climate 100
A project by NextGen Policy

2024.1.18 CLIMATE 100 ISSUE BRIEF:

Commitment at Risk – Budgeting for Climate Action in Challenging Times

Introduction

On January 10th, Governor Gavin Newsom released his proposed budget for Fiscal Year 2024-25. The budget proposal closes a roughly $38 billion deficit, with program cuts and funding delays affecting most areas of General Fund spending – including the historic $54 billion California Climate Commitment, which had already been whittled down to a roughly $52 billion total in last summer's budget negotiations.

With a deficit this large, funding that has not already been allocated or that agencies have not yet encumbered is vulnerable. Unlike the federal government, California must annually balance its budget, so every dollar not yet spoken for is potentially fair game to be cut.

All told, the cuts, delays, and funding shifts in this budget proposal affect a total of $9.8 billion in climate funding – nearly a fifth of the revised climate package enacted last year.

NextGen California's Climate 100 Project was conceived on the principle that to make true climate progress, California must treat climate action as a necessity – not just a luxury that only receives funding during surplus years. One-time expenditures in particular are inherently vulnerable to financial ups and downs, as evidenced by proposed cuts and delays to vital programs across the policy spectrum. We are encouraged to see that Governor Newsom's proposed budget maintains over 89% of the original $54 billion California Climate Commitment. However, this budget proposal shows how the state's current approach to climate budgeting is becoming increasingly unsustainable.

The Governor's proposal would cut $3.1 billion from last year's agreement, which itself trimmed $2.9 billion from the original $54 billion Commitment, leaving a sum of $48.3 billion – still a historic investment to fight climate change. However, the relatively modest amount of these proposed cuts does not tell the whole story.

The proposed budget delays more than $5 billion in planned investments and shifts nearly $2 billion in climate investments from the General Fund into the Greenhouse Gas Reduction Fund (GGRF). As we are well aware, delays can easily become cuts, and shifting program expenditures into a special fund like the GGRF prevents that special fund from putting its own resources towards new investments. In this respect, fund shifts may also amount to pre-emptive cuts to investments.

The Governor's plan, if it holds over the course of the next four budget cycles, would indeed preserve nearly 90% of the funding proposed in 2022. But that outcome is anything but assured, and, at best, it delays vital investments at a time when we must do more, faster.

This year, California faces a particularly uncertain fiscal environment, and the Governor's budget proposal is only the beginning of a months-long budget process. The Administration has yet to weigh in on a potential climate bond, and has even indicated that spending decisions on newly chaptered legislation will be deferred until May. A lot can change in the coming months, and much remains to be decided. This brief provides an overview of California's climate investments as they currently stand.

Climate Commitment Toplines in the January Budget Proposal

TOTAL: $48.3 BILLION this amount is a reduction from the $52 billion approved in 2023, which itself is a cut from the $54 billion approved in 2022.

- **CUTS: $2.9 BILLION** in reductions from proposed future allocations agreed to in the 2023 $52 billion climate package

- **APPROPRIATED: $36 BILLION** of the proposed $48 billion total has already been authorized by the Legislature, leaving roughly $12 billion still to be allocated.

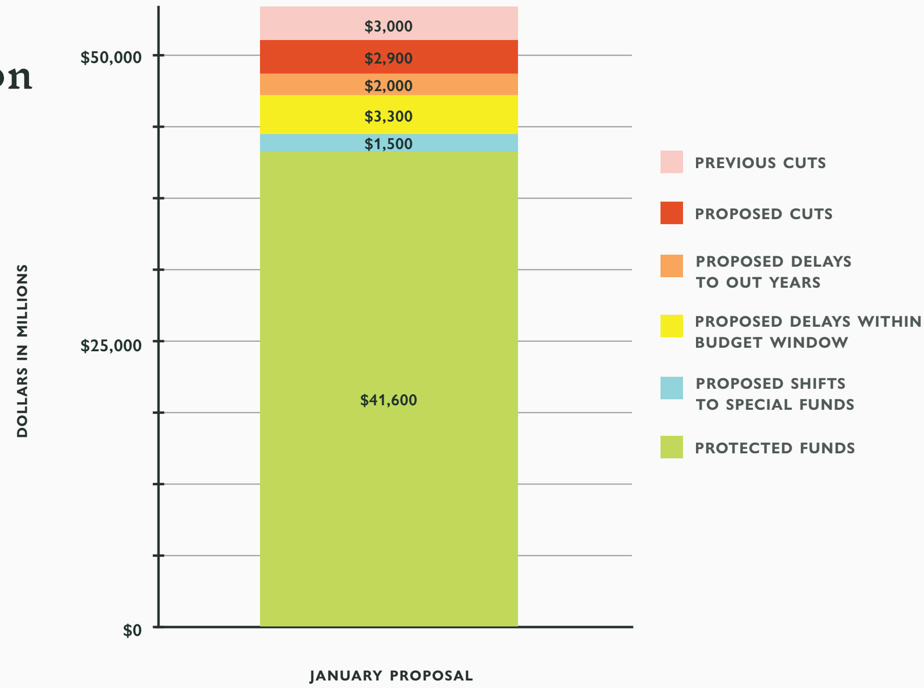
- **DELAYS WITHIN BUDGET WINDOW, FISCAL YEAR 2025-26 + FISCAL YEAR 2026-27: $3.3 BILLION** is proposed to be delayed across the 3-year budget window, relative to previous funding agreements. This funding is not guaranteed, but is relatively secure. The Administration has indicated that many of these delays, if approved, would not affect existing project timelines, or result in only one- to two-year project postponements.

