

State of California
AIR RESOURCES BOARD

**CAP-AND-TRADE AUCTION PROCEEDS:
SECOND INVESTMENT PLAN: FISCAL YEARS 2016-17 THROUGH 2018-19**

Resolution 15-49

December 17, 2015

Agenda Item No.: 15-10-3

WHEREAS, the California Global Warming Solutions Act of 2006 (Assembly Bill 32 or AB 32; Chapter 488, Statutes of 2006; Health and Safety Code section 38500 et seq.) declares that global warming poses a serious threat to the economic well-being, public health, natural resources, and environment of California;

WHEREAS, Executive Order B-30-15 calls for a reduction in GHG emissions to 40 percent below 1990 levels by 2030 as a mid-term target to ensure California meets a long-term target of reducing GHG emissions 80 percent below 1990 levels by 2050;

WHEREAS, the Governor's January 2015 Inaugural Address identified five key climate change strategy pillars:

- Reduce petroleum use in cars and trucks by up to 50 percent;
- Increase renewable electricity generation to 50 percent;
- Double the energy efficiency of existing buildings and make heating fuels cleaner;
- Reduce emissions of methane, black carbon, and other potent short-lived climate pollutants; and
- Manage farm and rangelands, forests, and wetlands so they can store carbon.

WHEREAS, section 38501(d) of the Health and Safety Code confirms that national and international actions are necessary to fully address the issue of global warming, but action taken by California to reduce greenhouse gas emissions will have far-reaching effects by encouraging other states, the federal government, and other countries to act;

WHEREAS, AB 32 directed the Air Resources Board (ARB or Board) to create a comprehensive multi-year program to reduce California's GHG emissions to no greater than 1990 levels by 2020, and to maintain and continue reductions in emissions of GHGs beyond 2020;

WHEREAS, Health and Safety Code sections 38562(c) and 38570 authorize ARB to adopt regulations that utilize market-based compliance mechanisms;

WHEREAS, pursuant to the regulatory purposes of Division 25.5 (commencing with Section 38500) of the Health and Safety Code, ARB, in Resolution 11-32, adopted regulations, specified in Sections 95800 to 96022, inclusive of Title 17 of the California Code of Regulations, that utilize a market-based compliance mechanism, and those regulations were later amended and implemented to create the Cap-and-Trade Program (Cap-and-Trade);

WHEREAS, Government Code section 16428.8 created the Greenhouse Gas Reduction Fund as a special fund in the State Treasury to receive all monies, except for fines and penalties, collected by ARB from the auction or sale of allowances under Cap-and-Trade;

WHEREAS, Government Code section 16428.8 requires that all moneys deposited in the Greenhouse Gas Reduction Fund shall be available for appropriation by the Legislature and shall be separately identified in the Budget Act;

WHEREAS, Health and Safety Code section 39712 requires that the moneys appropriated from the Greenhouse Gas Reduction Fund shall only be used to further the regulatory purposes of Division 25.5 (commencing with section 38500) of the Health and Safety Code, consistent with law, and to facilitate the achievement of reductions of greenhouse gas emissions in California and, where applicable and to the extent feasible:

- Maximize economic, environmental, and public health benefits to the State;
- Foster job creation by promoting in-state greenhouse gas emissions reduction projects carried out by California workers and businesses;
- Complement efforts to improve air quality;
- Direct investment toward the most disadvantaged communities and households in California;
- Provide opportunities for businesses, public agencies, nonprofits, and other community institutions to participate in and benefit from statewide efforts to reduce greenhouse gas emissions; and
- Lessen the impacts and effects of climate change on the state's communities, economy, and environment.

