

Description of Revenue Requirement

Background

In addition to requiring California to reduce greenhouse gas emissions to 1990 levels by 2020, AB 32 also provides ARB with the authority to collect fees to pay for program administration costs. Health and Safety Code Section 38597 authorizes ARB to adopt a regulation requiring fees on sources of greenhouse gas emissions. This rulemaking would authorize ARB to collect a fee from specified entities to cover administration costs for state agencies implementing AB 32.

Eligible costs under this regulation would be limited to state agency activities and programs that are directly related to implementing AB 32.

Proposed Process for Funding Using “AB 32 Cost Implementation Fee”

To be eligible for funds under the AB 32 Cost of Implementation Fee, state agencies would go through the standard Budget Change Proposal (BCP) process of requesting and gaining approval of both the Legislature and Governor.

The proposed process is detailed as follows:

1. Each state agency would prepare and submit a BCP to the Department of Finance (DOF) through their normal budget process – securing their agency approval and using the established criteria for the fund.
2. DOF would review each BCP and, as with all budget proposals, approve or deny them based upon both policy considerations and fund eligibility criteria. If needed, ARB and/or Cal/EPA would be available to assist in the criteria review process.
3. DOF approved AB 32 BCPs would become part of the Governor’s Proposed January Budget. This is the first public point in the process.
4. To assist stakeholders, Cal/EPA would issue a “*Preliminary AB 32 Crosscut Budget Summary*” based on information from DOF and the contents of the Proposed Governor’s Budget.
5. After the Legislature passes and the Governor signs the annual budget act, Cal/EPA would issue an “*Approved AB 32 Crosscut Budget Summary*.” This document would be an update of the *Preliminary AB 32 Crosscut Budget Summary*. This final document would become the basis for the current fiscal year’s Revenue Requirement under this regulation.

Proposed Funding Criteria

This proposed criteria describes eligible costs under this fee:

- Staff positions designated to implement the AB 32 program that have been approved through BCPs after AB 32 was signed into law (September 2006). Only the portion of the positions that are assigned to implement AB 32 would be eligible.
- Other BCP approved costs directly related to the administration of AB 32 programs to reduce greenhouse gas emissions, such as contracts, administrative overhead, and research directly related to the implementation of the AB 32 program.

The following would *not* be eligible for reimbursement:

- Redirected staff positions working on AB 32 that were not approved in the formal budget process with an approved BCP;
- Costs incurred by non-state agencies such as air quality/pollution districts, other special districts, etc;
- Activities which are a part of an agency's principal responsibilities (water conservation, waste reduction, traffic planning, etc.) that also achieve greenhouse gas emission reductions as a co-benefit;
- Specific greenhouse gas emission mitigation activities that started prior to the passage of AB 32 or were covered by earlier budget requests (e.g., the 20 percent goal for the Renewables Portfolio Standard);
- Activities related to adaptation to climate change, including adaptation related research;
- Activities related to compliance with California Environmental Quality Act (CEQA) requirements for state agencies related to climate change/greenhouse gas emissions; and,
- Compliance with existing and future regulations or initiatives for state agencies which reduce their own greenhouse gas emissions.

Expenditures to be Supported by Fees

This fee is intended to cover the expenses related to the administration costs for implementing AB 32 that are approved positions, including:

1. 2007/2008 fiscal year loans for ARB and Cal/EPA
2. 2008/2009 fiscal year loans for ARB and Cal/EPA
3. 2009/2010 fiscal year and future year costs for ARB, Cal/EPA and other California state government agencies.

State agencies have incurred expenses as a result of implementing various programs on climate change, including adaptation. In addition, some state agencies have redirected staff from existing programs to work on AB 32 implementation. These costs are not eligible costs under the AB 32 Cost of Implementation Fee.

Start-up Expenses for ARB and Cal/EPA

For 2007/2008 fiscal year, the expenditures for ARB and Cal/EPA to implement AB 32 were supported by loans. ARB received a loan of approximately \$15.2 million from the Motor Vehicle Account (MVA) and used approximately \$8.5 million from the Air Pollution Control Fund (APCF). Cal/EPA also received a loan of \$293,000 from the MVA. These loans are to be paid back over three years starting in 2009/2010.

For the 2008/2009 fiscal year, the expenditures for ARB and Cal/EPA were covered through a \$32 million loan from the Beverage Container Recovery Fund (BCRF). The loan was approved with loan repayments spelled out within the Budget Act (AB 1781, Chapter 268, statutes of 2008). This loan will be repaid over three years starting in 2010/2011.

For the 2009/2010 fiscal year, the expenditures for ARB and Cal/EPA were covered through a \$35 million loan from the BCRF. The loan was approved with loan repayments spelled out within the Budget Act (SB 1, Chapter 1, Statutes of 2009). However, in anticipation of collecting fee revenue for fiscal year 2009/2010, ARB does not intend to use the loan funds.

