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# The 2020-21 Budget: Climate Change Proposals

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PRESENTED TO:

Senate Budget and Fiscal Review Committee  
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE

# Overview of Governor's Major Climate Proposals

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The Governor's budget for 2020-21 includes various proposals related to climate change mitigation and adaptation. In our recent report, *The 2020-21 Budget: Climate Change Proposals*, we assess four major proposals.

- **Cap-and-Trade Expenditure Plan (\$965 Million).** The budget includes a \$965 million (Greenhouse Gas Reduction Fund [GGRF]) discretionary cap-and-trade expenditure plan. Funding would mostly go to a variety of existing environmental programs, including programs related to low carbon transportation, local air quality improvements, and forestry.
- **Expanded Climate Adaptation Research and Technical Assistance (\$25 Million).** As part of the cap-and-trade expenditure plan, the Governor proposes \$25 million (GGRF) on an ongoing basis for several new and expanded climate adaptation research and technical assistance activities.
- **Climate Bond (\$4.8 Billion).** The Governor proposes a \$4.75 billion general obligation bond for the November 2020 ballot that would fund various projects intended to reduce future climate risks. Approximately 80 percent of the funds would be allocated to address near-term risks, such as floods, drought, and wildfires. The remaining 20 percent would address longer-term climate risks of sea-level rise and extreme heat.
- **New Climate Catalyst Loan Fund (\$250 Million).** The budget proposes \$250 million (General Fund) in 2020-21 and an additional \$750 million in 2023-24 to establish a new Climate Catalyst Revolving Loan Fund (Climate Catalyst loan fund). The fund would lend money to public and private entities for climate-related projects that have difficulty getting private financing.



## Key Issues to Consider

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- ✓ **Allocating Funding Based on Legislative Goals and Priorities**
  - Weighing climate change activities against other legislative priorities.
  - Relative emphasis on climate adaptation versus mitigation.
  - Balancing areas of focus, such as near-term versus long-term climate risks, and funding for state-level activities versus local efforts.
- ✓ **Selecting Programs That Are Likely to Achieve Goals Effectively**
  - Mitigation—determining interaction and coordination with existing programs, identifying market failures, and emphasizing impact on emission reductions in other jurisdictions.
  - Adaptation—focusing on key state objectives such as projects and programs of statewide interest and ensuring a coordinated strategy.
- ✓ **Identifying Appropriate Entities to Administer Program**
  - Ensuring adequate expertise and capacity.
  - Limiting overlap and gaps.
- ✓ **Determining Appropriate Funding Approach**
  - Deciding upon funding sources (Greenhouse Gas Reduction Fund, General Fund, or other) and payment methods (pay-as-you-go or bonds).
- ✓ **Ensuring Legislature Provides Clear Direction to Administration**
  - Providing additional direction in statute.
- ✓ **Using Data Collection and Program Evaluation to Inform Future Decisions**
  - Ensuring reliable and useful information about program outcomes available for future budget and policy decisions and to inform future climate response efforts.



