

CLIMATE CHANGE

California is on the frontline of the global climate crisis with record-breaking heat, extreme flooding, and devastating wildfires impacting communities across the state. The summer months of 2022 included extreme heat waves and drought conditions, and 2023 began with statewide flood events in the winter and spring that are likely to continue over the next few months as record snow levels are expected to drive significant amounts of snowmelt into rivers and streams.

The 2021 and 2022 Budget Acts delivered a climate and opportunity agenda to fully integrate climate solutions with equity and economic opportunity. 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 Administration also continues to pursue available federal climate funding, including the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA).

The 2021 and 2022 Budget Acts allocated approximately \$54 billion over five years to advance the state's climate and opportunity agenda. The May Revision continues to prioritize the state's climate agenda and maintains approximately \$48 billion (89 percent) of these investments. The Budget prioritizes equity and investments in priority populations, which face disproportionate harm from pollution and the climate crisis.

FUND SHIFTS TO FUTURE CLIMATE RESILIENCE BOND

Given the ambition and urgency of California's climate agenda, the Administration remains committed to supporting additional resources to continue to advance the climate and opportunity agenda. As indicated at Governor's Budget, the Administration is committed to engaging the Legislature in pursuing a climate bond over the coming months. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision includes an additional \$1.1 billion in General Fund shifts across climate resilience programs. These programs remain a high priority for the Administration and will be included as part of the future climate bond proposal. Specific shifts to the bond include:

- Water Recycling—\$270 million
- Salton Sea Restoration—\$169 million
- Community Resilience Centers—\$160 million
- Transformative Climate Communities—\$100 million
- Regional Resilience Program—\$100 million
- Urban Greening—\$100 million
- Statewide Parks Program—\$86.6 million
- Sustainable Groundwater Management Act Implementation—\$60 million
- Dam Safety and Flood Management—\$50 million
- Multi-Benefit Land Repurposing—\$20 million

CLIMATE INVESTMENTS

ZERO EMISSION VEHICLES

With nearly half of the nation's Zero Emission Vehicles (ZEVs) and recently adopted mandates for moving to clean trucks and buses, California is showing the world that a zero-emission transportation future is possible. The state recently achieved its goal of 1.5 million ZEVs on the road two years ahead of schedule.

The May Revision maintains \$8.9 billion (89 percent) in investments to the state's ZEV agenda—ranging from cleaning up short-haul trucks and school buses to accelerating equitable electrification of passenger vehicles—coupled with infrastructure and incentives for in-state manufacturing.

This includes targeted investments in disadvantaged and low-income communities by increasing access to the benefits of clean transportation and by continuing to decarbonize California's transportation sector and improving public health. The May Revision shifts \$635 million General Fund (\$500 million in 2023-24) over three years to the Greenhouse Gas Reduction Fund.

TRANSPORTATION

As the largest contributor of California's greenhouse gas emissions, the transportation sector must align project delivery with climate change considerations. The May Revision demonstrates a continued commitment to address transportation-related climate issues. Specifically, the May Revision maintains \$11.6 billion (84 percent), including fund shifts, for transportation programs and projects that align with the state's climate goals. These investments will allow the state to continue to move toward a multi-modal, zero-emission transportation future to reduce carbon emissions and improve health benefits, while supporting safety, equity, and economic growth. For additional details, see the State Transportation section of the Infrastructure Chapter.

WILDFIRE AND FOREST RESILIENCE

The ongoing impact of climate change on California's wildlands continues to drive critically dry fuel conditions and longer, more severe fire seasons. The May Revision maintains \$2.7 billion (98 percent) over four years to advance critical investments in restoring forest and wildland health to continue to reduce the risk of catastrophic wildfires in the face of extreme climate conditions. The May Revision also includes the following:

- **Climate Catalyst Fund**—\$25 million one-time General Fund, which partially restores the General Fund reduction proposed in the Governor's Budget.