- **DELAYS TO OUT YEARS, FISCAL YEAR 2027-28: $2 BILLION** is proposed to be shifted several years into the future, over which the current legislature has little to no control. These delays should be seen as particularly vulnerable to future potential cuts, with no way to guarantee availability of funds or that future legislatures will adopt this year's agreement.

- **SHIFTS: $1.8 BILLION** in programs previously proposed to be funded out of the General Fund now being proposed to come from limited Cap and Trade proceeds or other special funds, fully or partially displacing other investments from these funds.

In addition to the overall dollar amounts proposed, it is important to consider which programs are most affected under the proposed budget, and how the cuts and delays to these programs may impact Californians on the frontlines of the climate crisis.

Stacking up proposed changes to the $54 billion Climate Commitment



"...in deprioritizing these funds, California risks forfeiting its leadership in standing up for communities that are too often left behind."

1. PROGRAMS WITH AN EQUITY FOCUS SEE DEPRIORITIZATION AND CUTS

The equitable building decarbonization program, designed to help low-income and disadvantaged communities get fossil gas out of their homes, saw a substantial haircut of $283 million, bringing the program to 69% of its original funding level. This cut comes after the program already saw much of its funding delayed in last year's budget negotiations.

Also noteworthy is a delay of $360 million in funding for the Clean Cars 4 All program, equitable at-home charging programs, and freight truck electrification programs until Fiscal Year 2027-28. This falls outside of the current 3-year budget window, and the current Legislature and Administration have little say in planning spending so far out. Even if we assume that the funding will in fact go out the door in 2027, it means that low-income Californians will have to wait several more years to afford zero emission vehicles and breathe cleaner air.

Across the board, these cuts and delays may not seem massive – but the programs that do get bumped are frequently tied to benefits for low-income and disadvantaged communities. Federal funding is available to soften the blow to Zero Emission Vehicles affordability programs and building decarbonization, but in deprioritizing these funds, California risks forfeiting its leadership in standing up for communities that are too often left behind.

2. MISSED OPPORTUNITY TO PUT TRANSIT AND SUSTAINABLE COMMUNITIES BEFORE HIGHWAYS.

Last fall, NextGen released a report examining the threat that wasteful highway expansions pose to our climate goals, and the need for a step change in how California funds more sustainable transportation infrastructure and mobility options.

In light of this, it is a relief to see over $4 billion in funding for the Transit and Intercity Rail Program (TIRCP) preserved in the Governor's budget proposal, after the legislature and the administration walked back significant cuts to the program in last year's budget negotiations. But there are signs of trouble – the Governor is seeking to delay $1 billion in TIRCP formula funding from this year to next. Though not as worrying as delays to the out years, as we have seen with other programs – take equitable building decarbonization for example – a delay can signal a deprioritization, which may eventually lead to cuts if revenues do not improve.

Moreover, despite the Air Resources Board's stark warning that the state must significantly reduce car dependence, the Governor's budget proposal cuts nearly a billion dollars in funding to programs that would help spur that transition along, while leaving freeway funding intact.

