

## CAP AND TRADE EXPENDITURE PLAN

The California Global Warming Solutions Act of 2006 (AB 32) established California as a global leader in reducing greenhouse gas emissions (GHGs). To meet the goals of AB 32, the state has adopted a three-pronged approach to reducing emissions, including adopting standards and regulations, providing emission reduction incentives via grant programs, and establishing a market-based compliance mechanism known as Cap and Trade. The Cap and Trade program sets a statewide limit on the GHG sources responsible for 85 percent of California GHG emissions. Through an auction mechanism, it establishes a financial incentive for industries subject to the statewide cap to make long-term investments in cleaner fuels, more efficient energy use, and transformational technological and scientific innovations. The Cap and Trade program provides GHG emitters the flexibility to implement the most efficient options to reduce GHG emissions. Based on the first update to the Climate Change Scoping Plan, the Cap and Trade program will be responsible for approximately 30 percent of the required GHG emission reductions to meet the AB 32 goal of reducing GHG emissions to 1990 levels by 2020.

Chapter 830, Statutes of 2012 (SB 535), requires that the state invest at least 10 percent of the auction proceeds within the most disadvantaged communities and at least 25 percent of the proceeds be invested to benefit these communities. The California Environmental Protection Agency, directed by SB 535, will determine the list of disadvantaged communities using CalEnviroScreen, a tool developed by the Office of Environmental Health Hazard Assessment, in collaboration with stakeholders and an advisory group.

## CAP AND TRADE EXPENDITURE PLAN

The Budget provides \$832 million of Cap and Trade proceeds to support existing and pilot programs that will reduce GHG emissions and meet SB 535 goals (see Figure CAP-01). This expenditure plan will reduce emissions by modernizing the state’s rail system including high-speed rail and public transit, encouraging local communities to develop in a sustainable manner with an emphasis on public transportation and affordable housing, increasing energy, water, and agricultural efficiency, restoring forests in both urban and rural settings, and creating incentives for additional recycling. The Budget permanently allocates 60 percent of future auction proceeds to public transit, affordable housing, sustainable communities, and high-speed rail. The remaining proceeds will be allocated in future budgets.

Figure CAP-01  
**Cap and Trade Expenditure Plan**  
 (Dollars in Millions)

| <i>Investment Category</i>                       | <i>Department</i>                                | <i>Program</i>   | <i>2014-15</i> | <i>Ongoing</i>        |
|--|--|--|----------------|-----------------------|
| Sustainable Communities and Clean Transportation | High-Speed Rail Authority                        | High-Speed Rail Project                                | \$250          | 25 percent            |
|  | State Transit Assistance                         | Low Carbon Transit Operations Program                  | \$25           |                       |
|  | Caltrans   | Transit and Intercity Rail Capital Program             | \$25           | 35 percent            |
|  | Strategic Growth Council                         | Affordable Housing and Sustainable Communities Program | \$130          |                       |
|  | Air Resources Board                              | Low Carbon Transportation                              | \$200          | Annual Appropriations |
| Energy Efficiency and Clean Energy*              | Department of Community Services and Development | Energy Efficiency Upgrades/Weatherization              | \$75           |                       |
|  | Energy Commission                                | Energy Efficiency for Public Buildings                 | \$20           | Annual Appropriations |
|  | Department of Food and Agriculture               | Agricultural Energy and Operational Efficiency         | \$15           |                       |
| Natural Resources and Waste Diversion            | Department of Fish and Wildlife                  | Wetlands and Watershed Restoration                     | \$25           |                       |
|  | Department of Forestry and Fire Protection       | Fire Prevention and Urban Forestry Projects            | \$42           | Annual Appropriations |
|  | Cal Recycle                                      | Waste Diversion  | \$25           |                       |
| <b>Total</b>                                     |  |  | <b>\$832</b>   |                       |

\* Emergency drought legislation enacted in February 2014 included \$40 million of Cap and Trade funds for water use efficiency projects.