NATURE-BASED SOLUTIONS

California's natural and working lands are essential to combating climate change and protecting the state's world-renowned biodiversity. Trees, plants, grasses, and soils remove and store carbon dioxide from the atmosphere. Healthy landscapes provide a powerful "sink" to absorb greenhouse gases and can help achieve the state's 2045 carbon neutrality goal.

In 2022, over 190 countries joined the 30x30 Initiative, following California's lead in committing to conserve 30 percent of the state's lands and coastal water by 2030 to protect biodiversity, expand equitable access to nature and its benefits, combat climate change, and build resilience to climate impacts.

The May Revision maintains \$1.4 billion (89 percent) in investments over multiple years in programs and projects to support nature-based solutions.

EXTREME HEAT

Extreme heat ranks amongst the deadliest of all climate change hazards. Projections forecast that all of California will be impacted in the years and decades to come by higher average temperatures and more frequent and life-threatening heat waves, disproportionately impacting the most vulnerable communities. The Administration is aggressively implementing actions in the Extreme Heat Action Plan, finalized in 2022.

The May Revision maintains \$444 million (68 percent) in investments over multiple years in programs and projects to support extreme heat.

COMMUNITY RESILIENCE

California's communities are on the front lines of climate change and face complex challenges arising both from its direct impacts, as well as its compounding effects on existing stressors and inequities. California's Climate Adaptation Strategy specifically prioritizes protecting vulnerable communities.

The May Revision maintains \$1.6 billion (85 percent) in investments over multiple years in programs and projects to promote community resilience.

COASTAL RESILIENCE

The impacts of climate change on the coast and ocean include sea-level rise, more extreme storm events, coastal erosion, increased water temperatures, and ocean acidification. These impacts affect public and private property and infrastructure, public access to and along the coast, ecosystem health, and California's coastal economy, including tourism and fishing.

The May Revision maintains \$734 million (57 percent) in investments over multiple years in programs and projects for coastal resilience.

WATER

The last five years have been marked by weather extremes, a wet 2019 was followed by a three-year period of drought. At the outset of the current water year, which began last October, about 90 percent of the state was gripped by drought conditions, major reservoirs held 69 percent of average storage, hundreds of thousands of acres of farmland had been fallowed for lack of irrigation water surface supplies, and wells were going dry.

The weather then shifted dramatically. Over three weeks in late December 2022 and early January 2023, a series of storms with atmospheric river characteristics led to record flooding in several locations. After a month-long break, a series of cold storms brought record-breaking snowfall, followed by another series of warm atmospheric river storms. By April 1, the San Joaquin region recorded its wettest October-March in the observed record going back to 1896. In addition, the Southern Sierra Nevada recorded its largest snowpack for April 1 in records dating to 1950. This has set the stage for additional spring flooding in the San Joaquin Basin and the lakebed of the former Tulare Lake.

The May Revision maintains \$8.5 billion (97 percent) in investments over multiple years in programs and projects to bolster the capacity of communities and ecosystems to endure droughts and floods.

As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes additional General Fund adjustments to assist in closing the projected shortfall and ensuring the submission of a balanced budget plan. These include:

- **2023 Drought Contingency**—A reduction of \$125 million one-time General Fund. As a result of the significant improvement in statewide water conditions based on the recent winter storms, there is a reduced need for immediate drought relief. These funds have been shifted to a Flood Contingency in response to the shift from drought to potential flood conditions in the state.
- **Delta Salinity Barriers**—A reduction of \$24.5 million one-time General Fund. The Department of Water Resources no longer anticipates needing to install the salinity barriers as a result of improved statewide water conditions.
- **Agriculture and Delta Drought Response Program (LandFlex)**—A reduction of \$25 million one-time General Fund. The 2022 Budget Act included \$50 million for the LandFlex program, which provides block grants to local government agencies to incentivize farmers to limit agricultural groundwater use near drought-stricken communities whose drinking water wells have gone dry or are close to going dry. The Department of Water Resources awarded \$25 million in the first round of grants. Given that water conditions have significantly improved the May Revision proposes a reversion of the remaining \$25 million for this program.

