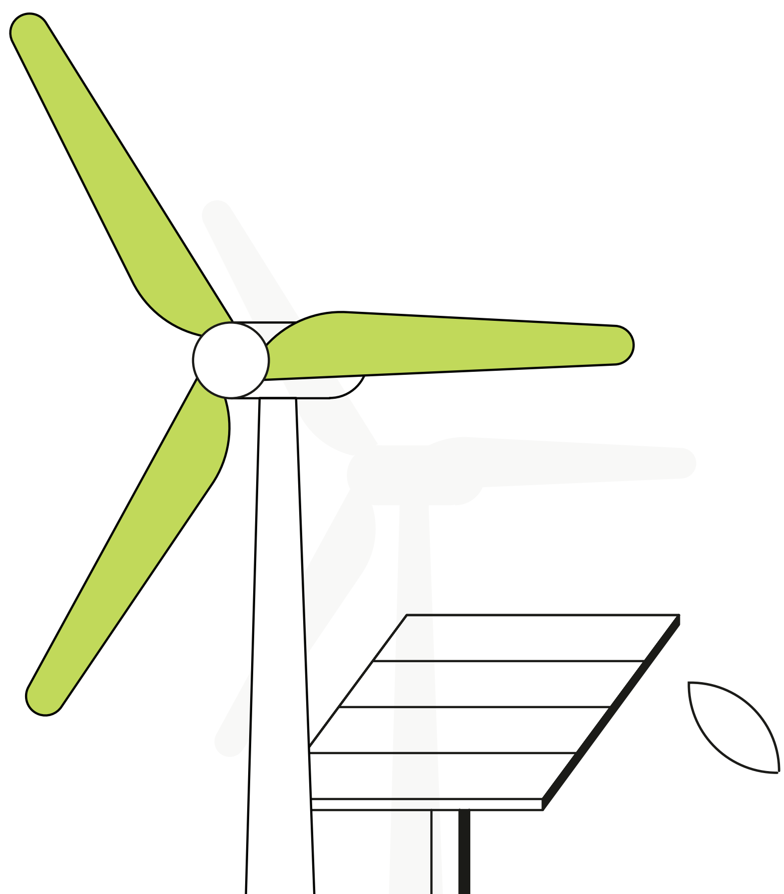
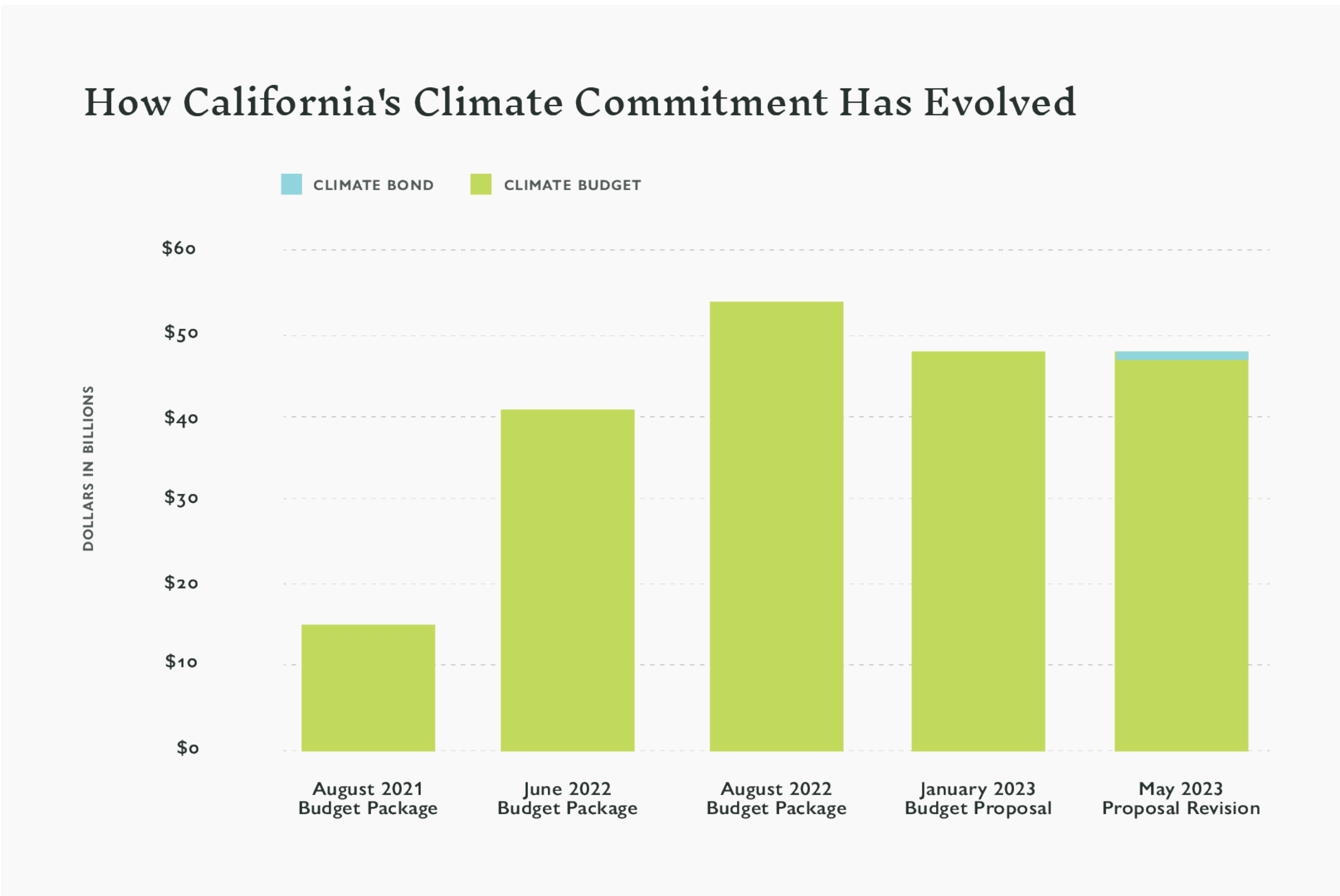
CLIMATE 100 ISSUE BRIEF

