

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 ON RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, MAY 15, 2013
3:00 P.M. - STATE CAPITOL ROOM 447

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ITEMS TO BE HEARD

3900 AIR RESOURCES BOARD

ISSUE 1: CAP AND TRADE PROGRAM – LOAN TO THE GENERAL FUND

The Governor's May Revision proposes to loan \$500 million from the Greenhouse Gas (GHG) Reduction Fund (Cap and Trade auction revenues) to the General Fund.

While the Air Resources Board (ARB) submitted its three-year Cap-and-Trade Auction Proceeds Investment Plan with the May Revision, as required by AB 1532 (Pérez), Chapter 807, Statutes of 2012, the Governor's May Revision did not include the highly anticipated expenditure plan for FY 2013-14 that was to accompany it.

BACKGROUND

The goal of the State's climate plan is to reduce Green House Gas (GHG) emissions to 1990 levels by the end of this decade. The Cap and Trade program is a key element in this plan. It sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. As part of its program, the Air Resources Board (ARB) will give free allowances to the State's large industrial emitters as well as the State's electric utilities in order to reduce the economic impact of the Cap and Trade program.

The ARB has conducted two auctions of GHG emission allowances as part of a market-based compliance mechanism. These auctions resulted in approximated \$139 million in proceeds to the state. One more auction for the fiscal year is scheduled on May 16, 2013. This is significantly less than the \$1 billion in cap and trade revenues anticipated in Governor's proposed 2012-13 budget.

STAFF COMMENTS

The Governor's January 2013 Budget originally proposed offsetting a total of \$500 million General Fund spending associated with greenhouse gas mitigation (\$200 million in the current year and \$300 million in the budget year). The Governor's May Revision proposal now proposes loaning that amount to the General Fund.

According to the Governor:

This short-term loan approach allows further time for agencies to design, develop, integrate, and/or modify their programs in a way that maximizes long-term greenhouse gas reductions. In addition, it will provide ARB time to complete the statutorily required update of the AB32 Scoping Plan due at the end of 2013, which can help inform better investment decisions. This approach is also fiscally prudent, particularly during this initial stage of program implementation, as the amount of auction proceeds that will be generated in 2013-14 is unknown.

Loaning the proceeds will not interfere with the objectives of the three-year investment plan or AB 32 because it is short-term and the monies will be repaid with interest when necessary to meet the needs of the Fund. It is assumed that proceeds from the sale of May 2013 allowances from 2014-15 forward will be available in the same budget year to support the investment plan.

As mentioned in the Subcommittee's April 24, 2013 hearing, the Cap-and-Trade Auction Proceeds Investment Plan was developed with significant stakeholder input. A multi-agency team composed of agency Secretaries and staff, and Governor's Office leaders, heard more than eight hours of public comment and reviewed more than 400 written comment letters from groups and individual stakeholders.

While the Governor contends that loaning these proceeds will not interfere with the objectives of the three year investment plan or AB 32, it is unclear when the loan will be repaid and how that will impact achieving the goals of AB 32.

QUESTIONS

- What considerations (environmental, fiscal, legal) went into the decision to use the Cap and Trade revenues for a loan to the General Fund?
- AB 1532 required the Administration to submit a proposal at May Revision for how auction revenues would be appropriated from the GHG Reduction Fund. How does the absence of such an expenditure plan comport with AB 1532?
- To the extent that there were both fiscal and legal considerations, have you considered using a portion of the funds as a loan and the remainder for emission reduction projects that are unambiguously defensible, such as for projects where ARB has an approved offset protocol?
- When will the General Fund loans be paid back?
- What are you proposing to do with any additional funds received beyond the loan amount in the 2012-13 and 2013-14 FY?

ISSUE 2: CAP AND TRADE AUCTION – OVERSIGHT AND BUDGETARY ADMINISTRATION

The Governor's May Revision proposes to increase by \$1,308,000 and two positions from the Cost of Implementation Account to enhance oversight of Cap and Trade auction activities and budgetary administration. This proposal includes \$1 million for contracts to audit the Air Resources Board's internal processes, procedures, and security protocols, as well as external contractors conducting the Cap and Trade auctions and collecting the funds.

ISSUE 3: WESTERN CLIMATE INITIATIVE, INC.

The Governor's May Revision proposes to provide a new Budget Act item to separately identify resources for the Western Climate Initiative (WCI), Inc., to provide greater transparency regarding expenditures for access to WCI services. This is a \$0 action item.

ISSUE 4: CONTROL SECTION 15.11 ELIMINATION

The Governor's May Revision proposes to eliminate Budget Control Section 15.11 to conform with the proposal above for a Cap and Trade Program one-time General Fund loan from the GHG Reduction Fund.

Staff Recommendation: Hold Open Issues 1-4

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

ISSUE 1: PROP 39 – TECHNICAL ASSISTANCE PROGRAM FOR SCHOOL DISTRICTS

The Governor's May Revision proposes an increase of \$4 million and 8 positions to provide guidance to all school districts and technical assistance to small local education agencies to facilitate the implementation of Proposition 39.

In November 2012, the voters approved Proposition 39, creating the Clean Energy Jobs Act of 2012. The measure provides up to \$550 million annually for five years to improve energy efficiency and expand clean energy generation.

The May Revision continues to propose providing all Proposition 39 funding to schools and community colleges. Under this proposal, the Energy Commission will provide its expertise to identify the most cost-effective energy savings opportunities for K-12 school facilities and guidance on establishing baselines and tracking performance.