OTHER CLIMATE INVESTMENTS MAINTAINED

- **Climate Smart Agriculture**—\$1 billion (89 percent) of investments to promote healthy resilient and equitable food systems, climate smart agriculture, and economic recovery and high road job growth.
- **Circular Economy**—\$443 million (95 percent) of investments to support a circular economy that recognizes waste as a resource, shifting the state's focus to a more resilient and renewable economy in California.
- **Climate Health**—\$321 million (93 percent) of investments in recognition of the continuing statewide goal of mitigating the health impacts of climate change.

TULARE BASIN AND STATEWIDE FLOOD RESPONSE AND SUPPORT

Many communities across the state have been significantly impacted by the historic atmospheric rivers from recent storms. The Tulare Basin and other areas of the state are currently preparing for additional future flooding due to the snowmelt from the historic levels of snowpack.

Flooding impacts in the Tulare region are expected to worsen through the spring and into the early summer as snowmelt escalates due to higher temperatures in the Sierra Nevada.

As a result of the Governor's Executive Order N-6-23 on March 31, 2023, the state has been able to expedite levee repairs, floodwater diversion and other emergency response activities. California has also secured a Presidential Major Disaster Declaration to support storm response and recovery in Tulare County and other impacted counties.

The Administration is partnering with the federal Army Corps of Engineers and local entities to continue to support the Tulare Basin as it faces long-term flooding, including snowmelt forecasting, reservoir operations, flooding assessments and flood response support.

SIGNIFICANT ADJUSTMENTS

Building on the Administration's continuing commitment to address statewide flood impacts, the May Revision includes \$290 million one-time General Fund. \$250 million to support various at-risk communities, including those in the Tulare Basin, from these impacts and to better withstand future flood events.

- **Flood Contingency**—\$125 million one-time General Fund as a flood contingency set aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms, the resulting snowmelt, and other flooding risks, including, but not limited to, supporting communities and vulnerable populations, such as farmworkers, from these impacts and to better withstand future flood events.
- **Flood Control Subventions**—\$75 million one-time General Fund to support local flood control projects, including in communities impacted by recent storms, such as the Pajaro River Flood Risk Management Project.
- **Small Agricultural Business Relief Grants**—An increase of \$25 million one-time General Fund to expand the scope of the current California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by the recent storms. By expanding the program's reach and continuing to support the ability of agricultural businesses to remain open and add or restore jobs, this proposal also aims to advance support for workers of impacted businesses.

- **Disaster Response Emergency Operations Account Set Aside**—\$25 million one-time General Fund in the current year in anticipation of potential additional disaster relief and response costs associated with recent storms and future flooding.

The May Revision also includes \$40 million one-time General Fund for San Joaquin Floodplain Restoration, which restores the current year General Fund reduction proposed in the Governor's Budget. This funding would provide for multi-benefit floodplain reconnection and habitat restoration projects in the San Joaquin and Tulare Basins. The Administration also proposed legislation that codifies provisions from recent executive orders that allow for diversion of flood flows for groundwater recharge purposes, subject to restrictions to protect water quality, infrastructure, and wildlife habitats. These provisions make it easier to capture floodwater to recharge groundwater by setting clear conditions for diverting floodwaters without permits or affecting water rights. Recognizing the extreme drought gripping the Colorado River, the proposed legislation also extends certain streamlining efforts related to water conservation in that basin.

ENERGY

California is experiencing a substantial shift in conditions affecting its transition to a clean energy future. This is creating new and compounding challenges to electric service reliability and affordability for all Californians, especially disadvantaged and low-income communities. Recognizing these challenges, the Governor's Budget maintained \$7 billion (89 percent) of last year's historic \$7.9 billion investment in a clean energy agenda including investments in areas such as building decarbonization, transmission development, and long duration energy storage.

