

**AGENDA****ASSEMBLY BUDGET SUBCOMMITTEE No. 3  
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION****Assemblymember Ira Ruskin, Chair****WEDNESDAY, APRIL 18TH, 2007****STATE CAPITOL, ROOM 447****9:00 AM**

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**CONSENT CALENDAR**

|      |  |  |
|------|--|--|
| 0555 | Secretary for Environmental Protection         | \$75,000 (General Fund) to update the California Government Online to Desktops (CalGOLD).  |
| 3360 | Energy Development and Conservation Commission | \$508,000 (RRTF) and 1 permanent position to administer the solar homes partnership.   |
| 3360 | Energy Development and Conservation Commission | \$500,000 (Energy Resources Program Account) and 4 positions to analyze petroleum data and develop fuel efficiency standards for tires. Add Supplemental Report language to have the CEC report on Jan. 10, 2008 on the status of the standards. |
| 3360 | Energy Development and Conservation Commission | \$118,000 (ERPA) and 1 PY for appliance efficiency standards enforcement.  |
| 3360 | Energy Development and Conservation Commission | \$693,000 (ERPA), and 2 PYs to expand building standards requirements to achieve energy efficiency.  |
| 3360 | Energy Development and Conservation Commission | \$399,000 (ERPA) and 2 positions to expand California's electricity demand forecast capabilities to implement the state's resources adequacy commitments.  |
| 3360 | Energy Development and Conservation Commission | \$534,000 (ERPA) and 2 PYs to implement Energy Efficiency Programs for homes as developed pursuant to AB 549 (Longville)   |
| 3360 | Energy Development and Conservation Commission | \$118,000 (RRTF) and 3 PYs to administer existing renewable facilities (SB 1250, Perata).  |
| 3360 | Energy Development and Conservation Commission | \$118,000 (ERPA) and 1 PY to implement AB 2021 (Levine) that provides energy efficiency planning in Publicly Owned Utilities and Air Conditioning Efficiency Improvements.   |
| 3360 | Energy Development and Conservation Commission | \$800,000 (RRTF) in one time contract funds to implement AB 1632 (Blakeslee) that requires the CEC to compile and assess existing scientific studies to determine the potential vulnerability of existing large base load generation facilities. |
| 3360 | Energy Development and Conservation Commission | \$500,000 (RRTF) on a one time basis to implement AB 2778 (Lieber) that requires the CEC to conduct and evaluation of the self generation incentive program.   |
| 3900 | Air Resources Board                            | \$342,000 one-time and \$917,000 ongoing (Motor Vehicle Account) to reduce toxic emissions from diesel engines by verifying new technologies, provide incentive funding, and enforcing regulations for emission reductions in fleets.            |
| 3900 | Air Resources Board                            | \$1.2 million (Motor Vehicle Account) and 9.0 positions ensure compliance with mobile sources regulations to reduce criteria pollutants that go into effect in 2007.   |
| 3910 | California Integrated Waste Board              | \$518,000 (Special Funds) for and authority to establish four associate management auditor positions to conduct financial, performance, and other service audits.  |
| 3910 | California Integrated Waste Board              | \$351,000 (Special Funds) redirection and 3.5 permanent positions to increased IT management workload.   |
| 3910 | California Integrated Waste Board              | \$695,000 (IWMA) for 5.5 permanent positions to support the continued implementation of AB 1548 (Pavley) that requires the IWMA to implement the Education and Environment Initiative.   |
| 3960 | Department of Toxic Substances Control         | \$431,000 (Hazardous Waste Control Account) to implement AB 1353 (Mathews) regulations on treated wood wasted.   |

|      |  |  |
|------|--|--|
| 3960 | Department of Toxic Substances Control | \$2.2 million (General Fund) and \$1.5 million (Special Fund) for continued operations and maintenance activities at the Stringfellow hazardous Waste Site.  |
| 3960 | Department of Toxic Substances Control | Authority to transfer funds from the Site Operations and Maintenance Account to make payments for remediation activities.  |
| 3960 | Department of Toxic Substances Control | Shift funding for six naval military base sites from a federal grant to cost recovery.   |
| 3960 | Department of Toxic Substances Control | \$978,500 (special fund) for Laboratory Infrastructure. This funding was appropriated in 2005-06 but the department was unable to complete procurements.   |
| 3960 | Department of Toxic Substances Control | \$820,000 (special funds) to relocate the Glendale office and buy modular furniture for the office.  |
| 3960 | Department of Toxic Substances Control | \$268,000 augmentation and \$2.9 million fund shift from the Hazardous Waste Control Account to the Toxic Substances Control Account so the department can pay for the collection by the Board of Equalization of the Environmental Fee. |
| 3960 | Department of Toxic Substances Control | \$219,000 (TSCA and Reimbursements) and 1.9 PYs to implement SB 989, SB 354, AB 2144 that require new hazardous materials remediation activities.  |

- 0555**      **SECRETARY FOR ENVIRONMENTAL PROTECTION**
- 3360**      **ENERGY CONSERVATION AND DEVELOPMENT COMMISSION**
- 3900**      **AIR RESOURCES BOARD**
- 3910**      **CALIFORNIA INTEGRATED WASTE BOARD**
- 3960**      **DEPARTMENT OF TOXIC SUBSTANCES**