The 2023 May Budget Revision



Overview

Governor Newsom's recently released May Revision to the January 2023-2024 budget proposal preserved more of the state's climate spending than many stakeholders anticipated. However, with economic indicators continuing to show high levels of uncertainty, reasonable skepticism remains as to whether the state will be able to continue to keep its climate commitment and meet the climate crisis with the urgency and intensity it requires. To advance climate progress during these unstable economic times, California must pursue a Climate 100 approach to spending, meaning we must aggressively expand our climate efforts beyond one-time, niche spending and put every part of our state budget to work in helping us meet our climate targets – while also preserving the state's climate funding commitments from last year.



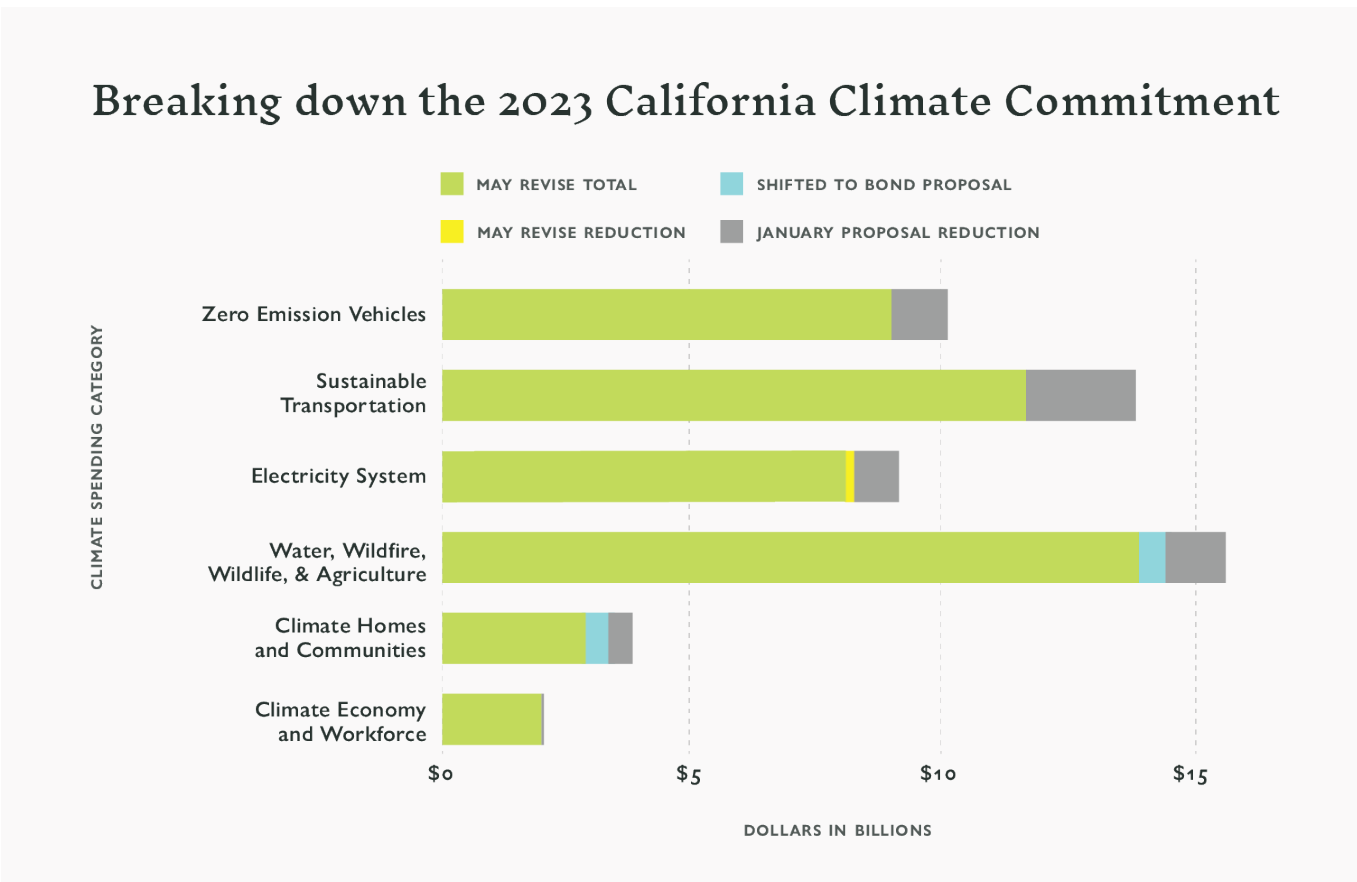
Background

California's budget deadline for fiscal year 2023-24 is closing in – state policymakers are required to pass a state budget by June 15th, 2023. On May 12th, 2023, Governor Newsom released this year's May Revision, a proposal which provides an update to his Administration's original January fiscal plan for the state and kicks off the state capitol's busiest season of budget negotiations. As California faces rising economic uncertainty – the Legislative Analyst's Office (LAO) forecasts a continued slowdown in state revenues following the last several years of surplus — the May Revision update has been anxiously awaited by policymakers and advocates alike.

