

**Proposition 23:  
Suspension of “Assembly Bill 32”  
Until California’s Unemployment Rate  
Is 5.5 Percent or Less for a Year**

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LEGISLATIVE ANALYST’S OFFICE

Presented to:

Senate Environmental Quality Committee

Hon. Joe Simitian, Chair

Assembly Natural Resources Committee

Hon. Wesley Chesbro, Chair





## Summary and Background

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### Summary

- Proposition 23 would suspend the implementation of the California Global Warming Solutions Act of 2006, commonly referred to as AB 32, until the unemployment rate in California is 5.5 percent or less for four consecutive quarters. During the suspension period, state agencies would be prohibited from proposing or adopting new regulations, or enforcing previously adopted regulations, that would implement AB 32. (Once AB 32 went back into effect, this measure could not suspend it again.)

### Background

- ***Assembly Bill 32 Enacted to Limit Greenhouse Gas Emissions.*** Chapter 488, Statutes of 2006 (AB 32, Núñez), established the target of reducing the state's emissions of greenhouse gases (GHGs) by 2020 to the level that emissions were at in 1990. It is estimated that achieving this target would result in about a 30 percent reduction in GHGs in 2020 from where their level would otherwise be in the absence of AB 32.
- ***Other Laws Would Reduce GHG Emissions.*** The Legislature has enacted various other state laws—both before and after the enactment of AB 32—that would also serve to reduce GHG emissions. In some cases, the main purpose of these other laws is specifically to reduce GHG emissions, while in other cases the principal purpose may be something else (for example, energy efficiency).



## Summary and Background

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- ***Air Resources Board Has Developed Plan to Achieve AB 32's GHG Emission Reduction Target.*** As required by AB 32, the Air Resources Board (ARB) in December 2008 adopted its plan on how AB 32's GHG emission reduction target for 2020 would be met. The plan—referred to as the AB 32 Scoping Plan—encompasses a mix of about 70 traditional regulatory measures (such as energy efficiency standards for buildings) and a major market-based measure referred to as “cap and trade.” Some of these are measures authorized by AB 32, while others are authorized by separately enacted laws. As allowed under AB 32, the ARB has adopted a fee regulation to recover the state's costs of administering the GHG emission reduction programs.



## What Is the Likely Period of AB 32's Suspension Under Proposition 23?

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### **AB 32 Would Be Suspended Immediately...**

- The unemployment rate in California for the first two quarters of 2010 was above 12 percent. Under the terms of the measure, AB 32 would be suspended immediately.

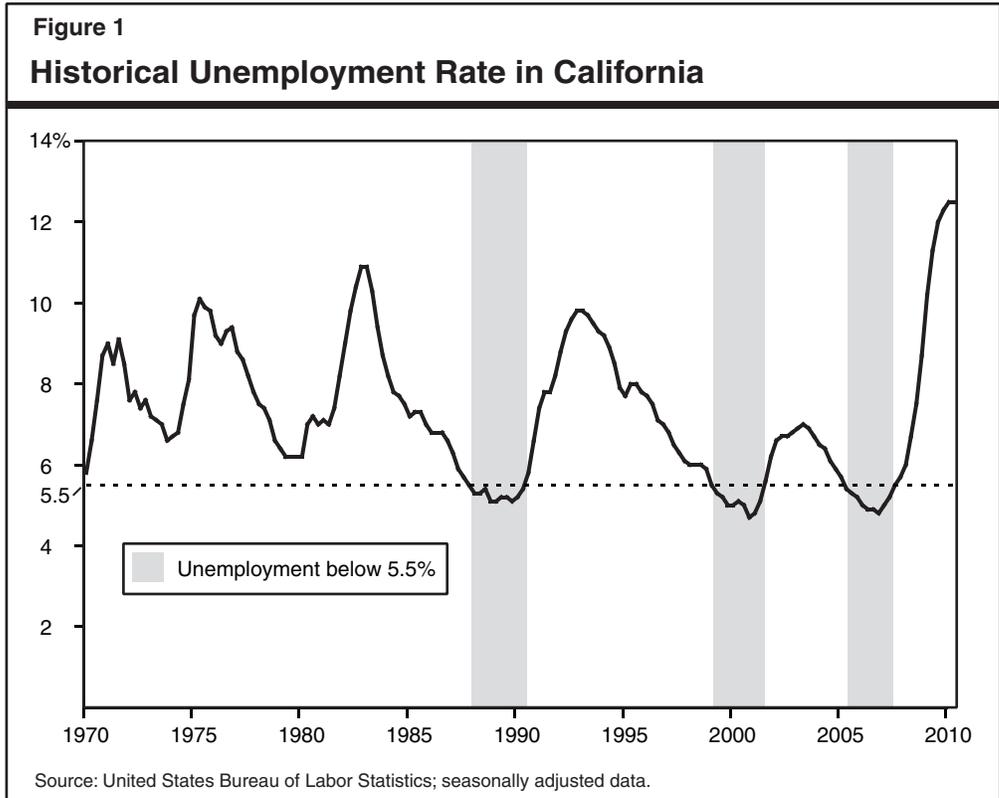
### **...And Likely Remain Suspended for Many Years**

