A Long-Term Investment Strategy for Cap-and-Trade Revenue

INTRODUCTION

California has long been an international leader on clean energy and climate efforts through energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles.

In 2006, California established the nation's benchmark for greenhouse gas emission reductions with the passage of AB32, the California Global Warming Solutions Act (Pavley). AB32 required the State Air Resources Board to develop a scoping plan, including direct regulations, performance-based standards, and market-based mechanisms to achieve this level of greenhouse gas emission reductions.

The State Air Resources Board has implemented a Cap-and-Trade program under the general authority granted under AB32 to implement market-based mechanisms. But full pollution reductions cannot be achieved without a long-term strategy for investing the program's revenues effectively and affordably.

SB 535 (De Leon 2011) built upon the CA climate program by recognizing the disproportionate impacts of greenhouse gases on disadvantaged and low-income communities in California including, for example, higher rates of respiratory illness, hospitalizations, and premature death from inordinately substandard air quality. It requires that 25 percent of cap and trade revenues be allocated to disadvantaged communities to reduce pollution.

Through SB 375 of 2008 (Steinberg), the legislature recognized that without improved land use and transportation policy, California will not be able to achieve the goals of AB 32 because the transportation sector remained the single largest contributor of greenhouse gases of any sector in the State of California.

This long-term investment strategy of Cap-and-Trade revenue is deliberately designed to achieve the objectives of AB32: a significant reduction in greenhouse gas emissions while mitigating a disproportionate impact of policies' strategy on California's low-income and disadvantaged communities.

Fundamentally, this long-term investment strategy embodies the objectives of Cap-and-Trade by ensuring that all expenditures are used to achieve maximum reductions in greenhouse gases. This long-term investment strategy is designed to curb human-induced global warming by reducing pollution from traffic and vehicle trips through retrofitting our communities with more affordable and efficient transit, housing, and land uses. In doing so, this long term investment strategy will improve public health and help Californians save money with convenient and affordable alternatives to spending more of their family budgets on ever-increasing fuel costs at the pump.

The objectives of this strategy will not be met overnight. It will take time and a long term commitment to witness the environmental dividends of these investments. That is why it is imperative to act now.

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FRAMEWORK

All investments must:

- Lead to reductions in greenhouse gas emissions, consistent with AB32 (Pavley) of 2006;

- Be subject to a competitive ranking process to ensure those projects providing maximum feasible reductions in greenhouse gases are funded;

- Meet all existing constitutional and statutory requirements for use and allocation of Cap-and-Trade funds, including, but not limited to:
    - California Constitution Article XIII,
    - SB375 (Steinberg) – The Sustainable Communities and Climate Protection Act of 2008, relating to transit-oriented development,
    - SB535 (De Leon) – The California Communities Healthy Air Revitalization Trust of 2011, relating to ensuring disadvantaged communities receive at least 25% of funds,
    - SB1018 (Budget Committee) of 2012, relating to agencies carefully reporting, documenting and justifying expenditures of funds to protect against lawsuits.

INVESTMENT STRATEGY

I. A Permanent Source of Funding for <u>Transit</u> (25%)

a. ***Purpose:*** Transit construction and operations.

b. ***Parameters:***

   i. At least 5% of the transit amount would have to be used for direct transit assistance to consumers (could be in the form of passes, additional access, etc.).

II. A Permanent Source of Funding for <u>Affordable Housing and Sustainable Communities</u> (at least 20%)

a. ***Purpose:*** Support regional sustainable communities strategies including investments in affordable housing, transit-oriented development, land use planning, active transportation, high density mixed use development, transportation efficiency and demand management projects.

b. ***Parameters:*** At least half of these funds (equivalent to at least 10% of total allocations) shall be used for affordable housing, centered in transit-oriented development and consistent with GHG reduction strategies.

III. **Low Carbon Transportation (15%)**
Purpose: Funding a comprehensive vision for cleaning up the state's cars, trucks, buses, and freight movement to meet federally mandated clean air requirements and California's long-term GHG goals. Specifically, providing funding for heavy-duty freight (including independent truckers), electric vehicle programs and rebates, and off-road vehicles, among others. Additionally, establishing programs for low and moderate-income earners.

IV. Energy (13%)
Purpose: Energy efficiency and renewable programs for low-income and commercial/industrial users, projects for agricultural energy, green bank funding for both commercial scale technology deployment and clean tech innovation.

V. Natural resources and Waste Diversion (7%)

Purpose: Urban forestry and parks in disadvantaged communities. Water efficiency infrastructure projects, forestry and landscape issues, wetland development, waste diversion and recycling.

VI. A Permanent Source of Funding for Intercity Rail and/or High Speed Rail (not more than 20%)

Purpose: Ongoing source for construction and operations of Intercity Rail and/or HSR.