With fiscal storm clouds on the horizon, California's 2022 Climate Commitment has been one of the more closely watched spending categories in recent months. Last year, NextGen Policy kicked off the Climate 100 Project with two primary goals: (1) secure a state climate budget that matches the urgency of the climate crisis and (2) shift the State's budgeting process by ensuring that every public dollar spent is filtered through a climate lens. Thanks to the leadership of the Newsom Administration and many climate champions in the Legislature, as well as a community of dedicated advocates, California largely succeeded in achieving that first goal: state policymakers committed an historic $54 billion investment to climate programs in the 2022-23 Budget.

However, the economic outlook quickly began to deteriorate, and in the Governor's 2023- 2024 Budget proposal (released in January), a chunk of spending from that original package was put on the chopping block – a $6 billion cut. Climate 100 broke down the proposed changes in our January Fact Sheet.

In the recently released May Revision, the most remarkable change to the California Climate Commitment is that little has changed from the January proposal. The Administration estimates the state's budget deficit to be roughly $31.5 billion over three years, a full $10 billion more than in January – an estimate that the LAO describes as plausible but optimistic, forecasting a two-thirds chance that state revenues come in even lower. Despite this significant growth in the deficit, the May Revision maintains most of the climate budget as originally proposed several months ago. This brief takes a closer look at where the California Climate Commitment currently stands, following the release of the May Revision.