**Implementation of The Global Warming Solutions Act of 2006, AB 32 (Núñez)**

The passage of the Global Warming Solutions Act of 2006, AB 32 (Núñez), commits the state to reducing, by 2020, California's greenhouse gas emissions (GHGs) to 1990 levels. To do this, the Legislature made the Air Resources Board (ARB) responsible for leading a multi-agency GHG reduction effort to the attainment of this goal. The Climate Action Team, a body established by executive order and led by the Secretary for Environmental Protection will assist the ARB's coordination of the multiple agencies involved in this effort. The Act lays out the broad goal of reducing statewide GHG emissions with the following timeline for the ARB and other agencies to take specific actions:

| <b>Figure 1</b><br><b>Global Warming Solutions Act of 2006 (AB 32 Núñez)</b><br><b>Timeline of Required Actions</b><br>(Source: LAO) |   |  |
|--|---|--|
| Date   | Action  | Responsible State Entity   |
| By 6/30/07   | <ul style="list-style-type: none"> <li>• 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.</li> </ul>   | ARB  |
| By 7/01/07   | <ul style="list-style-type: none"> <li>• Convene environmental justice committee, comprised of representatives of communities most significantly exposed to air pollutants, including communities with minority and/or low-income populations.</li> </ul>   | ARB  |
| No date specified  | <ul style="list-style-type: none"> <li>• Appoint an Economic and Technology Advancement Advisory Committee to advise on investment in and implementation of technological research and development.</li> </ul>  | ARB  |
| By 1/01/08   | <ul style="list-style-type: none"> <li>• Determine statewide GHG emissions level in 1990.</li> <li>• Approve 1990-equivalent statewide GHG emissions limit, to be achieved in 2020.</li> <li>• Adopt regulations to require reporting and verification of statewide GHG emissions and to monitor and enforce compliance.</li> </ul>       | ARB  |
| By 1/01/09   | <ul style="list-style-type: none"> <li>• 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.</li> </ul> | ARB, in consultation with CPUCa, CECb, and other relevant state agencies |
| By 1/01/10   | <ul style="list-style-type: none"> <li>• Adopt regulations, enforceable by January 1, 2010, to implement "early action measures".</li> </ul>  | ARB  |
| By 1/01/11   | <ul style="list-style-type: none"> <li>• Adopt regulations on GHG emission limits and reduction measures, to become effective on January 1, 2012.</li> </ul>  | ARB  |

a California Public Utilities Commission.  
b State Energy Resources Conservation and Development Commission.

**Governor's Budget.** In 2006, The Governor signed the California Global Warming Solutions Act that requires mandatory reporting of greenhouse gas (GHG) emissions and that GHG emissions be reduced in California to 1990 levels by the year 2020. The Governor's budget is proposing cross-agency funding totaling \$35.7 million and 126.1 positions to implement the requirements of the act.

The proposals set forth in the Governor's budget initiate the development of a multi-year plan of regulatory, market based and technological advances to achieve emission reduction targets required by the Act. While climate change related proposals are distributed throughout state government, proposed spending on GHG emission reductions is being centered at the ARB who will be accountable for setting a baseline, establishing the inventory, and developing a scoping plan to reduce GHG emissions.

| <b>California Global Warming Solutions Act of 2006<br/>2007-08 Cross-Cut Budget</b> |                         |                  |
|---|-------------------------|------------------|
| <b>Program Element/Department</b>   | <b>\$(in thousands)</b> | <b>Positions</b> |
| <b>Emissions Inventory/Mandatory Reporting</b>                                      | <b>\$3,444</b>          | <b>17.2</b>      |
| Air Resources Board   | 3,444                   | 17.2             |
| <b>Emission Reduction Scoping Plan</b>  | <b>\$1,812</b>          | <b>10.8</b>      |
| Air Resources Board   | 1,812                   | 10.8             |
| <b>Alternative Market-Based Compliance Measures</b>                                 | <b>\$12,034</b>         | <b>35.8</b>      |
| Department of General Services  | 3,398                   | 4.7              |
| Energy Commission   | 305                     | 2.4              |
| Department of Food and Agriculture  | (331)                   | 1.9              |
| Department of Forestry and Fire Protection  | 1,500                   | -                |
| Air Resources Board   | 6,636                   | 25.0             |
| Integrated Waste Management Board   | 59                      | 0.4              |
| Public Utilities Commission   | 136                     | 1.4              |
| <b>Regulatory Emission Reduction Measures</b>                                       | <b>\$7,136</b>          | <b>29.4</b>      |
| Energy Commission   | 305                     | 2.4              |
| Air Resources Board   | 6,636                   | 25.0             |
| Integrated Waste Management Board   | 59                      | .04              |
| Public Utilities Commission   | 136                     | 1.5              |
| <b>Scientific and Economic Analysis</b>   | <b>\$7,395</b>          | <b>9.0</b>       |
| Secretary for Environmental Protection  | 500                     | -                |
| Energy Commission   | 500                     | -                |
| Department of Water Resources   | 2,000                   | 4.7              |
| Air Resources Board   | 2,780                   | 3.4              |
| Integrated Waste Management Board   | 500                     | -                |
| Department of Toxic Substances Control  | 115                     | 0.9              |
| Public Utilities Commission   | 1,000                   | -                |
| <b>Program Oversight and Coordination</b>   | <b>\$3,940</b>          | <b>23.9</b>      |
| Secretary for Environmental Protection  | 890                     | 4.7              |
| Air Resources Board   | 3,050                   | 19.2             |
| <b>Total</b>  | <b>\$35,761</b>         | <b>126.1</b>     |

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**Cross-Cutting Issues**

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**Staff Comments.** As the subcommittee considers the administration's plan to implement AB 32 (Núñez), staff raises the following cross-cutting issues.

