



January 26, 2018

State of the State

Governor Brown delivered his 16th and final “State of the State” address on Thursday, January 18th in the Assembly chambers. Governor Brown also delivered a robust defense of his Administration’s signature projects and policy priorities:

- **Budget Reserves** — Governor Brown congratulated California on weathering tight financial times following the recession, and signaled that the State’s significant investment in the rainy-day budget reserve is a productive step toward an inevitable future economic downturn.
- **Climate Change** — “We can’t fight nature; we have to learn how to get along with it.” Governor Brown emphasized that “the science of climate change is not in doubt.” He lauded California’s building appliance efficiency standards, low carbon fuel standards, incentives for zero emission vehicles (ZEVs), ambitious policies on short-lived climate pollutants, and “...this nation’s only functioning and comprehensive Cap and Trade program.” He announced that he will be imminently releasing his funding proposal with remaining auction revenue, providing funding for both urban and agricultural areas with the goal “to make our neighborhoods and farms healthier, our vehicles cleaner (ZEV sooner the better) and all our technologies increasingly lower their carbon outputs.” Governor Brown also focused heavily on forest and soil management, as opportunities for carbon sequestration, climate resiliency and as defense mechanisms against wildfires and catastrophic weather events.
- **Water** — Governor Brown applauded the bipartisan support of the Water Bond, the Sustainable Groundwater Management Act and emphasized water conservation. “Soon we’ll begin expending funds on the water storage we’ve needed for decades...this will put us in the best position to use water wisely.”
- **Fuel Tax** — In response to the proposed repeal of SB 1, Governor Brown stated “The vote on the gas tax was not easy, but it was essential. Given the vast network of roads and bridges on which California depends, and the estimated \$67 billion in deferred maintenance on our infrastructure...the funds that SB 1 makes available are absolutely necessary if we’re going to maintain our roads and transit systems in good repair.” He further commented “fighting a gas tax may appear to be good politics, but it isn’t. I will do everything in my power to defeat any repeal effort that gets on the ballot—you can count on that.”
- **Infrastructure** — Governor Brown dedicated segments of his address in support of two legacy infrastructure projects—the twin tunnels in the Delta and the high-speed rail system, focusing predominantly on the segments through the Central Valley and the Caltrain corridor between San Jose and San Francisco.

Environment:

Cap and Trade Expenditure Plan

The Brown Administration released its 2018 Cap and Trade Expenditure Plan totaling \$1.25 billion and consists of four main pillars:

1. Zero-Emission Vehicle (ZEV) Investments
2. Carbon Sequestration and Climate Resiliency
3. California Integrated Climate Investment Program
4. Climate Change Technology and Solutions

Agricultural-specific interests may benefit from the aforementioned pillars and proposed initiatives; however, the released plan also includes dedications for agriculture specific expenditures as follows:

- Low Carbon Transportation
 - CARB--\$175 million for the Clean Vehicle Rebate Project; \$160 million for clean truck, bus and off-road freight equipment; \$100 million for fleet modernization;
 - CEC--\$25 million for low carbon fuel production;
- Climate Smart Agriculture
 - CARB--\$102 million for the ag diesel engine replacement and upgrades;
 - CEC--\$34 million for energy efficiency and \$4 million for renewable energy and \$4 million for on-site renewable energy for ag operations;
 - CDFA--\$5 million for the Healthy Soils Program;
- Healthy Forests
 - CAL FIRE--\$160 million for Healthy & Resilient forests;
- Short-Lived Climate Pollutants
 - CDFA--\$99 million for Dairy Digester Research and Development Program (DDRDP) and Alternative Manure Management Program (methane emission reduction);
 - CalRecycle--\$20 million for waste reduction;

ARB's FARMER Program

The Air Resources Board is holding workshops throughout the state on the development of its Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program. The FARMER Program has \$135 million in state funds for distribution to agricultural operations to replace vehicles and equipment to reduce emissions. The proposal would allow funds to be used to replace agricultural vehicles and equipment under current Carl Moyer Program Guidelines, zero-emission agricultural utility terrain vehicles, and the Off-Road Mobile Agricultural Equipment Trade-Up Pilot Project in the San Joaquin Valley. The workshops will also be a place to comment on how these funds should be distributed between air districts. Farm Bureau participated in the first workshop to provide guidance on implementation of this important program. Dates for upcoming workshops are below and more specifics about the program are available [here](#).

DATE: Tuesday, January 30, 2018

TIME: 10:00 a.m. to 12:00 p.m. (PST)

LOCATION: San Joaquin Valley Air Pollution Control District, Central Valley Regional Office
1990 E. Gettysburg Avenue
Fresno, California 93726

DATE: Friday, February 2, 2018

TIME: 10:00 a.m. to 12:00 p.m. (PST)

LOCATION: San Diego Regional Water Quality Control Board

2375 Northside Drive
San Diego, California 92108

DATE: Monday, February 5, 2018
TIME: 1:00 p.m. to 3:00 p.m. (PST)
LOCATION: Tehama County Air Pollution Control District
1834 Walnut Street
Red Bluff, California 96080

The public can also attend this Central Valley workshop by video conference at the air district's Modesto and Bakersfield offices at:

Modesto Office
4800 Enterprise Way
Modesto, CA 95356

Bakersfield Office
34946 Flyover Court
Bakersfield, CA 93308

Taxation:

[ACA 22](#) (Kevin McCarthy, D-Sacramento and Philip Ting, D-San Francisco) would enact the Middle Class Fiscal Relief Act. This measure, effective January 1, 2018, would impose a 10% tax (surcharge) on corporations' net income (including S-corps) over \$1,000,000. The tax may be amended by a 2/3rds vote of the Legislature. Revenue generated from the corporate tax would be allocated in the following manner:

- 40% to support public school systems and public higher education; and
- 60% to benefit low and middle-income Californians, through the Earned Income Tax Credit, other tax rebates, expanded child care and early education, and financial aid for higher education.

The intent of the amendment is to counterbalance corporate tax cuts offered in the federal tax reform package. In effect, the existing corporate tax rate (8.84%) would increase by an additional 7% on corporations netting greater than \$1,000,000 in a taxable year. This is estimated to constitute half of the savings derived from the federal tax reform and generate \$15-17 billion per year. ACA 22 is in the Assembly pending referral to a policy committee.

[SB 227](#) (DeLeon, D-Los Angeles) would propose to establish the California Excellence Fund in the State's General Fund to accept personal income tax donations and offer a credit equal to 85% of the amount of the contribution to taxpayers. These provisions would, in effect, allow Californian taxpayers to deduct funds contributed to the California Excellence Fund under the federal charitable donation credit limits to counterbalance the impacts of the reduced State and Local Tax (SALT) deduction cap to \$10,000 per year established by HR 1 (the Federal Tax Cuts and Jobs Act). While this scheme may provide tax relief to Californians, the State's authority to allow for these deductions as "charitable" is unclear and may be prohibited provided the Internal Revenue Service deny the federal deductions or Congress clarifies the law. SB 227 is also enjoined to SB 581 (DeLeon, D-Los Angeles) which proposes to delete a provision that requires a person who is eligible for the California Continuation Benefits Replacement Act (Cal-COBRA) to be informed that a health insurance company may require a medical history review which could result in a higher premium or a coverage denial. With an urgency clause, SB 227 will require a 2/3rds vote approval from the Legislature. The bill passed Senate Appropriations Committee on January 18th and is currently on the Senate Floor.