

March 15, 2007

Governor's Budget Proposal to Implement The Global Warming Solutions Act of 2006 ("AB 32")

LEGISLATIVE ANALYST'S OFFICE

Presented to:

The Environmental Justice Advisory Committee on
Implementation of the California Global Warming
Solutions Act of 2006





Governor's Budget Proposal for AB 32 Implementation

Summary of LAO Findings

- Governor's budget proposes \$35.8 million (mostly special funds) and 151 positions at various departments to implement the act in 2007-08.
- Secretary for Environmental Protection's request goes beyond coordination to include technical staffing and contracted services of a programmatic nature.
- California Public Utilities Commission (CPUC) funding proposal, which would move to implement a cap-and-trade market-based system for the electric utility sector, is premature and contrary to legislative direction.
- The Air Resources Board (ARB) requests 24 positions to develop, evaluate, and *implement* market-based measures, contrary to legislative direction.
- Funding proposal is not sustainable, in that it largely relies on a funding source—the Air Pollution Control Fund—that will be unavailable in future years (unless corrective action, such as increasing fees, is taken).



Governor's Budget Proposal for AB 32 Implementation

(Continued)

Summary of LAO Recommendations

- Deny the Secretary's request for \$1.4 million from the Air Pollution Control Fund that would fund technical positions and contracts for programmatic activities.

- Deny \$1.3 million to conduct climate change-related proceedings and research at CPUC as it moves ahead of the statutorily directed efforts at ARB. Further recommend adoption of budget bill language prohibiting funding for implementation of market mechanisms until ARB has evaluated them and submitted a report for legislative review.

- Approve ARB's 24 positions related to market-based mechanisms, but limit the term of the positions to three years. Further recommend adoption of budget bill language prohibiting funding for implementation of market mechanisms until the board has evaluated them and submitted a report for legislative review.

- Require administration to report at budget hearings on its long-term funding plans for state's greenhouse gas (GHG) emissions reduction activities. Also recommend adoption of supplemental report language requiring long-term funding plan to be submitted in conjunction with the *2008-09 Governor's Budget*.



Governor's Budget Proposal for AB 32 Implementation

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2007-08 Proposed Budget for AB 32, by Agency			
<i>(Dollars in Thousands)</i>			
Agency	Expenditures	Positions	Fund Source
Air Resources Board	\$24,358	123	Air Pollution Control Fund (includes \$15.2 million loan from Motor Vehicle Account)
Department of General Services	3,398	5	Service Revolving Fund
Department of Water Resources	2,000	5	Proposition 84 Bond
Forestry and Fire Protection	1,500	—	Proposition 84 Bond
Secretary for Environmental Protection	1,390	5	Air Pollution Control Fund
California Public Utilities Commission	1,272	3	Public Utilities Reimbursement Account
California Energy Commission	1,110	6	Energy Resources Program Account
Integrated Waste Management Board	618	1	Integrated Waste Management Account
Department of Food and Agriculture	(331)	2	Reimbursement from Secretary for Environmental Protection
Department of Toxic Substances Control	115	1	Hazardous Waste Control Account
Totals	\$35,761	151	



Governor's Budget Proposal for AB 32 Implementation

(Continued)

2007-08 Proposed Activity for AB 32 Implementation		
<i>(Dollars in Thousands)</i>		
Activity and Agencies Involved	Expenditures	Positions
Emissions Reduction Measures and Regulations (including alternative and market-based compliance mechanisms)	\$19,170	78
Air Resources Board	\$13,272	64
Department of General Services	3,398	5
Department of Forestry and Fire Protection	1,500	—
California Energy Commission	610	6
Public Utilities Commission	272	3
Integrated Waste Management Board	118	—
Scientific and Economic Analysis	\$7,726	14
Air Resources Board	\$2,780	5
Department of Water Resources	2,000	5
Public Utilities Commission	1,000	—
California Energy Commission	500	—
Integrated Waste Management Board	500	1
Secretary for Environmental Protection	500	—
Department of Food and Agriculture	(331) ^a	2
Department of Toxic Substances Control	115	1
Program Oversight and Coordination	\$3,940	28
Air Resources Board	\$3,050	23
Secretary for Environmental Protection	890	5
Emissions Inventory and Reporting	\$3,444	19
Air Resources Board	\$3,444	19
Emissions Reduction Scoping Plan	\$1,812	12
Air Resources Board	\$1,812	12
Totals	\$35,761	151

^a Reimbursement from Secretary for Environmental Protection.