**Finding a balance between regulatory actions and market measures.** While AB 32 (Núñez) recognized the need for the state to consider all options when formulating the long term plan to achieve 1990 GHG levels by 2020, there was clear intention that solid early actions and strong regulatory programs would provide the foundation for a successful achievement of long term emission reduction targets. Building upon these, the Act envisioned that California would need to study the appropriateness of market mechanisms within the framework of the overall scoping plan and determine how their application could be used to push GHG emission reductions beyond those achieved through early actions and regulatory measures.

In the administration's proposal, multiple departments are evaluating how market mechanisms can reduce GHG emissions. In order to ensure that the implementation of market mechanisms does not precede the establishment of a strong voluntary and regulatory foundation, staff concurs with LAO recommendations that the subcommittee should consider approving budget bill or trailer bill language that allows the administration to consider, but restricts the implementation of, market based mechanisms when implementing AB 32 (Núñez) in the budget year.

**The Legislature needs to be apprised of all changes to scope, staffing and funding.** As the state moves forward to implement AB 32 (Núñez) over multiple years, the Legislature needs to maintain a comprehensive year-to-year understanding of what funding and staffing needs are. AB 32 (Núñez) establishes a set of goals for the state to reach and grants a certain amount year-to-year programmatic flexibility to the administration to determine how targets will be achieved. In the Governor's budget, the Legislature is being asked to approve ongoing staffing and resources for an effort that, by nature of the implementing legislation, has inherent staffing and cost uncertainty. Added to this, on a long term basis it is not clear how much these programs will ultimately cost or how these programs will be funded. In order to budget for this long term program without a clear understanding of ongoing costs, staff recommends that the subcommittee consider requiring that the administration provide a multi year plan with expected emissions outcomes. On an annual basis, staff also recommends that the administration provide an annual cross-cut budget of all AB 32 (Núñez) implementation activities that includes: in which programs positions are allocated; how they are funded; position vacancy rates; and what are contracting, and equipment needs. As has been done by the Resources Secretary for CALFED, this cross-cut budget could be provided via the internet as a supplement to the January 10 budget Governor's budget.

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## The Air Resources Board

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Under the act, responsibility was placed by the Legislature in the Air Resources Board to reduce GHG emissions in California to 1990 levels by 2020. To do so, as shown in **Figure 1** on page four, the board is required by the Act to meet a timeline of specific activities.

In total, the Governor's budget is requesting 123 positions and \$8.9 million (Air Pollution Control Fund) for the ARB to fulfill the requirements of AB 32 (Núñez). With these positions, the ARB will be evaluating options to reduce statewide GHG emissions, developing an overall scoping plan to reach 2020 targets and working with other state agencies to implement that plan. More specifically, this proposal is split up into the following five activities:

1. **Develop and Implement Inventory and Reporting Programs (19 positions, \$900,000 contracts, \$150,000 equipment).** Fundamental to the success of achieving the goals of AB 32 (Núñez) will be the quantification of what 1990 GHG levels were. Once ARB staff quantifies 1990 levels, they will be used as a baseline to construct the statewide "scoping plan" to guide the ARB's statewide effort to reach emission targets.

In their scoping plan, the ARB will identify the major GHG emitting sources and suggest measures (voluntary, regulatory, market based, etc.) to reduce those emissions. To ensure that emission reduction strategies are successful, the ARB will develop a mandatory reporting structure for identified emitters coupled with an accurate method to verify emission levels. Reported and verified emissions will be contained in a GHG inventory that until the passage of the bill was being maintained by the Energy Commission.

The positions and funding requested in this proposal would allow the ARB to: quantify 1990 levels; develop and enforce mandatory reporting requirements; develop GHG verification methods; and develop a GHG inventory system.

2. **Complete GHG Reduction Plan (12 Positions, \$300,000 contracts).** By January 1, 2009, AB 32 (Núñez) directs the ARB to develop a scoping plan that must identify the actions needed to be taken to reach 2020 targets. This plan will be the cornerstone of the state's GHG reduction efforts and will be developed through internal analysis by ARB staff and with external involvement of associated agencies and the Climate Action Team. Through consultation with all state agencies with jurisdiction over sources of GHGs the ARB will be considering all options for reducing GHGs (regulatory actions, market measures, incentives, etc.) in each sector and will incorporate their recommended actions into the scoping plan.