Proposed Changes to the Climate Commitment in the May Revision

The primary new development for the Climate Commitment in the May Revise is the arrival of the Administration's much-anticipated climate bond proposal – or at least part of it. While most of January's proposed climate spending plan remains intact, the Administration has identified approximately $1.1 billion in programs to fund through a general obligation bond instead of general fund appropriations. The table below details the specific programs and amounts within the climate budget being slotted by the Administration for a potential climate bond.

PROGRAM	AMOUNT SHIFTED TO BOND
Salton Sea Restoration	$169M
Community Resilience Centers	$160M
Transformative Climate Communities	$100M
Regional Resilience Program	$100M
Urban Greening	$100M
Statewide Parks Program	$86.6M
Sustainable Groundwater Management Act Implementation	$60M
Dam Safety and Flood Management	$50M
Multi-benefit Land Repurposing	$20M
TOTAL	$1.1B

Although his proposal offers a preview of Administration priorities and how an eventual climate bond might get crafted, it is hard to say what spending categories a final bond proposal would contain. Climate bonds are subject to legislative negotiations, and both houses of the Legislature have proposed bond bills which outline their respective climate investment viewpoints. These proposals share the Administration's focus on resilience and conservation programs, but envision much higher levels of spending, sitting at around $15 billion each. The Administration left its proposal open-ended: the complete proposal is certainly going to be larger than $1.1 billion. Nonetheless, it remains to be seen how much the climate bond will ultimately reflect what each group has proposed – both in magnitude of spending and program scope.

Apart from the resilience investments being pulled into the bond proposal, the climate budget saw a few other tweaks in the May Revision. They are as follows:

- ↑ *$25M restored for wildfire resilience;*
- ↑ *$40M restored for San Joaquin floodplain restoration;*
- ↓ *$50M reduced from water conservation & immediate drought support programs;*
- ↓ *$149M reverted to the general fund from emergency arrearage repayment program; and*
- → *$635M shifted from the general fund to the GGRF for ZEV programs.*

A Climate 100 Perspective on the May Revision

The Climate Commitment comes out of the May Revision relatively unchanged from January, suggesting the Administration views these investments as a priority. However, the LAO notes that the Administration is using optimistic multiyear revenue projections as a baseline for this proposal, and that the statewide fiscal outlook may continue to deteriorate. That means that the climate budget remains at-risk. Against this backdrop, there is also cause for concern within the Administration's proposal.

A Climate Bond is an uncertain bet. Moving the funding for several conservation and resilience programs into a potential bond proposal creates uncertainty around whether those funds will be available in the future. Any general obligation bond would have to be approved by voters in an upcoming election and climate resilience bonds have been placed on the ballot in the past and failed.