Specifically, the Cap and Trade Expenditure Plan invests in the following programs:

### **SUSTAINABLE COMMUNITIES AND CLEAN TRANSPORTATION**

- High-Speed Rail—\$250 million for the High-Speed Rail Authority for construction of the initial construction segment in the Central Valley and further environmental and design work on the statewide system. The Budget also provides an ongoing commitment of 25 percent of future Cap and Trade proceeds to the high-speed rail project and specifies that \$400 million remaining from a prior General Fund loan also be available for the project. This long-term funding commitment allows for the advancement of the project on multiple segments concurrently, which yields cost savings and creates an opportunity for earlier potential private sector investment. These investments in the high-speed rail system will alleviate pressure on California's current transportation network and will provide both environmental and economic benefits.
- Low Carbon Transit Operations Program—\$25 million for local transit agencies to support new or expanded bus and rail services, with an emphasis on disadvantaged communities. Expenditures are required to result in an increase in transit ridership and a decrease in GHG emissions. The Budget also provides an ongoing commitment of 5 percent of future auction proceeds for this purpose.
- Transit and Intercity Rail Capital Program—\$25 million for Caltrans to administer a competitive grant program for rail and bus transit operators for capital improvements to integrate state and local rail and other transit systems, including those located in disadvantaged communities, and those that provide connectivity to the high-speed rail system. The Transportation Agency will prepare a list of projects recommended for funding, to be submitted to the California Transportation Commission for programming and allocation. The Budget also provides an ongoing commitment of 10 percent of future auction proceeds for this purpose.
- Affordable Housing and Sustainable Communities Program—\$130 million to support the implementation of sustainable communities strategies required by Chapter 728, Statutes of 2008 (SB 375), and to provide similar support to other areas with GHG reduction policies, but not subject to SB 375 requirements. The Strategic Growth Council will coordinate this program. Projects that benefit disadvantaged communities will be given priority. Also, projects will reduce GHG emissions by increasing transit ridership, active transportation (walking/biking), affordable housing near transit stations, preservation of agricultural land, and local planning that promotes infill development and reduces the number of vehicle miles traveled.

The Budget also provides an ongoing commitment of 20 percent of future auction proceeds for this program and requires that at least half of the expenditures be allocated for affordable housing projects.

- Low Carbon Transportation—\$200 million for the Air Resources Board to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities. This investment will also support the Administration’s goal to deploy 1.5 million zero-emission vehicles in California by 2025. The Board administers existing programs that provide rebates for zero-emission cars and vouchers for hybrid and zero-emission trucks and buses. These expenditures will respond to increasing demand for these incentives, as well as provide incentives for the pre-commercial demonstration of advanced freight technology to move cargo in California, which will benefit communities near freight hubs.

### **ENERGY EFFICIENCY AND CLEAN ENERGY**

- Weatherization Upgrades/Renewable Energy—\$75 million for the Department of Community Services and Development to assist in the installation of energy efficiency and renewable energy projects in low-income housing units within disadvantaged communities. Weatherization measures typically include weather-stripping, insulation, caulking, water heater blankets, fixing or replacing windows, refrigerator replacement, electric water heater repair/replacement, and heating and cooling system repair/replacement. Renewable energy measures include installation of solar water heater systems and photovoltaic systems. This program will serve a mix of single and multifamily housing units.
- Energy Efficiency in Public Buildings—\$20 million for the Energy Resources Conservation and Development Commission to finance energy efficiency and energy generation projects in public buildings, including the University of California, the California State University, and courts. Energy savings projects will include lighting systems, energy management systems and equipment controls, building insulation and heating, ventilation, and air conditioning equipment.
- Agricultural Energy and Operational Efficiency—\$15 million for the Department of Food and Agriculture to support projects that reduce GHG emissions from the agriculture sector by capturing greenhouse gases, harnessing greenhouse gases as a renewable bioenergy source, improving agricultural practices and promoting low carbon fuels, agricultural energy, and operational efficiency.

**NATURAL RESOURCES AND WASTE DIVERSION**

- Wetlands and Coastal Watersheds—\$25 million for the Department of Fish and Wildlife to implement projects that provide carbon sequestration benefits, including restoration of wetlands (including those in the Delta), coastal watersheds and mountain meadows. In addition to furthering the goals of AB 32, these types of projects are also identified in the Water Action Plan and are integral to developing a more sustainable water management system statewide.
- Fire Prevention and Urban Forests—\$42 million for the Department of Forestry and Fire Protection to support urban forests in disadvantaged communities and forest health restoration and reforestation projects that reduce wildfire risk and increase carbon sequestration. These expenditures will enhance forest health and reduce fuel loads in light of climate change increasing wildfire intensity and damage.
- Waste Diversion—\$25 million for the Department of Resources Recycling and Recovery to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. Investment in new or expanded clean composting and anaerobic digestion facilities is necessary to divert more materials from landfills, a significant source of methane emissions. These programs reduce GHG emissions and support the state's 75-percent solid waste recycling goal.

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