Staff and funding requested in the proposal will be used to develop expertise on emission reduction strategies, make recommendations in the scoping plan, consider economic impacts of proposed actions and work with the Climate Action team to implement the plan.

3. **Develop and Implement Measures to Reduce California Greenhouse Gas Emissions (64 positions, \$5 million contracts, \$200,000 equipment).** AB 32 requires the ARB to develop and publish a list of early action measures by June 30, 2007 and further adopt regulations to implement the measures on that list, to be enforceable by January 1, 2010.

With early action measures, the ARB was directed by AB 32 to adopt regulations to reduce GHG emissions from specific sectors that have been determined to offer the highest potential reductions in GHGs. Under this activity, the ARB will be pursuing regulation measures to reduce both CO2 and non-CO2 emissions and, where possible, have additional air quality benefits. In general, staff understands that the ARB expects that regulations will be directed towards those sectors that are considered large emitters where the ARB has ongoing experience enforcing other air quality regulations.

In tandem with the prior two activities, the ARB will also be developing the framework for a market based compliance system that potentially will be included within the ARB's scoping plan. Under their proposal, the ARB will be examining which market mechanism would be optimal, how the market would operate, if and who would receive GHG credits and how accurate compliance systems will be ensured. Currently, the administration is involved in a Market Advisory Committee, established by executive order S-20-06, that is required to make recommendations to the Secretary of Environmental Protection by June 30, 2007 regarding implementation of market based compliance approaches. The ARB expects to have a big picture assessment of how a market mechanism would look by February 2008 with details developed by June 2008.

Lastly, the ARB will be conducting economic analysis to look at the effects that early actions, regulatory measures and market mechanisms will have on the state's economy.

Staff and funding requested in this proposal will be divided evenly between activities to study market mechanisms and regulations.

4. **Applied Studies and Scientific Analysis (5 positions, \$1.5 million contracts and equipment).** For all of their activities, the ARB will use applied science to in order to best inform and guide climate protection policies. This proposal requests five ongoing positions and \$1.5 million in contracts and equipment to assist with this effort.
5. **Program Outreach Oversight and Support (23 positions, \$200,000 contracts).** The California Public Utilities Commission (CPUC) and the Energy Commission (CEC) are working together to develop recommendations for the most effective ways to reduce GHG emissions in the energy sector. Through this process, the ARB will need to work with both the CPUC and the CEC and provide final consideration of their recommendations when developing the statewide scoping plan.

As statewide activities may adversely affect disadvantaged communities, the ARB is required under AB 32 (Núñez) to establish an Environmental Justice Committee. ARB plans to, on an on-going basis, to work with the Advisory committee and keep it apprised of GHG activities through electronic correspondence and regularly convening the



committee e in face-to-face meetings. In addition to the Environmental Justice Advisory Committee, the ARB will also establish the Economic and Technology Advancement Advisory Committee to identify new technologies, research, demonstration projects, assisting with technology transfer, and identifying research opportunities.

Lastly, ARB expects that the implementation of AB 32 will require legislative and public outreach both nationally and internationally, legal and information technology support.

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### Secretary for Environmental Protection

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**Governor's Budget.** The Governor's budget is requesting \$1.39 million and five positions to coordinate Climate Change activities, conduct overarching economic analysis and initiate a public education campaign.

Under AB 32 (Núñez), the Air Resources Board will be accountable for the implementation of GHG actions that span multiple agencies. As the chairperson of the Climate Action Team, the Secretary will play a primary coordination role statewide. Because of the technical nature of the GHG reduction proposals expected from other departments, the Secretary is requesting to have three technical level staff in order to interact on a daily basis with state departments on GHG issues.

Additionally with this oversight role, the Secretary expects to initiate a statewide public education campaign for global warming awareness and informing the public on statewide climate change related activities.

Lastly, statute requires that the Office of the Secretary conduct overarching economic analyses of proposals pursued by the Boards, Departments, and Offices in their Agency. In this proposal, the Secretary is requesting staff to conduct these analyses and to address other administrative workload needs related to initiation of such a large program.

**Staff Comments.** AB 32 directs the Office of the Secretary to play a coordinating role among all the different departments involved in implementation of the bill. Staff concurs with the Secretary's office that there is a need for staffing to have some level of technical expertise to fulfill this coordinating function, as well as coordinating the Climate Action Team. Staff also shares concerns with the LAO that the Office of the Secretary should not overstep its coordinating role in the AB 32 (Núñez) implementation staff recommends that this item be held open so that BBL can be developed that reinforces this intent of the enacting legislation. Additionally, because the Secretary will be coordinating the implementation of the Climate Action Team's Report, staff recommends that the Secretary report annually on activities of the CAT report – its achievement of metrics and their work plan.

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**California Energy Resource and Development Commission**

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**Governor's budget.** The Governor's budget is requesting 5 permanent positions and \$500,000 to work with the ARB, the California Public Utilities Commission and the Secretary for CalEPA to reduce GHG emissions from the energy sector.

Currently, the CEC is working with the CPUC to develop recommendations for the ARB to reduce GHG emissions from the energy generation sector. The ARB will take these recommendations into consideration as they prepare their scoping plan. Using the ongoing expertise in energy efficiency measures, the CEC will also be looking at efficiency as a means to reaching 2020 targets. Finally the CEC will be looking at biofuels, and the carbon fuel standards as strategies to lower emissions.

