September 1, 2023

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative related to climate change (A.G. File No. 23-0012).

Background

California Has Adopted Numerous Emissions Reductions Goals. Over the past couple of decades, the state has established multiple goals related to reducing greenhouse gas (GHG) emissions and accelerating the use of zero-emission vehicles (ZEVs). For example, in 2006, the state set the goal of limiting GHG emissions statewide to 1990 levels by 2020. (The state met this goal in 2016.) The state updated the limit in 2016 to 40 percent below 1990 levels by 2030, and further reduced it in 2022 to an objective of at least 85 percent below 1990 emissions levels by 2045. Emissions will need to decline much faster than historical trends in order to meet these goals. To promote emissions reductions and speed the transition to ZEVs, the California Air Resources Board (CARB) has adopted regulations requiring that by 2035, all new passenger cars, trucks, and sport-utility vehicles sold in California must be ZEVs. All new medium- and heavy-duty vehicles sold must be ZEVs by 2036. Existing law requires CARB to develop a Scoping Plan—intended to identify the state's strategy for achieving its GHG emissions targets—and update it every five years.

Cap-and-Trade Program Is a Key State Policy for Achieving GHG Reductions. Existing law and regulations establish the state's cap-and-trade program. This is a market-based mechanism designed to reduce GHG emissions at the lowest cost. Entities covered under the program—including oil refineries, electricity generators and importers, and manufacturing facilities—can comply with the requirements of this program in three ways: (1) reduce the amount of emissions they produce, (2) obtain allowances to cover their emissions (each allowance is essentially a permit to emit one ton of carbon dioxide equivalent), and/or (3) obtain "offsets" by paying to support a project elsewhere that reduces a like amount of GHG emissions. The program generates state revenues via the sale of allowances at quarterly

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auctions, which have raised between $3 billion and $4.3 billion annually in recent years. Cap-and-trade auction revenues are used to support various activities intended to further reduce GHG emissions.

Existing Law Limits Ability of the State and Local Air Districts to Directly Regulate Oil and Gas GHG Emissions. Legislation enacted in 2017 requires CARB to use a market-based policy (cap-and-trade) rather than direct regulations to promote GHG emissions reductions in the oil and gas sector. The legislation also limited the authority of local air districts, which are responsible for regional air quality monitoring, planning, and the regulation of stationary sources of air pollution. Specifically, local air districts are prohibited from directly regulating GHG emissions from any sector.

Proposal

Increases 2045 GHG Emissions Reduction Target to 95 Percent of 1990 Levels. The measure requires the state to reduce GHG emissions to 95 percent of 1990 levels (instead of 85 percent of 1990 levels under current law) by 2045.

Allows CARB to Directly Regulate Petroleum Refineries and Oil and Gas Production Facilities. The measure allows CARB to directly regulate GHG emissions from refineries and oil and gas production facilities and removes the requirement that market-based policies be the board's only allowable approach.

Allows Local Air Districts to Directly Regulate GHG Emissions. The measure allows local air districts to regulate GHG emissions from stationary sources (including refineries, oil and gas operations, and manufacturing).

Fiscal Effects

Increased State Costs. The measure's new GHG reduction goals would increase state costs due to the following:

- Programs to promote statewide emissions reductions in order to achieve the more robust target. This could include the expansion of existing programs to (1) encourage California residents to adopt ZEVs and replace their appliances, (2) build more ZEV charging infrastructure, (3) support more expedited adoption of clean energy sources, and (4) encourage businesses to modify their operations to emit fewer GHGs. We estimate that these increased state program costs would likely total billions of dollars annually.
- Compliance with any new regulations that are adopted in response to this measure, such as accelerating replacement of state vehicles to be ZEVs and transitioning state buildings to be more energy efficient. Current law would require the state to make these changes eventually, but meeting the higher GHG reduction target likely would require this shift to happen more quickly and thereby both accelerate and increase associated costs. These costs could total tens of millions of dollars annually.
- State administration of the measure's requirements, including for CARB and other departments to develop and oversee new regulations. These various administrative costs would likely range in the low millions of dollars in the near term.

Increased Local Government Costs. Local governments also would face higher costs as the result of this measure, primarily related to complying with new regulations to meet the higher GHG reduction goal. This could include costs to upgrade energy efficiency in buildings and to replace existing vehicle fleets with ZEVs sooner than they would have under existing regulations. The magnitude of these costs is uncertain and likely would vary by local jurisdiction depending on the size and makeup of their current fleets and infrastructure.

Potential Reductions to State and Local Revenues. The measure could reduce revenues for the state and local governments in a few ways. First, to the extent CARB or local air districts use their new authorities to directly regulate emissions from refineries and oil and gas production facilities, this could result in a reduction in the price of cap-and-trade allowances. This is because such facilities would then have to reduce their GHG emissions without relying on allowances, potentially creating less market demand for purchasing allowances and consequently driving down their costs at auction. This in turn would reduce the amount of annual state cap-and-trade auction revenues. Second, depending on the actions and regulations CARB adopts to meet the new emissions reduction goals, the measure could result in lower consumption of gasoline and diesel fuel, which would negatively impact fuel excise tax revenues and fuel sales tax revenues to the state and local governments. Third, should notable contractions occur in the oil and gas sector as a result of new regulations, this could have broader economic impacts and negatively affect other state and local revenue sources such as income taxes or property taxes. For local governments, these impacts could be concentrated in regions where the local economy is more dependent on oil and gas activities. The potential for and magnitude of each of the above revenue impacts are unknown.

Other Potential Fiscal Effects. The measure could have other potential fiscal effects. For example, to the degree the measure results in a reduction of oil and gas operations, it could lessen pollution and the associated harmful health impacts for nearby residents. Over time, this could result in some lower costs for state health programs that support lower income residents, such as Medi-Cal. The magnitude of such potential impacts are unknown.

Summary of Fiscal Effects. We estimate that this measure would have the following major fiscal effects:

- Increased state costs, totaling billions of dollars annually, to meet new greenhouse gas emissions reduction targets. Increased local government costs of an unknown magnitude to comply with new regulations adopted as a result of this measure.
- Potential reduction in various annual state and local government revenues of an uncertain amount depending on how the measure’s implementation impacts the oil and gas sector.

Sincerely,

for Gabriel Petek
Legislative Analyst

for Joe Stephenshaw
Director of Finance