



Item #12-8-3 Action

Government Relations & Public Affairs Committee

July 30, 2012

Cap-and-Trade Revenues

Issue: Should SACOG support a coalition of transportation stakeholders developing a proposal for how to allocate cap-and-trade revenues to local and regional agencies for transportation purposes, including SCS implementation?

Recommendation: That the Government Relations & Public Affairs Committee recommends that the Board of Directors support the general principles of the Transportation Coalition and authorize the Chief Executive Officer to actively work with the Coalition.

Discussion: As part of the implementation of the Global Warming Solutions Act of 2006 (AB 32), the California Air Resources Board (ARB) has adopted regulations to establish a new cap-and-trade program to cap greenhouse gas emissions statewide. The Legislature is proposing two bills to direct how the revenues from the program will be spent. The legislation sets up a structure, but most of the details will be set by ARB. For this reason, staff recommends endorsing working with the Transportation Coalition described below.

Background on Cap-and-Trade Program

AB 32 calls for the reduction of greenhouse gases to 1990 levels by the year 2020. Under AB 32, ARB is authorized to create a regulatory program to establish a cap-and-trade market. Producers of approximately 80 percent of the state's greenhouse gas emissions are subject to the cap, which reduces emissions by about 20 percent compared to business as usual. ARB plans to sell 66 million allowances in FY 2012-2013, generating an estimated \$660 million to \$3.3 billion (depending on the price per ton, which would range between a minimum of \$10 and maximum of \$50). The size of the cap-and-trade program will increase significantly in 2015, when motor vehicle fuels become subject to regulation, with an estimated revenue generation of \$17 billion to \$67 billion annually between 2015 and 2020, when the program sunsets under AB 32.

Transportation Coalition

A coalition of transportation stakeholders formed in the past few months to provide input on spending priorities. Members to date include: Transportation California, California Transit Association, California Alliance for Jobs, League of California Cities, and California State Association of Counties. Attachment A is the most recent information from the Coalition on its recommendations for how to use cap-and-trade revenues for transportation purposes, including SCS implementation. In summary, its principles are to:

- dedicate revenues related to motor vehicle fuels to transportation purposes;
- invest revenues into transportation infrastructure, operations and maintenance;
- structure integrated transportation investments, rather than inefficient, uncoordinated investments;
- provide incentives and assistance to local governments for SCS implementation;
- allow regions and local governments flexibility to develop the most effective ways to reduce greenhouse gases and keep costs low; and
- improve modeling and verification systems to ensure greenhouse gas emissions and cost effectiveness.

The California Association of Councils of Governments (CALCOG) endorsed the Coalition's principles on July 30. The Metropolitan Transportation Commission and San Diego Association of Governments have adopted advocacy principles that closely mirror those of the Coalition.

SACOG Advocacy Principles

This Coalition's work is consistent with the Board-adopted policy direction for advocating for sufficient funding to effectively plan for and deliver projects consistent with the State Advocacy Principles (Attachment B). There may be other areas of cap-and-trade allocations beyond transportation that support implementation of the SCS or RUCS. Staff will engage with the Legislature and ARB to advocate for other decisions consistent with the State Advocacy Principles.

Budget and Legislative Proposals

Budget

The adopted 2012-13 budget assumed \$1 billion in auction revenues and directed \$500 million to offset eligible General Fund expenditures, but did not specify how to allocate the other \$500 million.

AB 1532 (Perez)

This bill proposes detailed categories of uses that would be included in a plan developed by ARB, with input from other state agencies and the Legislature. It would create three investment plans (2013-14, 2015-17 and 2018-20). It does not specify specific funding shares between categories. It is supported by the California State Association of Counties, California Transit Association, various labor, public health, clean energy and open space organizations. It is opposed by the California Chamber of Commerce, California Manufactures and Technology Association, Cal Tax, and various business organizations. It is pending a Second Reading in the Senate.

AB 1532 sets up the process, but does not specify how any funds will be spent. It would provide for additional opportunities for input during the policy formation. By setting up three separate investment plans, it would allow for the distribution of allocations to match the amount available in each period. When revenues increase significantly in 2015, policy makers may wish to allocate the revenues differently than in the 2013-14 period.

Of interest to SACOG and its members, AB 1532 allows expenditures for (among other things): public transportation; sustainable transportation and infrastructure development; local and regional sustainable development efforts consistent with the Sustainable Communities Strategy (SCS); low-carbon goods movement and freight vehicle technologies and infrastructure; and development and implementation of sustainable agriculture, forestry and related water, land and resource management practices. Attachment C provides additional details on AB 1532.