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**California Integrated Waste Management Board**

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**Governor's budget.** The California Integrated Waste Management Board is requesting one position and \$618,000 in contracting funds to continue their program to reduce GHGs through increasing the recovery of recyclables from landfills implement new recycling programs and improve methane capture from solid waste landfills.

This proposal is a continuation of last year's augmentation of two PYs which will bring total staffing levels at the board for GHG activities to three positions.

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**Department of Toxic Substances Control**

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**Governor's budget.** The Department of Toxic Substances Control (DTSC) is requesting one PY and \$115,000 to work with the ARB to reduce GHG emissions from hazardous waste facilities.

DTSC is responsible for permitting and authorizing the treatment of hazardous wastes facilities that are emitters of GHGs. DTSC will use this authority and its scientific expertise to identify and develop strategies to meet the objectives of reducing the sources of GHGs.

**STAFF RECOMMENDATION: Hold open.**

## PART II: NON AB 32 (NÚÑEZ) PROPOSALS

### **3360 ENERGY CONSERVATION AND DEVELOPMENT COMMISSION**

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The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

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#### **ISSUE 1: INCREASE USE OF ALTERNATIVE FUELS**

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This proposal requests \$466,000 for 4 permanent positions to support a joint Energy Commission-California Air Resources Board (CARB) 5-year plan to increase the use of alternative fuels in California. This plan was mandated by AB 1007 (Pavley) and will be required to be submitted no later than June 30, 2007.

The positions in the proposal will on a permanent basis will work with the ARB to implement the plan through the following activities:

- Identify the market potential for alternative fuels (based on the market assessment conducted in response to AB 1007 and recommend those alternative fuels worthy or needing financial support.
- Develop criteria for locating refueling stations at selected sites throughout California for the best candidate fuels (e.g. biodiesel, E-85, compressed natural gas).
- Recommend criteria for awarding fuel production incentives to producers of clean, renewable transportation fuels.
- Manage specific projects that result from grants or loans awarded by CARB for refueling stations and technology development projects (e.g. grid connected hybrids, biodiesel production facilities, cellulosic ethanol plants).
- Develop a consumer education and public outreach program to publicize the availability of state funding.
- Develop a joint strategic research plan to guide transportation RD&D expenditures as required by Senate Bill 76.
- Establish stakeholder advisory committees to provide advice and input in satisfying the requirements of AB 1007, SB 76 and the Climate Action team's direction to develop an aggressive alternative fuels program.

**Background.** In last year's budget, the Legislature approved \$25 million to the Air Resources Board to develop a grant program to promote research and development of alternative fuels. Under this proposal, the ARB was to work with the CEC to develop an expenditure plan of those one time funds. In addition, through trailer bill language, the legislature approved a third year of funding of \$6.5 million for the hydrogen highway program. Together, this total of \$31.5 million marked the first year of an aggressive alternative fuels program.

**Staff Comments.** In their proposal, the CEC cites the importance of the transportation sector, and further, the use of alternative fuels in the state's GHG overall reduction strategies. At the hearing, the CEC should be prepared to comment how the workload associated with this proposal will support the scoping process being conducted by the ARB in relation to implementing AB 32 and also how it feeds into the ongoing Climate Action Team activities.

Additionally, the CEC should be prepared to address the subcommittee on the question of how can the state prioritize its alternative fuel investment programs so that as new promising technologies emerge, state programs are able to adapt with those changes.

Lastly, the CEC should be prepared to comment to the subcommittee on the inputs it provided to the ARB on how the state should expend the one time \$25 million from last year's budget for alternative fuels.

**STAFF RECOMMENDATION. Approve as budgeted.**

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**ISSUE 2: LAO ISSUE: WILLIAMS SETTLEMENT FUNDS**

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**Governor's Budget.** The budget proposes to use \$24.8 million of Williams Energy settlement funds to fund a new photovoltaic (PV) energy efficiency program for public K-12 schools. This is achieved by transferring funds from the Ratepayer Relief Fund to the continuously appropriated Energy Conservation Assistance Account. Of this amount, \$1.1 million is for program administration (four positions) and the balance of \$23.7 million is for grants, loans, and technical support contracts. The proposal assumes that loans under this program could be repaid by using the monies saved by energy efficiencies.

**Background.** During the energy crisis of 2001, the Department of Water Resources (DWR) entered into a number of longer-term contracts to purchase electricity to serve the customers of the state's three largest investor owned utilities (IOUs). The majority of these contracts were signed at relatively high prices. As a result of litigation, the state renegotiated its contract with Williams Energy and settled other claims against that company, resulting in an allocation of cash and assets to the state. Among other purposes, the settlement directed that \$69 million in cash be used to retrofit schools and other public buildings with renewable energy and energy efficiency projects.

