

AGENDA PART 1

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

MONDAY, MAY 18, 2015

1:30 P.M. OR UPON ADJOURNMENT OF SESSION - STATE CAPITOL ROOM 447

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3900 CALIFORNIA AIR RESOURCES BOARD**ISSUE 1: MAY REVISION CAP AND TRADE PROPOSAL OVERVIEW**

The May Revision contains a new Cap and Trade proposal from the Administration, reflecting additional projected revenues, four additional new programs, and several administrative requests.

BACKGROUND

The May Revision contains a new Cap and Trade proposal that builds upon the Governor's January proposal. As mentioned in previous hearings, the Governor's budget included a Cap and Trade proposal that was roughly based upon the Cap and Trade expenditure plan that was adopted in the 2014 budget package. Pursuant to the plan, beginning in 2015-16, 60 percent of Cap and Trade revenues are continuously appropriated for various purposes and 40 percent of the funding is subject to appropriation in the budget. The May Revision revises revenue estimates for both 2014-15 and 2015-16, which result in more funding for both purposes.

New Revenue:

The May Revision projects \$1.7 billion additional Cap and Trade Revenue over the next two years. Of this amount, \$700 million is additional 2014-15 revenue and \$1 billion is attributed to 2015-16. Pursuant to the last year's budget agreement, \$600,000 of the additional \$1 billion is subject to the continuous appropriation for the four programs that receive a continuous appropriation.

The May Revision proposes splitting the remaining \$1.1 billion between \$645 million of new spending and establishing a \$500 million Greenhouse Gas Reduction Fund reserve.

Revised Spending Plan for 2015-16:

The May Revision proposes \$1.2 billion in additional spending above the January budget, reflecting both the continuously appropriated amounts and funds proposed for appropriation in the 2015 budget package. The chart below illustrates the new spending proposal:

Figure CAP-01
2015-16 Cap and Trade Expenditure Plan
(Dollars in Millions)

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Jan 10/ Accelerated Drought</i>	<i>May Revision</i>	<i>Total</i>
Sustainable Communities and Clean Transportation	High-Speed Rail Authority	High-Speed Rail Project	\$250	\$250	\$500
	State Transit Assistance	Low Carbon Transit Operations Program	\$50	\$50	\$100
	Transportation Agency	Transit and Intercity Rail Capital Program	\$100	\$165	\$265
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$200	\$200	\$400
	Air Resources Board	Low Carbon Transportation	\$200	\$150	\$350
Energy Efficiency and Clean Energy	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	\$75	\$65	\$140
	Department of General Services *	Energy Efficiency for Public Buildings	\$20	\$20	\$40
	University of California/ California State University	Renewable Energy and Energy Efficiency Projects	\$0	\$60	\$60
	Department of Water Resources/Department of Food and Agriculture	Water and Energy Efficiency	(\$30)	\$60	\$60
	Energy Commission/ Department of Water Resources	Drought Executive Order - Rebates for Appliances	\$0	\$30	\$30
	Energy Commission/ Department of Water Resources	Drought Executive Order - Water and Energy Technology Program	\$0	\$30	\$30
	Department of Food and Agriculture	Agricultural Energy and Operational Efficiency	\$5	\$20	\$25
	Department of Fish and Wildlife	Wetlands and Watershed Restoration	\$25	\$40	\$65
	Department of Forestry and Fire Protection	Forest Health	\$42	\$50	\$92
	Department of Food and Agriculture	Healthy Soils	\$0	\$20	\$20
Natural Resources and Waste Diversion	Cal Recycle	Waste Diversion	\$25	\$35	\$60
Total			\$992	\$1,245	\$2,237

* Shifts administration of Green Buildings and \$20 million from the current year from Energy Commission to Department of General Services.

As noted in the chart above, much of additional funding is targeted to expanding existing programs, but there are three new areas of investment. The agenda further discusses these items in subsequent issues.

STAFF COMMENTS

California will participate in a Greenhouse Gas Reduction Credit Auction on May 21st. This auction may yield additional revenues beyond the levels assumed in the May Revisions.

Staff Recommendation: Informational Item

3600 DEPARTMENT OF FISH AND WILDLIFE
3360 CALIFORNIA ENERGY COMMISSION
3860 DEPARTMENT OF WATER RESOURCES
6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
8570 DEPARTMENT OF FOOD AND AGRICULTURE

ISSUE 2: NEW CAP AND TRADE EXPENDITURE PROPOSALS

The May Revision contains five new proposals for the expenditure of Cap and Trade Funds.

BACKGROUND

The May Revision proposes five new Cap and Trade proposals.