Overall, the Governor's proposal continues to differ substantially from the language of Proposition 39, which establishes a new state fund, the Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The measure states that the fund could be used to support: (1) energy efficiency retrofits and alternative energy projects in public schools, colleges, universities, and other public facilities; (2) financial and technical assistance for energy retrofits; and, (3) job training and workforce development programs related to energy efficiency and alternative energy. It directed the Legislature to determine spending from the fund and be required to use the monies for cost-effective projects run by agencies with expertise in managing energy projects. The measure also (1) specifies that all funded projects must be coordinated with CEC and PUC and (2) creates a new nine-member oversight board to annually review and evaluate spending from the fund.

Staff Recommendation: Hold Open

3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION

ISSUE 1: AVIATION MANAGEMENT UNIT CONTRACT INCREASE

The Governor's May Revision proposes an increase of \$952,000 (General Fund) to fund a new contract for aviation logistics support, parts, and services for the Department of Forestry and Fire Protection's (CAL FIRE's) Aviation Management Unit. This request is intended to ensure the necessary aviation assets are available when needed during fire season, and that required maintenance is performed between fire seasons.

ISSUE 2: FIREWORKS DISPOSAL MANAGEMENT

The Governor's May Revision proposes an increase of \$500,000 (General Fund) to fund two existing Arson and Bomb Investigator positions and provide additional resources to properly dispose of seized illegal and dangerous fireworks that are stockpiled throughout the state. The two positions will support local jurisdictions with fireworks education and enforcement to mitigate fireworks seizures. This proposal includes trailer bill language that would allow local governments to sell seized fireworks to a licensed fireworks wholesaler or importer/exporter under specified circumstances.

ISSUE 3: EMERGENCY SUPPRESSION FUND BASELINE ADJUSTMENT

The Governor's May Revision proposes an increase of \$51 million General Fund for emergency wildfire suppression costs. The Emergency Fund (E Fund) provides necessary resources to the Department of Forestry and Fire Protection's emergency fire suppression efforts. Over the last five years, average emergency firefighting costs have been higher than the E Fund budgeted amount. The number and severity of fires caused by extremely dry winter and spring conditions in the state this year demonstrate the unpredictability of fire suppression costs. This proposal increases the E Fund to \$172 million.

ISSUE 4: DEPARTMENT OF JUSTICE LEGAL SERVICES REAPPROPRIATION

The Governor's May Revision proposes to reappropriate unexpended one-time funding from 2012-13 related to an ongoing lawsuit. The funds would be reappropriated for expenditure in 2013-14, when the costs of that litigation is expected to occur.

Staff Recommendation: Hold Open Issues 1-4

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

ISSUE 1: ENERGY CRISIS LITIGATION – EXTENSION OF LIQUIDATION PERIOD

The Governor's May Revision proposes to extend the liquidation period for continued assistance by outside legal counsel and economic consultants as well as expert witnesses in litigation by the California Public Utilities Commission (PUC) before the Federal Energy Regulatory Commission (FERC), which seeks refunds of several billion dollars for overcharges during the 2000-01 energy crisis for California consumers.

The PUC is the sole state agency seeking energy crisis relief on behalf of California consumers. The PUC is challenging the unlawful rates, terms, and conditions of 57 long-term electricity contracts entered into by the Department of Water Resources during the 2000-01 energy crisis. The 2009 Budget Act authorized \$2.5 million for the assistance of outside legal counsel as well as expert economic consultants to enable the PUC to represent the interests of consumers. Because of legal delays, the cases have not been resolved. The extension of the liquidation period will allow the PUC to continue to retain its current outside legal counsel and economic consultants who have been working on these cases since their inception.

Staff Recommendation: Hold Open

8570 DEPARTMENT OF FOOD AND AGRICULTURE

ISSUE 1: CITRUS PEST AND DISEASE PREVENTION PROGRAM

The Governor's May Revision includes an increase of \$2.5 million (Food and Agriculture Fund) in 2013-14 and 2014-15 to help prevent the spread of the Asian Citrus Psyllid and Huanglongbing disease.

Staff Recommendation: Hold Open

3340 CALIFORNIA CONSERVATION CORPS

ISSUE 1: PROPOSITION 40 – FUELS MANAGEMENT

The Governor's May Revision proposes a 3-year, \$5 million annual appropriation (Proposition 40) and 12.5 limited-term positions for fire prevention and fuel reduction activities to be performed by the California Conservation Corps (Corps) in sensitive watershed areas to protect water quality and reduce wildfire risk.

Proposition 40, approved by the voters in 2002, provides \$300 million for projects that enhance beaches, watersheds, and water quality, including fuel management activities in watersheds. This proposal will fund Corpsmember crews to perform hazardous fuels reduction projects and/or post-fire watershed restoration activities within the State Responsibility Area.

Staff Recommendation: Hold Open

3980 OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

ISSUE 1: SB 535 IMPLEMENTATION – FUND SHIFT

The Governor's January budget included \$577,000 for the Office of Environmental Health Hazard Assessment from the Greenhouse Gas Reduction Fund to identify disadvantaged communities in California, as required by SB 535 (De León), Chapter 830, Statutes of 2012. The Governor's May Revision proposes to shift funding for SB 535 implementation from the Greenhouse Gas Reduction Fund to the Cost of Implementation Account in Air Pollution Control Fund. This action is necessary to conform with the proposal above for a Cap and Trade Program one-time General Fund loan from the GHG Reduction Fund.

Staff Recommendation: Hold Open