SB 1572 (Pavley)

This bill proposes specific allocations to nine categories of uses for the portion of unallocated revenues in 2012-13. It also proposes a subsequent five-year plan be developed and approved by ARB. The Legislature would receive a copy, but would not be able to modify it. It is supported by the American Lung Association, and various clean energy and public education organizations. It is opposed by the California Chamber of Commerce, California Manufactures and Technology Association, Cal Tax, and various business organizations. It is pending a hearing in the Assembly Appropriations Committee.

As with all pending state legislation, SB 1572 must be passed by August 31. It prescribes specific allocations to programs for the current fiscal year, but opportunities for input have been limited, since the specific funding

levels and categories have only been public since June 25. While the funding shares are only set for 2012-13, they establish a distribution that may set the course for future shares through the life of the program.

Of interest to SACOG and its members, SB 1572 allows expenditures for (among other things) sustainable land use and transportation (the greater of 20% of 2012-13 allocations or \$30 million). Of this, 40 percent is reserved for the Department of Housing and Community Development to provide loans for affordable transit-oriented housing. Attachment C provides additional details on SB 1572.

Staff does not recommend taking a position on either AB 1532 and SB 1572. Both bills are consistent with the funding categories endorsed by the Transportation Coalition, but they do not provide the program specifics outlined by the Coalition. They also identify funding categories beyond SACOG's scope. Staff instead proposes to work with the Transportation Coalition to advocate to ARB to design a transportation expenditure program consistent with the Coalition's principles.

Approved by:

Mike McKeever
Chief Executive Officer

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Attachment

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July 24, 2012

Re: Transportation Funding Coalition for Cap and Trade Auction Revenues

The California Alliance for Jobs, Transportation California, California Transit Association, and more recently local and regional government associations have been exploring ways to invest cap and trade revenue to address both the greenhouse gas reduction goals of AB 32 and critical transportation system maintenance and operation needs identified in the California Transportation Commission's Statewide Transportation Needs Assessment over the next ten years.

Our uniting principle is that auction revenues derived from vehicle fuels should be used to fund transportation system needs in a way that achieves AB 32 objectives and builds on the framework of SB 375 and other GHG reduction strategies. We believe that by integrating investments in new mobility, new infrastructure, and new jobs we can create healthy communities and better quality of life for all – while measurably reducing greenhouse gas emissions consistent with AB 32 and legal requirements for spending allocation revenues.

By targeting revenues and incentives toward local governments in support of regional planning goals we can leverage a cost effective investment portfolio across both transportation infrastructure and efficiency measures to yield the greatest GHG reductions associated with the transportation sector. Allocating funding to promote combining strategies will maximize GHG reduction while reinforcing SB 375, regional blueprints, other regional plans and local innovation.

Implementing SB 375 and other GHG-reducing regional plans outside of metropolitan planning organizations (MPOs) requires rebuilding aging infrastructure within urban infill and rural areas targeted for more intense development. This includes the maintenance and operation needs of local roads and transit systems, as well as active transportation infrastructure for walking and bicycling. By investing in an integrated transportation system, cost effective GHG reductions can also be achieved from approaches like rural resource infrastructure, intercity rail, and roadway management strategies. All of these transportation investments can yield even greater GHG reductions when combined with supporting land use strategies.

All of these investments are consistent with AB 32 and with meeting California's transportation infrastructure needs. These investments will create jobs, improve the movement of goods and enhance the economic performance of the state. Overall, we think this program should:

- Create cost-effective greenhouse gas reduction investments
- Leverage infrastructure investments across transportation and related land use strategies
- Foster collaboration and performance measurement
- Promote innovation in GHG reduction beyond AB 32 regulations
- Invest in existing communities by offsetting the high cost of infill development
- Support co-benefits/goals related to health, equity, energy, jobs, water, and agriculture

We want to work with CARB to craft an effective strategy to achieve maximum GHG reductions and long term co-benefits under AB 32 by investing a major portion of revenues related to fuels in integrated transportation and land use strategies consistent with the SB 375, the California Regional Blueprint plans and other regional planning processes. As a starting point, we want to suggest a few concepts for consideration in the development of your investment strategy:

1. ***Dedicate the allocation revenues related to fuels to transportation investments.***
This is consistent with the longstanding policy of the state to dedicate revenues related to motor vehicle fuels to transportation. It also assures a political and legal nexus between the costs and benefits of the program.
2. ***Invest a major portion of fuels related revenues to implement the AB 32 regulatory program by reducing GHG emissions from transportation.*** Dedicate revenues directly into transit and road operations and maintenance, as well as transit and complete streets infrastructure within existing urban infill and rural communities. These funds must be invested in a way that implements AB 32 using, where applicable, the SB 375 regional strategies. In regions not within an MPO where SB 375 does not apply, other measurable greenhouse gas reduction strategies can be developed within regional transportation plans.
3. ***Structure the investments to favor integrated transportation and land use strategies.*** Funds should be allocated regionally by population, recognizing that different strategies are needed to achieve GHG reductions in different areas of the state. To maximize cost effective GHG reduction, additional incentives for regions with Sustainable Community Strategies that exceed GHG reduction targets, or equivalent Blueprint Plans or other regional plans. Within each region, funding should be allocated primarily through a competitive grant program based on cost effectiveness of GHG emission reductions from combined land use and transportation infrastructure and operations investments.
4. ***Improve modeling and verification systems to evaluate GHG reduction potential.*** Funding should be allocated to the development of performance measurement tools for local and regional actions that will allow evaluation and prediction of the GHG reduction and cost effectiveness of investment and land use strategies.
5. ***Allow flexibility at the regional and local level to develop the most cost effective ways to meet GHG reduction goals through transportation and land use investments.***
6. ***Provide the incentives and assistance that local governments need to make SB 375 work.***
7. ***Project-funding determinations should be done at the regional level under established statewide criteria to encourage local innovation and flexibility.***

We hope you will give us the opportunity to work with you to refine these concepts and take advantage of this opportunity to make AB 32 a key component of California's transportation investment program.

Sincerely,

**California Alliance for Jobs
California Transit Association
Transportation California
California State Association of Counties
League of California Cities**

SACOG State Advocacy Principles

The principles outlined below help support SACOG's work in linking transportation, air quality, and land use. SACOG will work to advance the interests of the Sacramento region. In order to accomplish these principles, SACOG will advocate for sufficient funding in legislation and the state budget, and seek out grants to effectively plan for and deliver projects that meet these principles.

Financial Stewardship

A transportation system that delivers cost-effective results that are feasible to construct and maintain.

- Give regions and local governments additional revenue options and protections, including transferring legal control of state funds to local governments for transportation.
- Offer regions and local governments tools for community revitalization and infrastructure, and provide them with additional financing options.
- Provide local governments more flexibility and options, particularly for transit operations/capital and road maintenance/rehabilitation, in both rural and urban areas.
- Restructure the state budget to help stabilize transportation funding.
- Restructure state government to be more efficient, but do not silo the important integration of transportation, land use and air quality planning.

Economic Vitality

Efficiently connect people to jobs and get goods to market.

- Fund goods movement improvements in the Sacramento region.
- Fund rail freight improvements and regional air quality programs, and coordinate state passenger rail planning.
- Fund improvements on rural farm-to-market roads.
- Modify representation on state boards and commissions to provide equitable representation for those entities that directly impact SACOG or its members, and where appropriate, a dedicated Sacramento region representative, such as on the Air Resources Board.

Smart Land Use

Design a transportation system to support good growth patterns, including increased housing and transportation options, focusing more growth inward and improving the economic viability of rural areas.

- Protect assets and tools that help existing communities of all sizes and support smart growth, Senate Bill 375 implementation, and Assembly Bill 32 implementation.
- Amend housing element law and/or administrative procedures to give jurisdictions flexibility to provide affordable housing that is appropriate for their community, and remove disincentives and regulatory obstacles to providing affordable housing, including devolution of decision making from HCD to regions and local governments.
- Create performance-based funding for local governments and regions to implement Senate Bill 375.
- Help local governments and regions use CEQA benefits from Senate Bill 375.
- Fund Williamson Act subventions.

Environmental Quality & Sustainability

Minimize direct and indirect transportation impacts on the environment for cleaner air and natural resource protection.

- Strengthen the Williamson Act, and provide additional resources and tools for local governments to preserve farmland and open space through public or private programs.
- Reform regulations to streamline review and approval of transportation and smart land use projects with low environmental impacts and positive benefits to state regional, and local goals.
- Involve regional and local governments in flood management and water resources.
- Support local flood protection efforts with funding and administrative support.
- Fund innovations that link natural resource mitigation and habitat valuation on agricultural lands.

Access & Mobility

Improve opportunities for businesses and citizens to easily access goods, jobs, services and housing.

Support complete streets designed to accommodate cars, transit, bicyclists, and pedestrians including education, encouragement, and infrastructure for Safe Routes to School.