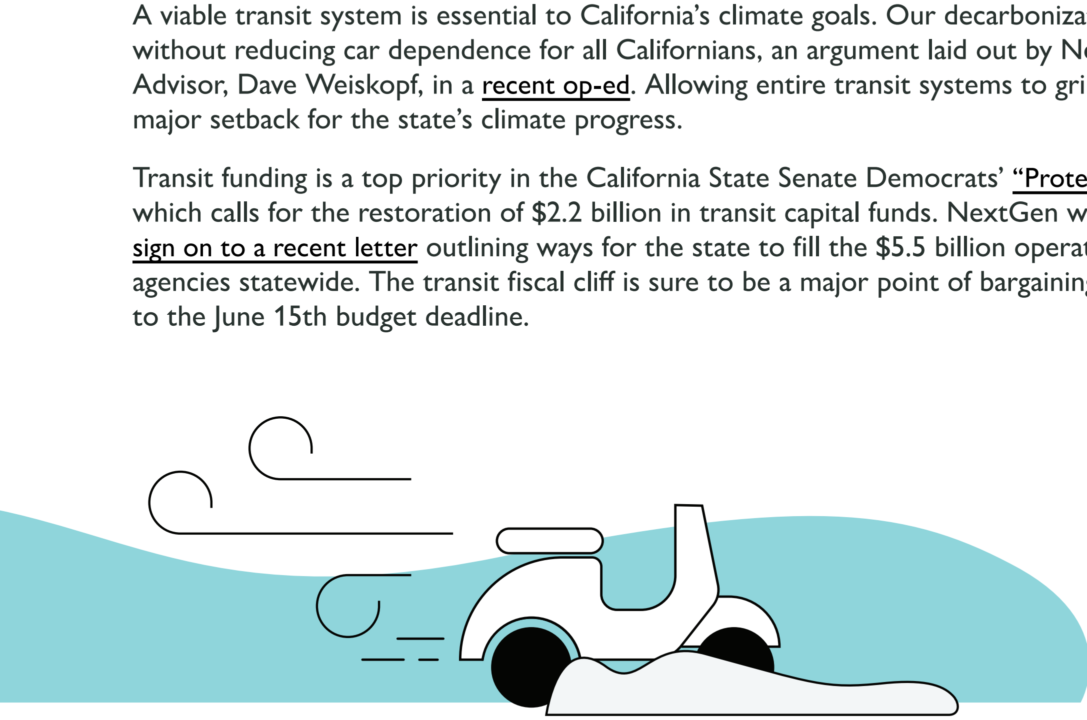
Given that context, policymakers must be cautious when crafting a bond. While a successful bond could boost the state's climate investments, it should not be simply treated as a replacement for appropriated general funds in the budget. Characterizing funds in a bond proposal as backfill for general fund investments is misguided, and betrays overconfidence in electoral outcomes. Any bond funds should be considered distinct from and additional to the existing climate commitment. Further, it will take years if voters approve the bond for these programs to actually get funded – and the climate crisis is upon us right now. Any climate bond should support additive investments rather than backfill cuts.

Special fund shifts come with opportunity costs. The May Revise shifts $635 million in Zero Emission Vehicle (ZEV) investments from the General Fund into the Greenhouse Gas Reduction Fund (GGRF). ZEV programs are an eligible investment for the GGRF, and it is better to fund those programs with special funds than not at all. But using GGRF revenues for what was originally a general fund obligation comes at a cost. No matter what, these funds would be going towards climate and air quality programs – so using them to backfill funds for existing programs means foregoing an opportunity to increase climate investment overall.

Failing to save transit operations would undermine many recent climate investments. California's public transit systems, like many transit systems nationwide, are currently facing an operations fiscal cliff brought on by the expiration of federal COVID emergency funds. Without new funding sources, several of the state's transit operators will have to make drastic service cuts that would trigger a transit "death spiral" for some agencies. The May Revision maintains deep cuts to transit capital funds that were proposed in January, and does not include any new funding for transit operations.

A viable transit system is essential to California's climate goals. Our decarbonization targets cannot be met without reducing car dependence for all Californians, an argument laid out by NextGen's Senior Climate Policy Advisor, Dave Weiskopf, in a recent op-ed. Allowing entire transit systems to grind to a halt would create a major setback for the state's climate progress.

Transit funding is a top priority in the California State Senate Democrats' "Protect Our Progress Budget Plan," which calls for the restoration of $2.2 billion in transit capital funds. NextGen was one of over 120 groups to sign on to a recent letter outlining ways for the state to fill the $5.5 billion operations funding gap faced by transit agencies statewide. The transit fiscal cliff is sure to be a major point of bargaining in the negotiations leading up to the June 15th budget deadline.



Towards Climate 100: Policy Recommendations

California's Climate Commitment continues to face uncertainty in this year's budget process. This underscores the Climate 100 Project's central premise: achieving California's ambitious climate goals will require the state to integrate climate into as many existing and/or new ongoing funding streams as possible, rather than continuing to rely on one-time funds. Climate-related investments funded from periodic state surpluses must be augmented with policies that align a broader range of budgeted programs with long-term climate goals.

One promising opportunity to more broadly align California's spending with its climate goals can be found in the enormous amount of infrastructure funding that the state expects to receive in the coming years. The May Revision notes that between allocations from federal funds and state bond funds, California expects to spend more than $180 billion over the next decade on infrastructure projects including clean energy, roads, bridges, public transit, water storage and conveyance, and faster internet. This scale of public works investment has not been seen in decades, and policymakers must seize the opportunity to apply clearly-defined climate and equity goals to the expenditure of these funds.