The May Revision continues to support building the clean, reliable, affordable, and safe electric grid of the future by providing details on the one-time \$1 billion investment in programs and projects as proposed by the Clean Energy Reliability Investment Plan (over multiple years), pursuant to Chapter 239, Statutes of 2022 (SB 846).

The state will continue to prioritize affordability, reliability and safety as the state encourages efforts to decarbonize the electric grid and scale the deployment of clean electric generation and energy storage projects, as evidenced by the historic level of General Fund investment in the 2022 Budget Act.

The Administration continues to evaluate actions while considering ratepayer impacts and has tasked the state's energy agencies to focus both General Fund and ratepayer

dollars on the most critical and cost-effective investments to achieve the state's clean electricity and climate goals. With guidance from federal agencies becoming clearer, the state's agencies are actively working to pursue IIJA and IRA funding through formulaic and competitive grant opportunities. The state is positioning itself to secure and direct large amounts of this federal funding toward California's energy priorities.

TRANSPORTATION FUELS—CONSUMER PRICE GOUGING PROTECTIONS

The May Revision supports the implementation of the special session bill, Chapter 1, Statutes of 2023, First Extraordinary Session (SB x1-2), to protect Californians from experiencing price gouging at the pump by oil companies. From August to October 2022, Californians experienced some of the highest gasoline prices ever recorded in the state, reaching a record \$6.42 per gallon, even though the price of crude oil was declining, state taxes and fees remained unchanged, and gasoline prices did not increase outside the western United States.

Recognizing the need for greater visibility into the pricing, contracting, and marketing practices of transportation fuels industry participants, SB x1-2 was enacted in March and becomes effective in June. The legislation authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the costs of doing business. The law also includes provisions that require greater transparency into the petroleum supply chain by requiring increased reporting and creating a new, independent division within the CEC to oversee the adequate, affordable, and reliable supply of this resource. This is especially important to manage petroleum supply price volatility as the state transitions away from petroleum-based fuels toward cleaner fuels to meet transportation needs. To implement the bill's measures, the May Revision proposes the following resources to several state agencies so that they may carry out their new tasks and responsibilities:

- \$5.9 million Energy Resources Programs Account and 14 positions on an ongoing basis for the CEC to collect new data, analyze and track trends in the petroleum supply chain and pricing, produce required reports, and establish a new oversight division, which will collectively help maintain a reliable supply of affordable and safe transportation fuels in California. Additionally, the Commission will redirect 10 existing positions internally to support the new Division of Petroleum Market Oversight.
- \$1 million one-time Cost of Implementation Account for the California Air Resources Board to support development of the Transportation Fuels Transition Plan.

- \$286,000 Occupational Safety and Health Fund and 1 position for the Department of Industrial Relations to support analysis on managing refinery turnaround and maintenance schedules to prevent price spikes.

ENERGY RESOURCES PROGRAM ACCOUNT (ERPA)

The CEC is the state's primary energy policy and planning agency and administers programs that leverage technology and tools to meet consumer needs while using less energy. These programs have saved California consumers billions of dollars in energy expenditures over the last few decades.

ERPA is the main fund supporting the CEC's operations. Its revenues are linked to the sale of metered electricity. As building and appliance energy efficiency produces customer savings and flattens statewide electricity consumption, ERPA revenues have decreased and the costs have been borne by fewer and fewer consumers.

To more equitably distribute the costs among ratepayers and sustain this critical revenue source, the May Revision proposes to raise the statutory cap on the ERPA surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity ratepayers. This increase will generate approximately \$3 million in additional revenues in 2023-24, and approximately \$6 million annually thereafter to offset recent revenue decreases and will allow the CEC to continue playing a critical role in fostering the clean energy system of the future.

SIGNIFICANT ADJUSTMENT

- **California Arrearage Payment Program**—The May Revision reverts an additional \$149.4 million in California Emergency Relief Funds in 2022-23 to the General Fund, based on updated savings figures from the California Arrearage Payment Program due to actual applications received and approved for funding. This program addressed residential utility arrearages accrued during the COVID-19 Pandemic through December 31, 2022.