# Cap-and-Trade Expenditure Plan

<i>(In Millions)</i>			
Program	Department	2019-20	2020-21
<b>Continuous Appropriations</b>		<b>\$1,450</b>	<b>\$1,527</b>
High-speed rail	High-Speed Rail Authority	\$563	\$587
Affordable housing and sustainable communities	Strategic Growth Council	450	470
Transit and intercity rail capital	Transportation Agency	225	235
Transit operations	Caltrans	113	117
Safe drinking water program	State Water Board	100	117
<b>Statutory Allocations and Ongoing Administrative Costs</b>		<b>\$216</b>	<b>\$212</b>
State Responsibility Area fee backfill	CalFire/Conservation Corps	\$76	\$80
Manufacturing sales tax exemption backfill	N/A	60	61
State administrative costs	Various	80	71
<b>Discretionary Spending Commitments</b>		<b>\$1,287</b>	<b>\$965</b>
<b>Air Toxic and Criteria Pollutants (AB 617)</b>		<b>\$275</b>	<b>\$235</b>
Local air district programs to reduce air pollution	Air Resources Board	245	200
Local air district administrative costs	Air Resources Board	20	25
Technical assistance to community groups	Air Resources Board	10	10
<b>Forests</b>		<b>\$220</b>	<b>\$208</b>
Healthy and resilient forests (SB 901)	CalFire	165	165
Prescribed fire and fuel reduction (SB 901)	CalFire	35	35
Fire safety and prevention legislation implementation (AB 38)	CalFire	—	8
Urban forestry	CalFire	10	—
Wildland-urban interface and other fire prevention	CalFire	10	—
<b>Low Carbon Transportation</b>		<b>\$485</b>	<b>\$350</b>
Heavy-duty vehicle and off-road equipment programs	Air Resources Board	182	150
Clean Vehicle Rebate Project	Air Resources Board	238	125
Low-income, light-duty vehicles and school buses	Air Resources Board	65	75
<b>Agriculture</b>		<b>\$127</b>	<b>\$88</b>
Agricultural diesel engine replacement and upgrades	Air Resources Board	65	50
Dairy methane reductions	Food and Agriculture	34	20
Healthy Soils	Food and Agriculture	28	18
<b>Other</b>		<b>\$180</b>	<b>\$84</b>
Workforce training for a carbon-neutral economy	Workforce Development Board	35	33
Climate change research and technical assistance	Various	7	25
Waste diversion and recycling	CalRecycle	25	15
Energy Corps	Conservation Corps	6	7
Coastal adaptation	Various	3	4
Transformative Climate Communities	Strategic Growth Council	60	—
Urban greening	Natural Resources Agency	30	—
Low-income weatherization	Community Services and Development	10	—
Study transition to a carbon-neutral economy	CalEPA	3	—
High-global warming potential refrigerants (SB 1013)	Air Resources Board	1	—
<b>Totals</b>		<b>\$2,953</b>	<b>\$2,704</b>



# Cap-and-Trade Expenditure Plan

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## ▶ **Size of Proposed Discretionary Expenditure Plan Reasonable**

- Substantially less than the amount that has been allocated in recent years—for example, \$1.4 billion in 2018-19 and about \$1.3 billion in 2019-20.
- Assumes \$2.4 billion of auction revenue in 2019-20 and \$2.5 billion in 2020-21.
- Lower spending amount largely reflects less carryover funds from past auctions.

## ▶ **Future Discretionary Revenue Might Not Exceed About \$800 Million Annually**

- Of the \$965 million in discretionary spending proposed by the Governor, \$420 million would be ongoing over multiple years. The remaining \$545 million going to programs that are technically budgeted as one time, but that have received funding in consecutive years in the past.

## ▶ **Explanation for How Administration Prioritized Funding Is Unclear**

- Basic information about expected projects and outcomes lacking.
- Reduction to Clean Vehicle Rebate Program inconsistent with recent legislative action.

## ▶ **LAO Recommendations**

- Ensure multiyear discretionary expenditures do not exceed \$800 million.
- Direct administration to provide additional information on expected outcomes.
- Allocate funds according to legislative priorities.
- Consider other funding sources to augment high-priority programs.



# Climate Adaptation Research and Technical Assistance

## Governor's Proposals

(In Millions)

Category	Department	2020-21	2021-22	2022-23	2023-24	2024-25	Totals
SB 1072 <sup>a</sup> implementation	SGC	\$5.0	\$8.0	\$6.0	\$8.0	\$8.0	\$35.0
Expand ICARP activities	OPR	7.4	6.8	6.5	6.7	6.7	34.0
5 <sup>th</sup> climate change assessment	OPR, SGC, CNRA, CEC	7.6	3.2	11.7	3.3	3.3	29.2
Climate Change Research program	SGC	5.0	7.0	0.8	7.0	7.0	26.8
<b>Totals</b>		<b>\$25.0</b>	<b>\$25.0</b>	<b>\$25.0</b>	<b>\$25.0</b>	<b>\$25.0</b>	<b>\$125.0</b>

<sup>a</sup> Chapter 377 of 2018 (SB 1072, Leyva).

SGC = Strategic Growth Council; ICARP = Integrated Climate Adaptation and Resilience Program; OPR = Governor's Office of Planning and Research; CNRA = California Natural Resources Agency; and CEC = California Energy Commission.

- ▶ **Proposals Represent Significant Expansion of State's Climate-Related Research and Technical Assistance Efforts**
- ▶ **Proposals Focus on Important State-Level Activities, but Legislature Could Take Somewhat Different Approach**
  - Recommend Legislature consider a package that (1) includes the climate adaptation research and technical assistance activities it views to be the highest priorities, (2) provides funding sufficient to support those activities, and (3) assigns the activities to the state-level entities it believes are best suited to manage their implementation.
- ▶ **Lack of Statutory Framework for New Policy Initiatives Limits Legislative Direction and Oversight**
  - Recommend Legislature adopt statutory language for any high-priority climate adaptation activities to provide guidance and ensure greater accountability.