WHEREAS, Health and Safety Code section 39712 identifies potential investment areas for moneys appropriated from the Greenhouse Gas Reduction Fund including, but not limited to:

- Funding to reduce greenhouse gas emissions through energy efficiency, clean and renewable energy generation, distributed renewable energy generation, transmission and storage, and other related actions, including, but not limited to, at public universities, state and local public buildings, and industrial and manufacturing facilities;
- Funding to reduce greenhouse gas emissions through the development of state-of-the-art systems to move goods and freight, advanced technology vehicles and

vehicle infrastructure, advanced biofuels, and low-carbon and efficient public transportation;

- Funding to reduce greenhouse gas emissions associated with water use and supply, land and natural resource conservation and management, forestry, and sustainable agriculture;
- Funding to reduce greenhouse gas emissions through strategic planning and development of sustainable infrastructure projects, including, but not limited to, transportation and housing;
- Funding to reduce greenhouse gas emissions through increased in-state diversion of municipal solid waste from disposal through waste reduction, diversion, and reuse;
- Funding to reduce greenhouse gas emissions through investments in programs implemented by local and regional agencies, local and regional collaboratives, and nonprofit organizations coordinating with local governments; and
- Funding in research, development, and deployment of innovative technologies, measures, and practices.

WHEREAS, Health and Safety Code section 39716 requires the Department of Finance, on behalf of the Governor, and in consultation with ARB and any other relevant State entity, to develop and submit to the Legislature a three-year investment plan, consistent with the requirements of Health and Safety Code section 39712, that:

- Identifies near-term and long-term greenhouse gas emission reduction goals and targets by sector;
- Analyzes gaps in current State strategies for meeting greenhouse gas reduction goals by sector; and
- Identifies priority investments that facilitate greenhouse gas reductions.

WHEREAS, Health and Safety Code section 39713 requires that the investment plan allocate a minimum of 25 percent of the available moneys in the Greenhouse Gas Reduction Fund to projects that provide benefits to the disadvantaged communities identified pursuant to Health and Safety Code section 39711, and that the investment plan allocate a minimum of 10 percent of the available moneys in the Greenhouse Gas Reduction Fund to projects located within disadvantaged communities identified pursuant to Health and Safety Code section 39711;

WHEREAS, Health and Safety Code section 39716 requires ARB to consult with the Public Utilities Commission to ensure the investment plan is coordinated with, and does not conflict with or unduly overlap with, activities under the oversight or administration of the Public Utilities Commission undertaken pursuant to Part 5 (commencing with Section 38570) of Division 25.5 or other activities under the oversight or administration of the Public Utilities Commission that facilitate greenhouse gas emissions reductions, and that the investment plan include a description of the use of any moneys generated by the sale of allowances received at no cost by the investor-owned utilities pursuant to a market-based compliance mechanism;

WHEREAS, Health and Safety Code section 39716 requires the Climate Action Team, established under Executive Order S-3-05, to:

- Provide information to the Department of Finance and ARB to assist in the development of the investment plan;
- Participate in each public workshop; and
- Provide testimony to ARB on each investment plan;

WHEREAS the first three-year investment plan for Fiscal Years 2013-14 to 2015-16, was completed on May 14, 2013, and submitted to the Legislature in accordance with Health and Safety Code section 39716;

WHEREAS, commencing with the 2016–17 fiscal year budget and every three years thereafter, Health and Safety Code section 39716 requires the Department of Finance, on behalf of the Governor, and in consultation with ARB and any other relevant State entity, to develop and submit to the Legislature an update to the three-year investment plan coordinated with the release of the Governor’s budget proposal;

WHEREAS, on July 28, 2015, a draft concept document was made available for public comment entitled “*Cap-and-Trade Auction Proceeds Second Investment Plan, Draft Concepts for Public Discussion*” (Draft Investment Plan Concept Paper);

WHEREAS, Health and Safety Code section 39716 requires ARB to hold at least two public workshops and one public hearing prior to the Department of Finance submitting the investment plan to the Legislature;

WHEREAS, ARB and Administration appointees held seven public workshops in August 2015 on the Draft Investment Plan Concept Paper. Workshops were held in Sacramento, Fresno (with live video feeds to Modesto and Bakersfield), Oroville, Oakland, Fontana, Los Angeles, and San Diego. Over 350 people attended the workshops in person, representing over 240 organizations. During the open comment period, over 200 comment letters were submitted on the Draft Investment Plan Concept Paper by over 300 individuals or organizations;

WHEREAS, on October 27, 2015, the draft “*Cap-and-Trade Auction Proceeds Second Investment Plan, Fiscal Years 2016-17 to 2018-19*” (Draft Second Investment Plan) was released for public review and comment;