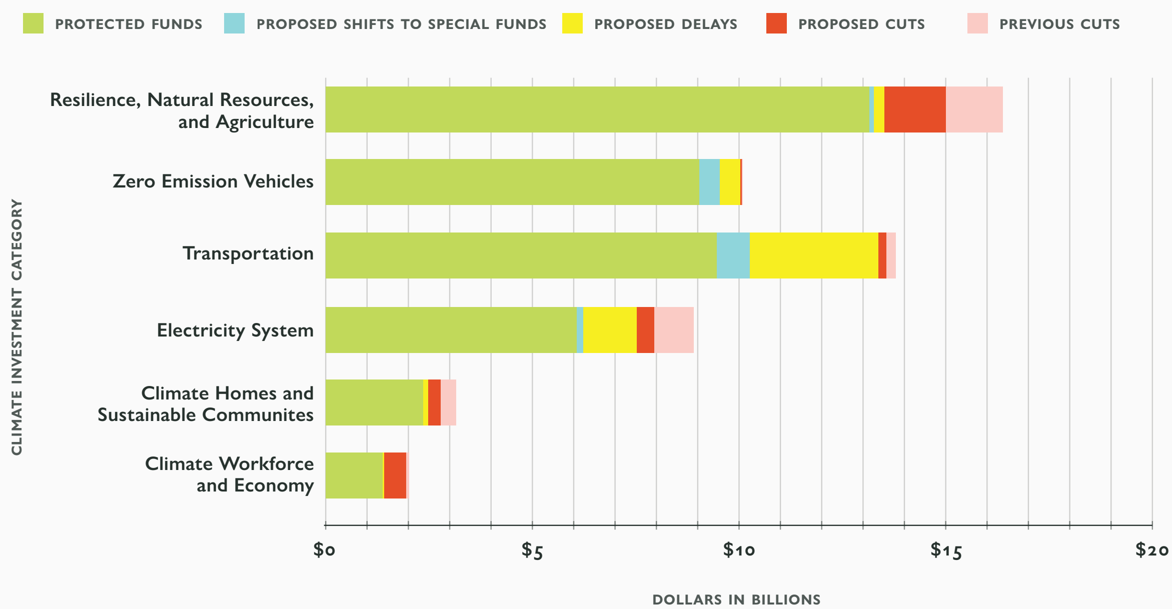
For example, the Infill Infrastructure Grant Program would be cut by $200 million, almost half of its current funding level. The Regional Early Action Planning (REAP) 2.0 grant program would lose out on $300 million, and funding for the Multifamily Housing Program would be cut by $250 million. These last two programs – REAP 2.0 and the Multifamily Housing Program – are not technically counted towards the Climate Commitment, yet they deliver critical climate benefits. These programs promote denser community development, significantly improving home energy efficiency and reducing the need to drive. Reducing funding for these programs would be a loss for climate progress in California.

Perhaps the most disappointing proposed cut to transit and housing programs is the $200 million that the administration seeks to eliminate from the Active Transportation Program (ATP). The ATP is one of the state's most effective programs for reducing injuries and deaths on the road, providing safe infrastructure that reconnects neighborhoods and allows Californians to rely less on their cars. It is also one of the only transportation infrastructure funding programs that sets a floor on investments in disadvantaged communities.

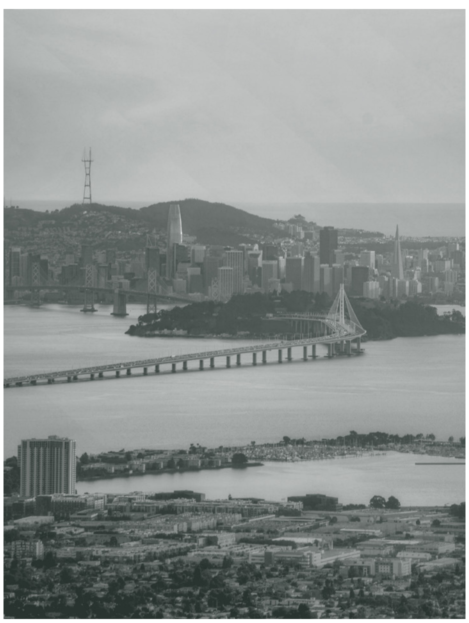
In 2023, the administration chose to backfill a similar-sized general fund cut to ATP using dollars from the State Highway Account. No such effort to protect the program is included in this year's proposed budget – a clear failure to put safe streets and climate mitigation ahead of new highway construction.

