LAO
70 YEARS OF SERVICE

Resources Agenda Page 1, Issue 177
Cap-and-Trade Expenditure Plan for 2014-15

Comparison of 2014-15 Expenditure Plans

(Dollars in Millions)

	Governor	Senate	Assembly
Sustainable communities	$100	$100	Sustainable Communities Grants[a]: $400
Low-income weatherization	80	80	
Transit	—	150	
Other local programs	—	—	
High-speed rail	250	300[b]	State GHG Reduction Program[c]: $400
Inter-city rail grants	50	—	
Fire prevention and urban forestry	50	40	
Wetlands restoration	30	30	
Waste diversion	30	—	
Agricultural waste-energy projects	20	30	
Energy efficiency in state buildings	20	—	
Other state programs	—	—	
Low emission vehicle programs	200	100	200
Water efficiency[d]	40	40	40
Totals	**$870**	**$870**	**$1,040**

[a] For competitive grants to local programs. Could include affordable housing, forestry, transit-related activities, environmental mitigation, and low-income weatherization programs.
[b] Includes inter-city rail grants.
[c] For competitive grants to state departments. Could include, but not limited to, similar programs included in Governor's plan.
[d] Included in Chapter 2, Statutes of 2014 (SB 103, Committee on Budget and Fiscal Review) for 2013-14.
GHG = greenhouse gas.

Resources Agenda Page 1, Issue 177
Cap-and-Trade Expenditure Plan for 2014-15 *(Continued)*

- ☑ ***Governor's Plan ($870 million).*** The Governor's plan provides $870 million for 2014-15 (including $40 million approved as part of the 2014 drought legislation) for 11 different departments and boards to administer programs designed to reduce greenhouse gas (GHG) emissions, such as energy efficiency projects, low-emission vehicle rebates, and the state's high-speed rail system.

- ☑ ***Senate Plan Designates Programs to Receive Funding ($870 million).*** The Senate's plan provides $870 million on a one-time basis for nine programs. Each program would be administered by a different state department. Some projects would be run by state departments, while in other cases, the administering state department would review and approve project applications, generally from local governments or private entities.

- ☑ ***Assembly Plan Makes Programs Compete for Funding ($1,040 million).*** The Assembly's plan provides over $1 billion on a one-time basis. Most of this funding—$800 million—would be split evenly between two competitive grant programs to be administered by the Strategic Growth Council (SGC). The first program would be primarily for local agencies to implement projects designed to reduce GHG emissions, such as housing and transit-related projects. Under the second program, state agencies could apply for funding for projects designed to reduce GHG emissions. This could include the types of programs included in the Governor's plan, though none of these programs would be guaranteed a particular funding level. The Assembly's plan would also provide $200 million for low-emission vehicle programs and $40 million for water efficiency programs.

Resources Agenda Page 1, Issue 177
Cap-and-Trade Expenditure Plan for 2014-15 *(Continued)*

☑ **LAO Compromise**

- ***Senate Dollars to Address Revenue Uncertainty.*** Amount of revenue from cap-and-trade auctions remains uncertain, and allowance prices remain near floor. Therefore, the Senate's proposed funding level—$870 million—would be the more prudent funding level in light of the uncertainty. The Legislature may also want to consider what should be prioritized if revenues fall short of projections, such as reduced funding for certain programs or early repayment of General Fund loan.

- ***Assembly Approach to Encourage Competition Could Result in Better Outcomes.*** The administration has developed preliminary estimates of the potential GHG emission reductions that would be achieved by implementation of the programs contained in the Governor's plan. However, these estimates are subject to a high degree of uncertainty and, in some cases, methodological flaws, making them unreliable for making policy decisions. Creating "pots" of funds available to projects on a competitive basis could improve the likelihood that better projects are funded. Projects could be grouped in different ways with different total funding levels depending on legislative priorities. We suggest a modified grouping of programs based on similarity in type of projects:

  - ***Transportation and Sustainable Communities ($450 million).*** For projects designed to reduce vehicle miles traveled in cars and planes and encourage use of alternative forms of transportation. Includes high-speed rail, inter-city transit, transit, active transportation, affordable housing, and agricultural preservation projects. Administered by the California Transportation Commission, in consultation with SGC.

  - ***Energy Efficiency and Alternative Energy ($150 million).*** For projects designed to reduce energy usage or produce alternative sources of energy with lower GHG emission levels. Includes low-income weatherization, waste diversion, energy efficiency in state buildings, and agricultural waste projects. Administered by the California Energy Commission.

- ***Natural Resources ($80 million).*** For projects designed to reduce or sequester carbon emissions through management or restoration of natural resources. Includes fire prevention, urban forestry, and wetlands restoration. Administered by Wildlife Conservation Board.
- ***Low-Emission Vehicles ($150 million) and Water Efficiency ($40 million).*** Under the LAO compromise, low-emission vehicles and water efficiency projects would receive designated funding levels since this is how both houses' plans treat these programs.

■ ***Budget Bill Language to Specify Legislative Objectives.*** Recommend BBL directing administering agencies on how to prioritize funding allocated through competitive process. Given source of funds, purpose of AB 32, and potential benefits to businesses and ratepayers, we recommend that GHG reductions be the predominant priority (see next page).

Provision XXX-XXX-3228. In determining how to allocate these funds among recipients in accordance with a competitive process, the [California Transportation Commission/Energy Commission/Wildlife Conservation Board] shall establish consistent selection criteria. These criteria shall be designed to ensure that the projected reduction of Greenhouse Gas (GHG) emissions of proposed projects is the predominant factor in the scoring of proposals by making greater than half of the total points possible to be awarded commensurate with the amount of projected GHG reduction of projects. Other factors and co-benefits may also be included in the selection criteria. In order to ensure a fair comparison of projected GHG reductions associated with proposed projects, the [California Transportation Commission/Energy Commission/Wildlife Conservation Board] shall ensure that proposals incorporate reasonable assumptions regarding how much the proposed investment of Greenhouse Gas Reduction Fund revenues will reduce GHG reductions. In carrying this out, the [California Transportation Commission/Energy Commission/Wildlife Conservation Board] shall work with the Air Resources Board to ensure that GHG reduction estimates (1) are consistent with the best available science; (2) make reasonable assumptions about the lifespan of projects; (3) make reasonable "baseline" assumptions about what would have occurred in the absence of the proposed funding; and (4) are directly associated with the proposed investment and not to the investment of other funds, unless it can be reasonably shown that those other funds would otherwise have not been spent on the same or similar projects in California. In making allocations, the [California Transportation Commission/Energy Commission/Wildlife Conservation Board] shall ensure that, in total, the expenditures made in this item comply with the requirements of Section 39713 of the Health and Safety Code. The [California Transportation Commission/Energy Commission/Wildlife Conservation Board] shall report to the Joint Legislative Budget Committee on how its criteria meets the requirements of this provision at least 30 days before the awarding of any of these funds.