the Gov has set for the state. Focus of our money is on low income communities.
- Wildfire and megafires. What are prospects for securing multi year funding?
 - Wade Crowfoot: State leaders have recognized the severity of the wildfire crisis. Funding is going to continue to be spent over 7 years. We have some portion of that \$3B that hasn't been spent yet that will roll out over the next multiple years. We are seeing the funding already on the ground working. Over 1,000 projects.
- Will there be any impact to the proposed cec residential building program?
 - Christine Hironaka: Budget does reduce by \$283m. Applaud the work of the cec team. Over \$580M in building decarb that fed is going to put out.
- Conservation grant programs. Wondering how the proposed budget might affect across admin? Will it affect future granting?
 - Wade Crowfoot: 10 state conservancies. Very critical partners. The funding allocated for this year is not impacted to wcb and conservancies. Some tailored cuts that will impact moving forward next year and beyond.
- If the focus is on disadvantaged communities, why are there not more incentives for zev?
 - Yana Garcia: The budget does continue our commitment for clean cars for all and other equity programs. Will leverage some of the equity benefits.
- Do funding shifts and delays only apply to gen fund dollars?
 - DOF: \$1.8B in fund shifts from gen fund to greenhouse gas reduction fund. Shift \$600M that was set aside for zev. Delayed that a few years. Maintains funding but somewhat of a mix of gen fund and special fund.
- What was the figure for the OPR extreme heat and community resilience program?
 - Samuel Assefa: \$20M will become available next month is correct
- PFAS. Agencies cannot afford the high cost to treat contaminated water. Are you considering water affordability in this budget?
 - Yana Garcia: our work on characterization of pfas and enforcement is ongoing. There is a significant investment from the bipartisan infrastructure law. With respect to affordability, we have \$380M on the arrearages program. \$600M currently being applied for by water agencies.

- Chair Esquivel: Nothing to correct really. Working with federal partners to make sure that we continue to get resources.

Next Meeting

Our next State Policy WG meeting is scheduled for

[Zoom link](#)

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