**LAO Concerns.** The LAO has raised concerns that the proposed use of the Williams Energy settlement funds is inconsistent with prior legislative intent (as indicated in AB 2756) on a number of counts. First, the budget proposal specifies a single energy efficiency technology—PV—as a necessary criterion for grants and loans under the program. However, the budget already proposes multiple ongoing solar programs at CEC and the California Public Utilities Commission (CPUC) for the New Solar Homes Partnership; the Solar Initiative; and implementation of Chapter 132, Statutes of 2006 (SB 1, Murray), that serve to promote this technology. Consistent with legislative intent in AB 2756, the LAO thinks that

settlement funds should be awarded for a broader array of energy efficiency upgrades, beyond those that are PV in nature. Examples of other types of energy efficiencies are retrofitting heating and cooling systems, replacing lighting fixtures, improving insulation, and using alternative building materials. Second, the budget proposal includes using settlement funds for loans. This again contrasts with AB 2756, which provided funding only for grants in keeping with legislative policy that the electricity settlement fund should be used for purposes of ratepayer relief. Loans to ratepayers may not serve the purpose of ratepayer relief as effectively as grants. As such, the LAO is recommending that the CEC's proposal be rejected and that these funds be expended according to the settlement agreement through a policy bill.

**Staff Comments.** By 2010, the state will receive \$69 million in Williams Settlement funds, \$25 million in 2006/07 that can be expended by the legislature for a broad variety of uses. The administration is proposing that these funds be used to fund Solar School programs. Staff concurs with the LAO that existing solar programs in the Public Utilities Commission should be sufficient for Solar School programs and staff feels that the Legislature should expend these funds according to their priorities.

**STAFF RECOMMENDATION. Hold Open.**

**3900 AIR RESOURCES BOARD****ISSUE 1: ZERO EMISSIONS VEHICLE PROGRAM – HYDROGEN HIGHWAY**

**Governor's Budget.** The Air Resources board (ARB) is requesting \$6.5 million dollars (Motor Vehicle Account) to establish up to eight fueling stations: four small scale stations to service fleets and the public and four stations to demonstrate that renewable hydrogen production pathways. This request will also continue funding for three existing staff.

**Background.** In 2005-06, SB 76 (Committee on Budget) was enacted as part of the budget and provided the ARB with \$6.5 million in special funds to fund the Governor's Hydrogen Highway initiative. In 2006-07, the legislature continued this program with \$6.5 million in motor vehicle account for:

- Three publicly accessible demonstration hydrogen fueling stations
- Lease of up to 12 hydrogen-powered vehicles, and purchase up to two hydrogen-powered shuttle buses for use at airports or universities
- Employment of three new positions to manage the effort
- Three publicly accessible demonstration hydrogen fueling stations
- Five fuel cell buses

**Staff Comments.** Mobile sources account for well over half of the emissions which contribute to ozone and particulate matter air pollution in California. Zero emission vehicles (ZEVs) and near-zero emission vehicles are a key element of California's plan for attaining health based air quality standards. The ARB has indicated to staff that this proposal is key to maintaining momentum for both the Hydrogen Highway and the Board's ZEV program. In last year's budget, the subcommittee expressed its intent that this program be expanded to include all ZEV *and* partial-ZEV technologies (electric, plug in hybrid, etc.)

When originally initiated, the hydrogen blue print plan promised that placement of 50-100 hydrogen fueling stations in the state by 2010 with a large infusion of vehicles committed from the automotive industry. Currently there are 126 hydrogen vehicles, 8 transit buses and 24 hydrogen stations in the state. The ARB cites that of these 24 stations, an additional 15 are publicly accessible and an additional 13 are in the planning or development stations. At the hearing the ARB should comment on the following:

- 1) Does the ARB expect to meet the goals set out by the Governor's executive order establishing the Hydrogen Highway Network?
- 2) Have there been any changes to the alternative fuel sector since the blueprints inception that would suggest additional ZEV technologies need to be invested in?
- 3) What actions have the ARB been taking to promote technologies other than hydrogen in their ZEV program?
- 4) How many vehicles, buses and stations has the State directly placed with its \$19 million investment of state funds?

**STAFF RECOMMENDATION. Hold Open.**

## 3910 CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

The California Integrated Waste Management Board (Waste Board) promotes the following waste management practices: (1) source reduction, (2) recycling and composting, (3) reuse, and (4) environmentally safe transformation and land disposal.

The Governor's budget proposes a total of \$199.1 million in total funds for the waste board which are nearly equal to 2006-07 levels.

### ISSUE 1: LAO ISSUE: TIRE RECYCLING

**Governor's Budget.** The budget proposes a total of about \$39.3 million from CTRMF for the board's waste tire recycling program in 2007-08—roughly the same as estimated expenditures in the current year. The \$39.3 million is proposed largely for market development and research, permitting, enforcement, clean up, and remediation.

**Persistently Large Waste Tire Fee Fund Balance.** The CTRMF, which funds the board's waste tire management activities, has carried a persistently large balance for several years, as shown in Figure 2. (The fund balance does not reflect a roughly \$17 million loan made from CTRMF to the General Fund in 2003-04, which has yet to be paid back.)