APPLYING A CLIMATE FILTER TO STATE INFRASTRUCTURE SPENDING

With California poised to surpass Germany as the world's fourth largest economy, it is imperative that existing spending and financial planning keep climate at the center. In a May 10th, 2023 letter to legislative leaders and Governor Newsom, NextGen shared recommendations to help ensure that state infrastructure projects will advance the fight for a more equitable, prosperous, and climate ready future for all Californians. Those recommendations boil down to the following – California must:

1. *Place climate and equity at the center of state infrastructure spending,*
2. *Enhance governmental coordination and partnerships to maximize the climate and equity benefits of infrastructure funding, and*
3. *Designate a collection of individuals or a specific entity to act as a clearinghouse and lead the state's infrastructure funding strategy.*

A week later, on May 18th, 2023, California Infrastructure Czar and former Mayor of Los Angeles Antonio Villaraigosa issued a report summarizing findings from a statewide stakeholder listening tour. The report is serving as a foundation for a new legislative push by the Administration to streamline infrastructure buildout and capitalize on the billions of dollars of infrastructure funds available over the next decade. Many of the report's recommendations mirror those made in NextGen's recent letter. By incorporating the recommendations below into this effort, the Governor and the Legislature will advance equity, justice and our climate goals across the board.

Federal Funding Alignment and Coordination: California must ensure that all federal infrastructure funds received – whether through competitive grants or on a formula basis – further the state's climate goals. As part of this effort, it is crucial that California appoint some collection of individuals, or a specifically designated entity, with the authority to act as a clearinghouse and lead on our federal infrastructure fund strategy. Consolidating responsibility for the coordination and implementation of federal infrastructure funding efforts will help ensure that all California communities are made aware and have access to funding opportunities as well as increase the transparency and accountability with which all infrastructure spending is processed – guaranteeing that more funds go towards sustainable projects, support communities in need, and achieve our climate goals.

State Infrastructure Planning and Capital Outlay Climate Screen: Beyond applying a climate lens to federal infrastructure funding, California must broadly incorporate climate goals into the state's infrastructure planning processes. Specifically, NextGen recommends that all state agencies that propose new state infrastructure projects should be required to analyze and disclose how those projects align with long-term climate goals. State law requires the Governor to submit an annual Five-Year Infrastructure Plan that identifies statewide infrastructure needs. As part of this plan, state agencies are already required to describe how they integrate climate adaptation strategies into planning their infrastructure projects. Agencies should, similarly, be required to account for long-term emission reduction goals in their infrastructure planning and project design submittals. Such a requirement would make it easier to direct infrastructure funds towards projects that maximize climate progress and improve the transparency of state infrastructure planning for policymakers and the general public.

Infrastructure and Equity: Numerous recent examples, from levee failures in New Orleans to the drinking water crises in Flint, Michigan, Jackson, Mississippi, and numerous communities throughout California, make it clear that infrastructure investment is directly and inextricably related to economic equity and environmental justice. NextGen recognizes the importance of keeping equity considerations central to California's infrastructure decision-making at the same time that it prioritizes its climate goals. Prioritizing climate and equity together is a common-sense approach, as many California communities that have not received a proportional share of past infrastructure investment are also among the communities most at-risk from climate change. California has long been a leader in recognizing this linkage and has adopted various policies to specifically target climate investments towards frontline, disadvantaged communities. New guidelines in the federal Justice40 Initiative require that at least 40 percent of many new federal spending programs go towards these priority populations. California should strive to meet and exceed that threshold.

Conclusion

Even as we face economic headwinds and uncertainty appears on the horizon, California can continue to make historic investments to advance our progress on climate. The state can respond to fiscal doldrums by retreating from its ambition, or it can redouble its efforts. California must push forward and, in doing so, adopt a comprehensive, Climate 100 approach to tackle the climate crisis with the urgency and intensity it requires. Such an approach will leverage all new federal and state infrastructure spending to fight climate change and create a more equitable, climate resilient, and prosperous future for all Californians. Through the Climate 100 Project, NextGen looks forward to working with policymakers and our stakeholder partners to ensure that California's climate leadership remains at the forefront of ongoing budget negotiations.

Visit www.climate100.nextgenpolicy.org to learn more.