Proposed delays and cuts to key sustainable transportation programs should be understood in context: thanks to revenues from the SB1 gas tax increase and the federal Bipartisan Infrastructure Law, the state is more flush with cash for transportation infrastructure than ever before, even as it faces an overall deficit. There is plenty of flexibility within both state and federal transportation dollars; we should take full advantage of that flexibility to prioritize programs that advance our climate goals and equity aspirations, instead of actively harming them.

Proposed changes to the California Climate Commitment in the January Budget



3. RESILIENCE AND NATURAL RESOURCES PROGRAMS GET SLASHED; LIKELY FOCUS OF A BOND.



On the surface, the biggest climate loser in the administration's budget proposal is climate resilience programs across California. About $1.5 billion in reductions – roughly half of the proposed climate cuts – impact resilience and natural-based solutions programs. These resilience cuts are further concentrated in drought, water, and coastal resilience programs.

Included in the proposed cuts is $175 million in funding for water recycling and groundwater cleanup, $440 million in funding for various watershed restoration programs, and $450 million that would go towards coastal resilience.

These cuts are most likely strategic – these types of natural resources-related programs have been traditionally funded through bonds that the legislature puts on the ballot for California voters to approve. There have been rumblings from the administration about a climate bond for over a year now, and a number of legislative proposals, but nothing has fully materialized yet. While the Governor did not put forward a proposal for a bond with his January budget, one might be able to gain an idea of what measures his administration thinks a hypothetical bond should include by looking at these proposed cuts.

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4. LANDMARK CLIMATE LAWS SB 253 AND SB 261 FACING POTENTIAL IMPLEMENTATION HICCUP.

The Governor's proposed budget defers considerations for funding to implement recently-enacted legislation until the May Revision. While this decision does not necessarily affect the amount or timing of funds that would be appropriated for agencies under a final budget agreement this year, it may still cause delays in when these statutes begin to create benefits for the public.

The deferment creates an atmosphere of uncertainty for the public and agencies who must prepare work plans, staffing, and assignment of resources to meet tight statutory and regulatory deadlines. Typically, agencies can informally plan for most of the Governor's January proposal to remain intact, particularly when it pertains to budgeting for legislation he signed into law only a few months prior. Without this soft assurance, agencies may hold off on internal planning processes and other pre-implementation tasks until they have a better idea of what, if any, funding will be available to them. As a result, legally-mandated timelines may slip, which can create delays in enforcement and potentially cause the agency to be vulnerable to lawsuits for failure to meet legal requirements.

Among the many statutes impacted by this deferral, last year's landmark climate laws – the Climate Corporate Data Accountability Law (SB 253) and the Climate-Related Financial Risk Disclosure Law (SB 261) – stand out.

SB 253 requires the Air Resources Board to draft and adopt regulations governing the responsibility of large corporations that do business in California to disclose the climate impacts of their business operations by no later than January 1, 2025. Without the ability to take early action on standing up these regulations, it is extremely unlikely that the Board will meet this deadline.

Similarly, SB 261 requires large companies in California to begin publishing reports, no later than January 1, 2026, that disclose climate-related financial risks (for example, describing the risk that extreme heat or flooding poses to corporate assets and their ability to operate), as well as measures that corporations are adopting to reduce and adapt to this risk. To prepare these reports and make them available in this timeframe, the Air Resources Board must act in 2024 to provide guidance and create technological infrastructure to support these publications. If the Board cannot begin pre-work until late 2024 at the earliest, under an enacted budget agreement, it is unlikely that corporations will meet their 2026 deadline.

Conclusion

The founding thesis of NextGen California's Climate 100 project is that all parts of the state budget, every year, should be aligned with California's climate pollution reduction goals and the realities of intensifying climate impacts. The more we delay adopting a climate-aligned approach to budgeting, the more we will see budgets that are forced to react to climate-related disasters at the expense of proactive planning, preparation, and harm reduction. This year's budget is an early example of precisely this disturbing dynamic, with new funding for disaster response and relief, and cuts to clean transportation, clean energy, and climate resilience programs, as well as climate adaptation efforts.

California's climate investments remain highly dependent on one-time expenditures and special funds, which makes this funding inherently vulnerable to the ups and downs of revenue projections. In light of the real-world risk to our climate leadership and readiness, we once again urge the Governor and all legislators to protect existing climate funding to the maximum extent feasible. Let us pursue an approach to budgeting that treats the climate crisis as a reality that California must grapple with, not a luxury that can be cut out when money is tight.