**Figure 2**  
**Tire Recycling Management Fund Balance**  
*(In Millions)*

| Years   | Balance |
|---------|---------|
| 2003-04 | \$12.5  |
| 2004-05 | \$23.0  |
| 2005-06 | \$35.8  |
| 2006-07 | \$30.6  |
| 2007-08 | \$25.6  |

Although the fund balances have built up to substantial levels, the board's program expenditures have remained relatively stable over the last several years. The 2007-08 budget proposal for the tire program does not reflect any significant program changes or initiatives. Absent such program enhancements and initiatives, it is likely that the fund balance would stay at relatively high levels in the future.

**LAO Comments.** While CIWMB currently undertakes a variety of efforts to encourage the diversion of waste tires from landfills to productive end uses, the amount and proportion of waste tires that are not diverted from landfills is still large (10.2 million, or about 25 percent of waste tires generated annually). The waste tire program appears to be in a "holding pattern." As Figure 3 shows, despite large initial gains in waste tire diversion, in recent years, both the diversion rate and the number of waste tires deposited into the state's landfills each year have remained relatively constant.

The LAO believes that the large fund balance presents the board with the opportunity to increase the waste tire diversion rate. In recent years, the Legislature has taken the lead by giving statutory direction on the use of the tire fund in an effort to increase the diversion rate.

The LAO thinks that there are opportunities to draw down the CTRMF balance by enhancing program activities and thereby increasing the diversion rate. For example, the board could increase expenditures on its activities designed to encourage the productive end use of waste tires, such as:

- Research Efforts and Demonstration Projects. Continue to fund CEC's research into replacement tire efficiency, or expand its testing and certification of new tire-derived products. Similarly, CIWMB could expand its sponsorship of demonstration projects that use tire-derived materials for civil engineering projects.
- Marketing and Outreach. Continue and expand efforts to communicate to end users the viability and long-term cost effectiveness of tire-derived products and to provide technical assistance to them.

**LAO Recommendations.** The LAO thinks that the board is best positioned to identify those additional efforts most likely to increase the number of waste tires diverted from the state's landfills, as well as to advise the Legislature of the policy choices that may be inherent in such efforts warranting legislative evaluation. Therefore, the LAO recommends the adoption of the following supplemental report language:

*Item 3910-001-0226. The California Integrated Waste Management Board shall submit a report to the Legislature by January 10, 2008, that identifies the following:*

- *A history of revenues, expenditures, and balances of the California Tire Recycling Management Fund since its inception, and projection of such information for 2008-09 and the subsequent two fiscal years.*
- *A history of waste tire diversion rates and end uses, and projection of such rates and uses for 2007 and the subsequent three years.*
- *Identification and assessment of the costs and effectiveness of options to increase the rate of diversion of waste tires from disposal in landfills.*
- *Any statutory changes that would assist the board's efforts to increase the diversion rate.*

**Staff Comments.** Staff concurs with the LAO's recommendation that the Waste Board report to the legislature on additional options to increase tire recycling rates. Additionally, staff would like the Waste Board to respond to the following:

What is the Waste Board doing to promote tire recycling in road construction? What are the major barriers to the use of crumb rubber in roads?

What has the Waste Board been doing to address the issue of tire piling and illegal tire dumping? Has the state been successful in prosecuting unlawful tire disposals? How does the Waste Board's permitting tire manifest system help with enforcement?

**STAFF RECOMMENDATIONS.** Approve LAO proposed supplemental reporting language.



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**ISSUE 2: E-WASTE AND FRAUD PREVENTION**

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The Governor's budget proposes in the Electronic Waste Recycling program \$435,000 (Electronic Waste Recovery and Recycle Account) and five new positions – three positions to analyze claims and two positions for compliance assistance and fraud prevention.

**Background.** Under the Electronic Waste Recycling act, consumers are charged a fee upon the purchase of certain electronics. The IWMB then takes that fee and pays it out in claims to certified E-waste recyclers in the form of payments for e-waste recycling. Currently the combined payment rate is a total of \$.48 per pound of properly processed and documented E-Waste, \$.20 of which is passed on to the approved collector.

It is estimated that the E-Waste program will collect roughly \$70 million in annual revenue from e-waste fees. In 2005, the first year of system operation, the Waste Board received over \$31 million in payment claims and in the first quarter of 2006, the Waste Board received \$16 million in claims from certified recyclers. The Waste Board expects the payment of claims to be around \$60 million by the end of 2006.

The greatest challenge in implementing this program is to ensure that payments are made only for properly documented material generated in California. To prevent fraudulent claims from receiving payment, the Waste Board has worked with the Department of Conservation to replicate its auditing and investigation programs for the bottle and can recycling program. Additionally, the Waste Board has been working with an auditor from the Department of Finance to improve regulations, payment systems and procedures.

The funding and positions requested in this proposal would bring the total of fraud prevention staff for this program to six positions.

**Staff Comments.** As stated in their proposal, California is one of the first states in the nation to operate an E-Waste Recycling program. While many of the local recycling operations are advancing their programs, the staff has concern that staffing levels for this program are not adequate to maintain proper fraud prevention controls while achieving the other performance measures that were built into the Act, such as:

1. Eliminate electronic waste stockpiles and legacy devices by December 31, 2007
2. Ending the illegal disposal of CEDs
3. Phasing out the hazardous materials in electronic devices
4. Increasing the use of recycled materials in production of CEDs
5. Providing cost free and convenient opportunities for the public to return E-Waste
6. Reducing the cost burden on local government to recycle and properly manage E-waste.