AB 32's Timeline of Required Actions

Global Warming Solutions Act of 2006 (AB 32) Timeline of Required Actions		
Date	Action	Responsible State Entity
By 6/30/07	<ul style="list-style-type: none"> Publicize greenhouse gas (GHG) "early action measures" that can be implemented prior to the other Air Resources Board (ARB) emissions reduction measures and regulations that will become operative beginning on January 1, 2012. 	ARB
By 7/01/07	<ul style="list-style-type: none"> Convene environmental justice committee, comprised of representatives of communities most significantly exposed to air pollutants, including communities with minority and/or low-income populations. 	ARB
No date specified	<ul style="list-style-type: none"> Appoint an Economic and Technology Advancement Advisory Committee to advise on investment in and implementation of technological research and development. 	ARB
By 1/01/08	<ul style="list-style-type: none"> Determine statewide GHG emissions level in 1990. 	ARB
	<ul style="list-style-type: none"> Approve 1990-equivalent statewide GHG emissions limit, to be achieved in 2020. 	
	<ul style="list-style-type: none"> Adopt regulations to require reporting and verification of statewide GHG emissions and to monitor and enforce compliance. 	
By 1/01/09	<ul style="list-style-type: none"> Prepare and approve "scoping plan" to achieve maximum technologically feasible and cost-effective GHG emissions reductions by 2020. Plan will make recommendations on direct emission reduction measures, alternative compliance mechanisms, market-based mechanisms, and incentives. 	ARB, in consultation with CPUC ^a , CEC ^b , and other relevant state agencies
By 1/01/10	<ul style="list-style-type: none"> Adopt regulations, enforceable by January 1, 2010, to implement "early action measures". 	ARB
By 1/01/11	<ul style="list-style-type: none"> Adopt regulations on GHG emission limits and reduction measures, to become effective on January 1, 2012. 	ARB
	<p>^a California Public Utilities Commission.</p> <p>^b State Energy Resources Conservation and Development Commission.</p>	



AB 32 Criteria for Development of Regulations Likely of Interest to Environmental Justice Committee

Relevant to All GHG Emissions Reduction Regulations:

- Consider potential adverse effects on small businesses. (Section 38561[e])
- Provide for public input, including input from communities that have the most significant exposure to air pollutants, including, but not limited to, communities with minority populations, low-income populations, or both. (Section 38561[g])
- Not disproportionately affect low-income communities. (Section 38562[b][2])
- Complement efforts to meet federal and state air quality standards. (Section 38562[b][4])
- Consider indirect benefits of GHG reduction regulations (such as air pollution reductions; energy source diversification; and other economic, environmental, and public health benefits). (Section 38562[b][6])
- Minimize displacement of California GHG emissions to out-of-state sources (a phenomenon known as “leakage”). (Section 38562[b][8])
- Direct investment to the most disadvantaged communities. (Section 38565)
- Provide an opportunity for small businesses, schools, affordable housing associations, and other community institutions to participate in and benefit from statewide efforts to reduce GHGs. (Section 38565)



AB 32 Criteria for Development of Regulations Likely of Interest to Environmental Justice Committee *(Continued)*

Relevant to Market-Based Mechanisms in Particular:

- Consider the potential for direct, indirect, and cumulative emission impacts from these mechanisms, including localized impacts in communities that are already adversely impacted by air pollution. (Section 38570[b][1])

- Design any market-based compliance mechanism to prevent any increase in the emissions of toxic air contaminants or “criteria” air pollutants—those typically regulated by ARB. (Section 38570[b][2])

- Maximize additional environmental and economic benefits for California. (Section 38570[b][3])