WHEREAS, ARB and Administration appointees hosted a second set of public workshops in November 2015 on the Draft Second Investment Plan. Workshops were held in Sacramento, Fresno (with live video feeds to Modesto and Bakersfield), and Los Angeles. One hundred and fifty people attended the workshops in person, representing over 120 organizations. During the open comment period, more than 100 comment letters were submitted by over 200 individuals or organizations;

WHEREAS, on December 2, 2015, the Revised Draft “*Cap-and-Trade Auction Proceeds Second Investment Plan, Fiscal Years 2016-17 to 2018-19*” (*Revised Draft Second Investment Plan*) was released for consideration, reflecting comments provided at workshops and submitted during the public comment period; and

WHEREAS, in consideration of the *Revised Draft Second Investment Plan*, staff presentation, and public testimony and comments, the Board finds that:

1. The *Revised Draft Second Investment Plan* identifies near-term and long-term greenhouse gas emission reduction goals and targets, analyzes gaps in current State strategies for meeting greenhouse gas reduction goals, and identifies priority investments that facilitate greenhouse gas reductions in accordance with the requirements of Health and Safety Code section 39716;
2. The recommendations for priority investments in the *Revised Draft Second Investment Plan* are consistent with the requirements of Health and Safety Code section 39712 on use of moneys from the Greenhouse Gas Reduction Fund;
3. The recommendations for priority investments in the *Revised Draft Second Investment Plan* would further the goals and purposes of the California Global Warming Solutions Act of 2006, Executive Order B-16-12, Executive Order B-18-12, and Executive Order B-30-15;
4. The recommendations for priority investments in the *Revised Draft Second Investment Plan* include projects to reduce short-lived climate pollutants which would provide near-term benefits for both climate and public health;
5. The recommendations for priority investments in the *Revised Draft Second Investment Plan* would target moneys from the Greenhouse Gas Reduction Fund to disadvantaged communities consistent with the requirements of Health and Safety Code section 39713;
6. The *Revised Draft Second Investment Plan* includes a description of the use of moneys generated by the sale of allowances received at no cost by the investor-owned utilities pursuant to a market-based compliance mechanism in accordance with the requirements of Health and Safety Code section 39716;
7. The Air Resources Board staff consulted with the Public Utilities Commission on the development of the *Revised Draft Second Investment Plan* in accordance with the requirements of Health and Safety Code section 39716;
8. Members of the Climate Action Team, or their designees, provided information to the Department of Finance and the Air Resources Board to assist in the development of the *Revised Draft Second Investment Plan*, and a subset participated in each public workshop in accordance with the requirements of Health and Safety Code section 39716;

9. The Air Resources Board held a public hearing on the *Revised Draft Second Investment Plan*, which included testimony on behalf of the Climate Action Team, in accordance with the requirements of Health and Safety Code section 39716; and
10. The Air Resources Board recognizes the expertise of cities, counties, and other local institutions and that these entities are a key resource for identifying needs and opportunities for reducing climate changing emissions in California's communities.

NOW, THEREFORE, BE IT RESOLVED that the Board affirms that the *Revised Draft Second Investment Plan* was developed in accordance with the requirements set forth in Health and Safety Code sections 39711, 39712, 39713, and 39716.

BE IT FURTHER RESOLVED that the Board recognizes the importance of a balanced approach to address the major sources of greenhouse gas emissions in California while supporting investments in disadvantaged communities, job opportunities, and the continued growth of California's economy.

BE IT FURTHER RESOLVED that the Board concurs that targeted expenditures are critical to help California realize the transformational changes in transportation, energy generation and efficiency, and natural resources and waste management that are vital to meet our longer-range goals as well.

BE IT FURTHER RESOLVED that, as California implements the *Second Investment Plan*, the Board supports focusing on programs needed to achieve our greenhouse gas emission reduction goals, and recommends that the projects receiving funding: are selected and implemented based on sound scientific information; provide cost-effective greenhouse gas emission reductions; leverage additional moneys; are coordinated with other programs; and invest in technologies and approaches that can be scaled to achieve significant future greenhouse gas emission reductions.

BE IT FURTHER RESOLVED that the Board extends its appreciation to the other State agencies and the many stakeholders who participated in developing the *Revised Draft Second Investment Plan*.

I hereby certify that the above is a true and correct copy of Resolution 15-49 as adopted by the Air Resources Board.

Tracy Jensen, Clerk of the Board