- While we cannot estimate when the suspension of AB 32 might end, it appears likely that AB 32 would remain suspended for many years. This view is based on a number of factors, including:
  - A historical perspective on the state's unemployment rate (see figure next page) which shows that, since 1970, the state has had three periods (each about ten-quarters long) when the unemployment rate was at or below 5.5 percent for four consecutive quarters.
  - Economic forecasts for the next five years that have the state's unemployment rate remaining above 8 percent.



# What Is the Likely Period of AB 32's Suspension Under Proposition 23?

*(Continued)*





## Impacts of Proposition 23 on Climate Change Regulation

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As previously discussed, under Proposition 23, AB 32 would be suspended immediately and likely remain suspended for many years. As a consequence:



### **Various Climate Change Regulatory Activities Would Be Suspended...**

- Proposition 23 would result in the suspension of a number of measures in the Scoping Plan—namely those that rely on AB 32 for their regulatory authority. Suspended regulations are likely to include the proposed cap-and-trade regulation, the “low carbon fuel standard” regulation, the ARB’s renewable energy standard regulation, and the AB 32 administrative fee regulation.



### **... But Much Regulation in the Scoping Plan Would Likely Continue**

- Many current activities related to addressing climate change and reducing GHG emissions would probably not be suspended by this proposition, as they implement laws other than AB 32. Those that would likely move forward, for example, include new vehicle emission standards for cars and smaller trucks, a program to encourage homeowners to install solar panels on their roofs, land-use policies to promote less reliance on vehicle use, and building and appliance energy efficiency requirements.



## Fiscal Impact of Proposition 23

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### **Potential Positive and Negative Impacts on California Economy From Suspending AB 32**

- ***Potential Positive Economic Impacts, Positively Affecting State and Local Revenues.*** Suspending AB 32 could:
  - Lower costs to businesses by reducing regulatory compliance costs.
  - Avoid energy price increases that otherwise would largely be passed on to energy consumers.
- ***Potential Negative Economic Impacts, Negatively Affecting State and Local Revenues.*** Suspending AB 32 could:
  - Discourage or delay investment and job creation in the energy efficiency and clean energy sectors, resulting in less economic activity in certain sectors than would otherwise be the case.
  - Halt air quality improvements that would have public health-related economic benefits.
- ***On Balance, Modestly Higher Economic Activity.*** Considering both the positive and negative economic impacts, we conclude that, on balance, economic activity in the state would likely be modestly higher if this proposition were enacted than otherwise. To the extent that such an increase in economic activity occurred, this would translate into an unknown but potentially significant increase in revenues to state and local governments.



## Fiscal Impact of Proposition 23 *(Continued)*

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### Other Fiscal Impacts

- ***Suspension of Proposed Cap-and-Trade Regulation Could Have Other Fiscal Effects Depending on the Regulation's Final Design and Implementation.*** If the cap-and-trade regulation were to provide for the auctioning of emission allowances by the state to emitters of GHGs (one proposed approach), its suspension could preclude the collection by the state of potentially billions of dollars in payments from businesses. (Under such circumstances, both business costs and government revenues would be directly affected.)
- ***Likely Reduced Energy Costs for State and Local Governments.*** Because state and local government agencies are large consumers of energy, the suspension of certain AB 32 regulations that would likely result in lower energy prices would translate into somewhat reduced state and local government energy costs.
- ***Impacts on State Administrative Costs and Fees.*** During a suspension of AB 32, state administrative costs to develop and enforce regulations pursuant to AB 32 would be reduced, potentially in the low tens of millions of dollars annually. The suspension of the AB 32 administrative fee (a savings to fee payers) could put pressure on other fund sources to repay loans made to pay for the program in its initial years.