Proposed Methodology for Determining ARB Expenses

To determine ARB's AB 32-related resource costs, program managers were asked to identify all staff positions and determine the percentage of time that was spent on AB 32 implementation for each position, including those directly hired under its AB 32 BCPs.

In order to fully address the considerable workload required to fully implementing AB 32, additional existing resources were devoted to the program.

These resources are summarized below and are segregated into three categories:

1. Salaries and staff benefits;
2. Operating expenses (supplies, communication, postage, etc.), and;
3. Other Costs (contracts, equipment).

Air Resources Board Program Activities

ARB has grouped the programs for implementing AB 32 provisions into five areas:

1. Greenhouse Gas Emission Inventory and Reporting

Under AB 32, ARB is required to determine what the statewide greenhouse gas emissions level was in 1990, and approve in a public hearing, a statewide greenhouse gas emissions limit that is equivalent to that level, which must be achieved by 2020.

Furthermore, ARB adopted regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with the reporting program; the greenhouse gas emissions reporting begins in 2009. Staff

developed a comprehensive web-based greenhouse gas reporting tool to simplify and guide the reporting process, and are in the process of implementing a training program for verifiers. The inventory is also the basis for developing regulations to implement the Scoping Plan measures and there is ongoing inventory work to support regulatory development.

2. AB 32 Planning Activities

AB 32 directs ARB to prepare and approve a Scoping Plan outlining the State's strategy to reduce greenhouse gas emissions to 1990 levels by 2020.

The Scoping Plan identifies the actions that will be taken to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions. In developing the Scoping Plan, resources were used to develop expertise on emission reduction strategies for greenhouse gases and identify direct emission reduction measures for potential implementation. Additionally, staff evaluated and recommended alternative compliance mechanisms, market-based compliance mechanisms, and potential monetary and non-monetary incentives. ARB and Cal/EPA are now coordinating the implementation of the Scoping Plan measures and ensuring all AB 32 requirements are met as the measures are developed. The Scoping Plan must be updated each five years. ARB also must develop a five year work plan that details the AB 32 activities.

3. Greenhouse Gas Emission Reductions

Under AB 32, ARB is required to develop regulations, source specific measures and voluntary programs to reduce greenhouse gas emissions. These include Discrete Early Action measures that are implemented earlier than other measures and will be enforceable by January 1, 2010. ARB is developing 15 regulations identified in the Scoping Plan to reduce greenhouse gas emissions, including an extensive public process to develop a Cap-and-Trade regulation.

4. Applied Studies and Scientific Analysis

AB 32 requires ARB to design cost-effective greenhouse gas emission reduction measures to meet a statewide limit. A diverse portfolio of applied studies is required to help ARB identify and implement the most cost-effective, technologically feasible mitigation strategies. Research to support the requirements of AB 32 also illuminates linkages between greenhouse gas emissions and air pollution, as well as the health and social impacts of global warming. This research adds to the State's suite of research on impacts to California, providing information to facilitate identification and prioritization of mitigation strategies that will not adversely impact regional or community exposures to air pollution.

5. Administration, Outreach, Enforcement and Support

Due to the broad scope of AB 32, ARB required additional support staff (legal, legislative, information technology, enforcement, etc.) to manage the new workload. ARB is also

required under AB 32 to consult with all state agencies with jurisdiction over sources of greenhouse gases to ensure that greenhouse gas reduction activities are complementary, non-duplicative, and can be implemented in an efficient and cost-effective manner. ARB is also collaborating with other regions, states and nations on climate change work, as required under AB 32.

AB 32 Activities for Other State Agencies

Under Health and Safety Code, Section 38561, ARB must consult with state agencies with jurisdiction over sources of greenhouse gases to ensure the greenhouse gas emissions reduction activities are complementary and can be implemented in an efficient and cost-effective manner. The Scoping Plan describes over 20 measures which will be developed and implemented by other state agencies. Additional information about specific programs will be provided in the Initial Statement of Reason.

The table below provides a preliminary summary of other state agency expenses, including staffing levels, for the AB 32 program.

Note that the numbers contained in the table below are preliminary and may change before being finalized. Once additional information becomes available a final determination of the 2009/2010 required revenue will be made.

Preliminary Summary of AB 32 Program Funding for FY 09/10

State Agency	PYs	Total Costs
<i>California Environmental Protection Agency</i>	6	\$ 1.8
California Air Resources Board	155	\$ 33.1
California Integrated Waste Management Board	7	\$ 1.6
<i>California Resources Agency</i>	0	\$ 0
California Energy Commission	5	\$ 0.6
California Department of Food and Agriculture	2	\$ 0.5
California Department of General Services	2	\$ 1.4
TOTAL	177	\$ 39.0

Note: Costs in \$ millions.