Comparison of AB 1532 and SB 1572

	AB 1532 (Perez)	SB 1572 (Pavley)
Location	Senate Second Reading	Assembly Appropriations
Nexus to Cap-and-Trade	Requires consistency with Sinclair test for all appropriations from the Account	Consistency test not specified
Administration	<ol style="list-style-type: none"> 1. ARB develops investment plans (which include PUC develops plans for investor-owned utilities) 2. ARB recommends state agencies to implement 3. Legislature appropriates funds 4. ARB submits annual reports to Legislature 	<ol style="list-style-type: none"> 1. Legislation prescribes investment plan 2. Agencies implement plans and report quarterly to ARB
Guidelines	<ol style="list-style-type: none"> 1. ARB to adopt guidelines establishing minimum criteria for receiving funding and additional criteria for preferences 2. Process to verify qualifications of recipients 3. Monitoring and oversight (expenditures and outcomes) 	
Investment plans	Three investment plans (2013-14, 15-17, 18-20)	One five-year investment plan, plus direction for use of 12-13 revenues (lesser of 50% of balance or \$250 million)
Goals	<ol style="list-style-type: none"> 1. Maximize economic, environmental and public health benefits 2. Foster job creation 3. Complement efforts to improve air quality 4. Direct investment toward the most disadvantaged communities and households 5. Provide opportunities for small businesses, schools, affordable housing developers, water agencies, local governments and other community institutions to participate 	<ol style="list-style-type: none"> 1. Achieve GHG reduction at a reasonable cost 2. Achieve budget savings for families, small businesses, schools, universities, regulated companies, communities institutions, and state/local/regional governments 3. Reduce risk of market manipulation and windfall profits 4. Protect existing jobs by minimizing leakage 5. Benefit the most adversely impacted and disadvantaged communities to the maximum extent feasible 6. Provide opportunities for public agencies, nonprofits and small businesses to participate in and benefit from statewide and regional efforts to reduce GHG
Sector Allocation	Not specified; to be determined by ARB & PUC, with Legislative appropriation	Specified (see below)
Uses: Clean and efficient energy	<ol style="list-style-type: none"> 1. Mfg & Industrial investment in energy efficiency/storage/clean and renewable energy project 2. public facilities and fleets to reduce energy and water use 3. residential and commercial distributed generation and energy efficiency programs 	<ol style="list-style-type: none"> 1. Rapid transition assistance for industrial facilities (greater of 12% or \$30 million for self-generation incentive program) 2. Residential energy efficiency (greater of 4% or \$10 million) 3. Energy in agriculture priority projects (greater of 1.6% or \$4 million)
Uses: Low-carbon transportation and infrastructure	<ol style="list-style-type: none"> 1. public transportation and sustainable transportation and infrastructure development 2. programs for clean vehicles and the advancement of transportation technologies 3. advanced transportation and fueling infrastructure 	<ol style="list-style-type: none"> 1. Sustainable land use and transportation (greater of 20% or \$30 million), of which 40% is available to HCD for affordable TOD housing loans <ol style="list-style-type: none"> a. Project funding determinations made at regional level in accordance with statewide criteria to be developed by SGC b. Cost-effectively reduce GHG emissions and

	AB 1532 (Perez)	SB 1572 (Pavley)
	<ul style="list-style-type: none"> 4. local and regional sustainable development efforts that are, to the extent applicable, consistent with SCS/APS 5. low-carbon goods movement and freight vehicle technologies and infrastructure, (e.g., locomotives and heavy duty trucks) 	<ul style="list-style-type: none"> provide other co-benefits c. Integrate transportation, land use and water and other resource conservation strategies d. Occurs in regions with SCS that meet GHG reduction targets e. funds integrated infrastructure development, design, construction or planning, including modeling and verification systems that impose HG emission reduction performance measurement tools for local and regional actions f. funds operations and maintenance of transportation infrastructure, provided they are part of a comprehensive regional or local plan that directly results in overall GHG emissions reduction and cobenefits 2. goods movement (4.8 percent or \$12 million) 3. lower-emission school bus program (2 percent or \$5 million) 4. clean vehicle rebate project (12% or \$30 million) to households with a combined gross annual income of less than \$80k/yr
Uses: Natural resource protection	<ul style="list-style-type: none"> 1. natural resource management programs and projects 2. land conservation and restoration 3. development and implementation of sustainable ag, forestry and related water, land and resource management practices 	None specified
Uses: R&D	Research, development and deployment of innovative technologies, measures and practices related to programs and projects funded under cap & trade	None specified
Uses: School and University	None specified	<ul style="list-style-type: none"> 1. K-12 energy projects (35.6% or \$89 million) 2. Public university projects (8% or \$20 million) <ul style="list-style-type: none"> a. Procurement of biogas to displace natural gas consumption b. Procurement of carbon-neutral electricity c. Administrative costs (1%) d. 25% match from university e. 5 year investment plan by university f. annual report to Legislature
Support (group types)	Labor, public health, clean energy, infill builders, counties, transit agencies, open space	Public health, clean energy, public schools, universities
Opposition (group types)	business, manufacturing and technology, taxpayers associations, builders	business, manufacturing and technology, taxpayers associations, builders