At the hearing, the Waste Board should be prepared to comment on how it plans on achieving these identified measures as well as the expectation of what the E-Waste fund balance will be by the end of the budget year and in the following year.

**STAFF RECOMMENDATION. Approve as budgeted.**

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**ISSUE 3: HAZARDOUS WASTE/UNIVERSAL WASTE**

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The Governor's budget requests \$716,000 (Integrated Waste Management Account) to work with and provide grants to local governments to develop universal waste collection infrastructure. Additionally this request will increase the Household Hazardous Waste Grant program from \$4.5 million to the statutory limit of \$5 million.

Under this proposal, the Waste Board will work with local governments and provide grants to establish recycling programs for universal waste (batteries, fluorescent lights, electronic devices, mercury thermostats, etc).

**Background.** According to the Waste Board, only 5 percent of all household hazardous waste is collected. Local programs to collect and dispose of household hazardous waste are funded almost entirely through grants from the Waste Board and are often located in local solid waste drop off sites that are not centrally located with inconvenient hours of operation.

In 2006, the Department of Toxic Substances ended its regulatory exemption for the disposal of universal waste and now all Universal Waste are required to be properly disposed through Household Hazardous Waste collection sites or other proper locations. The Waste Board's proposal would expand its Hazardous Waste Grant program to include universal waste with the intention that local programs would be developed so that universal waste could be disposed of at point of sale locations to increase proper disposal rates.

**Staff Comments.** Staff agrees with the Waste Board that there is a need to develop statewide infrastructure for the disposal of universal waste. Because of the everyday nature of universal waste, it is important that disposal sites be accessible to the public and centrally located within communities. Staff has concerns that this proposal does not go far enough to educate the public on what universal waste is, where it can be disposed of, and how the Waste Board will track the success of this effort in order to build upon it in future years. At the hearing, the Waste Board should comment on its multi year plan to increase universal waste collection and how it will monitor disposal levels.

**STAFF RECOMMENDATION. Approve as budgeted.**

**3960 DEPARTMENT OF TOXIC SUBSTANCES**

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The Department of Toxic Substances Control (DTSC) protects public health and the environment by: (a) regulating hazardous waste management activities, (b) overseeing and performing cleanup activities at sites contaminated with hazardous substances, (c) encouraging pollution prevention and the development of environmentally protective technologies, and (d) providing regulatory assistance and public education.

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**ISSUE 1: REDUCING EXPOSURE TO TOXIC CHEMICALS: POLLUTION PREVENTION AND COMPLIANCE**

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**Governor's budget.** The Governor's budget is proposing \$439,000 on going and \$12,000 one time funds and 3.5 positions (Toxic Substance Control Account) to develop and implement pollution prevention concepts, best management practices, training and outreach to proactively reduce the use of chemicals of concern which affect humans, wildlife, and the environment. Specific concerns are metals in packaging and lead in children's jewelry.

Under this program, DTSC will work with California business to prevent pollution exposure by identifying which products are made with chemicals of concern and informing businesses of available alternatives for production. Specifically, this proposal will:

- Identify where and how much of these products are used.
- Work directly with California industries to identify pollution prevention opportunities.
- Promote green chemistry in California's industries.
- Research alternative materials and processes.
- Provide a clearinghouse of relevant pollution prevention and green chemistry information.

**Staff Comments.** Staff concurs with the need for this proposal and recommends that it be approved as budgeted.

**STAFF RECOMMENDATION. Approve as budgeted.**

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**ISSUE 2: BIOMONITORING**

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**Governor's budget.** The Governor's budget is requesting 1.0 position and \$120,000 for the initial planning and implementation of SB 1379 (Perata) that established the California Environmental Contaminant Biomonitoring Program. This proposal is part of a larger \$1.5 million coordinated effort with the Department of Public Health, the Department of Toxic Substances, and OEHHA.

Under the biomonitoring Program, DTSC will be for the initial planning phase of the program and subsequent BCPs will request increased laboratory capacity and staffing for this effort.

**Background.** Scientific studies have identified a multitude of environmental chemicals as toxic to humans, but with a few exceptions, relatively little is known about the presence of

these chemicals inside people's bodies. Recent reports indicate that even infants are born with chemicals in their blood. Increases in breast and brain cancer, infertility, asthma, autism, and other developmental diseases have heightened public concern about potential effects of environmental exposures. Some chronic diseases have been linked with exposures to synthetic chemicals, including a variety of common chemicals that can mimic or block the actions of hormones necessary for growth and maintenance of health.

With the passage of the Act, California became the first state to support the creation of a statewide Biomonitoring program. The program will be designed to systematically collect, analyze, and archive blood and other human biological specimens from a statistically valid representative sample of California's general population. It will also provide an opportunity to gather information about potential routes chemical exposure for Californians and help measure the effectiveness of efforts to reduce chemical exposure.

**Staff Comments.** Staff does not have any issues with this proposal and recommends approval as budgeted.

**STAFF RECOMMENDATION. Approve as budgeted.**