# Climate Bond

<b>Governor's Proposed Bond</b>		
<i>(In Millions)</i>		
<b>Program</b>	<b>Administering Departments</b>	<b>Amount</b>
<b>Drinking Water, Flood, Drought</b>		<b>\$2,925</b>
Regional and inter-regional water resilience	DWR, SWRCB	\$1,000
Sustainable groundwater management	DWR	395
Safe drinking water	SWRCB	360
Urban/USACE flood projects	DWR	340
Systemwide multibenefit flood projects	DWR	270
Salton Sea restoration	CNRA	220
Environmental farming incentives	CDFA	200
Enhanced stream flows and fish passage	CDFW	140
<b>Wildfire</b>		<b>\$750</b>
Hardening of community infrastructure	CNRA, CalFire, OES	\$500
Forest health	CalFire	250
<b>Sea-Level Rise</b>		<b>\$500</b>
Coastal wetland restoration	OPC	\$320
Nature-based solutions to build resilience	OPC	130
Demonstration projects to protect infrastructure	OPC	50
<b>Extreme Heat</b>		<b>\$325</b>
Urban greening and forestry	CNRA	\$200
Cool surface materials	SGC	125
<b>Community Resilience</b>		<b>\$250</b>
Community resilience centers	SGC	\$225
Community resilience planning	SGC	25
<b>Total</b>		<b>\$4,750</b>
<p>DWR = Department of Water Resources; SWRCB = State Water Resources Control Board; USACE = U.S. Army Corps of Engineers; CNRA = California Natural Resources Agency; CDFA = California Department of Food and Agriculture; CDFW = California Department of Fish and Wildlife; CalFire = California Department of Forestry and Fire Protection; OES = Office of Emergency Services; OPC = Ocean Protection Council; and SGC = Strategic Growth Council.</p>		



# Climate Bond

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▶ **Governor Focuses Primarily on Near-Term Climate Challenges and Water**

- Legislature could fund somewhat different focus and mix of activities.
- May also want to consider the availability of other funding sources.

▶ **Bond Does Not Include Clear Criteria for How Projects Would Be Selected**

- State agencies would design programs around administration's climate resilience principles.
- Neglecting to specify program criteria in bond language foregoes legislative input in shaping priorities and lacks transparency for voters.
- Effective climate change response requires an organized and deliberate strategy.

▶ **Bond Does Not Include Clear Criteria for How Funded Projects Would Be Evaluated**

- Developing robust system for evaluating and communicating bond outcomes is important to (1) assess whether projects have actual impact on reducing state's climate risk and (2) help inform future efforts.

▶ **LAO Recommendations**

- Consider bond proposal as part of future General Fund priorities.
- Ensure focus of any bond package reflects legislative priorities.
- Ensure project selection criteria is designed to maximize effectiveness.
- Adopt evaluation requirements sufficient to inform future climate response activities.
- Consider pairing bond with other climate response funding and initiatives.





# Climate Catalyst Loan Fund

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▶ **A Revolving Loan Fund Could Be Self-Sustaining.**

- As borrowers repay loans, state could make additional loans indefinitely.
- Administration costs paid from interest earnings.

▶ **Effectiveness Would Depend on Ability to Identify Appropriate Projects**

- Appropriate projects would need to (1) provide a qualified climate benefit, (2) be able to repay the loan, and (3) be otherwise unable to attract conventional financing.
- Only a small subset of projects might meet all three criteria. Research and demonstration projects would probably be too risky for a loan program. Projects deploying well-established technologies often have access to conventional financing.
- Administration has not demonstrated it will be able to identify appropriate projects.

▶ **Other Types of Funding Already Available**

- A wide variety of programs already exist to financially assist climate-related projects.

▶ **Proposed Fund Might Be Too Large**

- The administration has not adequately explained the amount and timing of the request.
- A similar program is undersubscribed. The average project borrowed around \$5 million.

▶ **LAO Recommendations**

- Reject funding for Climate Catalyst loan fund.
- Consider creating a pilot project to gauge actual demand for loans.