1. **California EcoRestore:** The May Revision proposes \$40 million for the Department of Fish and Wildlife for Delta water restoration projects. The Administration is implementing the California EcoRestore program to accelerate habitat restoration projects that support the long-term health of the Delta's native fish and wildlife species. Specifically, Cal EcoRestore will protect and restore at least 30,000 acres of wetlands, tidal habitat and floodplains; improve fish passage in the Yolo Bypass; and prioritize restoration projects supported by local communities. In addition to these ecosystem benefits, wetland protection and restoration increases carbon sequestration.
2. **Energy Efficiency in Higher Education:** The May Revision proposes \$35 million to the California State University system and \$25 million to the University of California. This \$60 million will fund renewable energy and energy efficiency projects throughout both systems.
3. **Carbon-Rich Soils Initiative:** The May Revision includes \$20 million for the Department of Food and Agriculture to support demonstration projects that increase carbon in soil. As the leading agricultural state in the nation, it is important for California's soils to be sustainable and resilient to climate change. Increased carbon in soils is responsible for numerous benefits including increased water holding capacity, increased crop yields and decreased sediment erosion.
4. **Water Efficient Appliance and Fixture Rebate Program:** The May Revision proposes \$30 million for the California Energy Commission to implement a consumer rebate program for consumers who purchase energy efficient and water saving appliances in accordance with the most recent executive order on drought, Governor's Executive Order B-29-15.

5. **Water Energy Grants.** The May Revision proposes \$20 million for the Department of Water Resources for projects that reduce energy and water use.
6. **Water and Energy Technology Program:** The May Revision proposes \$30 million for the Water and Energy Technology program at the California Energy Commission.

STAFF COMMENTS

The Subcommittee received a number of requests for Cap and Trade funding which were not included in the May Revision proposal. The Subcommittee may wish to consider these new proposals from the administration in light of the input provided in public comment at previous hearings.

Staff Recommendation: Hold Open

2660 CALTRANS

3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION

3900 CALIFORNIA AIR RESOURCES BOARD

3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

7760 DEPARTMENT OF GENERAL SERVICES

8570 DEPARTMENT OF FOOD AND AGRICULTURE

ISSUE 3: EXPANSIONS OF EXISTING CAP AND TRADE PROPOSALS

The May Revision expands seven Cap and Trade programs that were contained in the January Budget Proposal.

BACKGROUND

The May Revision expands several existing programs that were contained in the Governor's January Budget proposal. In some cases these augmentations are expand existing programs and in others the programmatic purposes have changed.

Figure CAP-01
2015-16 Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	Jan 10/ Accelerated Drought	May Revision	Total
Sustainable Communities and Clean Transportation	High-Speed Rail Authority	High-Speed Rail Project	\$250	\$250	\$500
	State Transit Assistance	Low Carbon Transit Operations Program	\$50	\$50	\$100
	Transportation Agency	Transit and Intercity Rail Capital Program	\$100	\$165	\$265
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$200	\$200	\$400
	Air Resources Board	Low Carbon Transportation	\$200	\$150	\$350
Energy Efficiency and Clean Energy	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	\$75	\$65	\$140
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	Department of Water Resources/Department of Food and Agriculture	Water and Energy Efficiency	(\$30)	\$60	\$60
	Energy Commission/ Department of Water Resources	Drought Executive Order - Rebates for Appliances	\$0	\$30	\$30
	Energy Commission/ Department of Water Resources	Drought Executive Order - Water and Energy Technology Program	\$0	\$30	\$30
	Department of Food and Agriculture	Agricultural Energy and Operational Efficiency	\$5	\$20	\$25
Natural Resources and Waste Diversion	Department of Fish and Wildlife	Wetlands and Watershed Restoration	\$25	\$40	\$65
	Department of Forestry and Fire Protection	Forest Health	\$42	\$50	\$92
	Department of Food and Agriculture	Healthy Soils	\$0	\$20	\$20
	Cal Recycle	Waste Diversion	\$25	\$35	\$60
Total			\$992	\$1,245	\$2,237

* Shifts administration of Green Buildings and \$20 million from the current year from Energy Commission to Department of General Services.

1. **Transit and Intercity Rail Capital Program:** The May Revisions requests \$65 million in additional resources to Caltrans above the continuously appropriated program to modernize California's intercity, commuter, and urban rail systems through investments in the Transit and Intercity Rail Capital Program. This would result in a total of \$265 million appropriated for this purpose in 2015-16. In addition, provisional language is requested that authorizes shifting funds between local assistance and capital outlay to provide flexibility in the administration of the grant program.
2. **Enhancing Forest Carbon Storage Capacity:** The May Revision requests \$50 million in additional Cap and Trade Funds for the Department of Forestry and Fire Protection to implement a comprehensive forestry program that will further secure forest carbon and reduce emissions. This would increase the total program to \$92 million. According to the Administration, further forestry investments to meet this goal are needed as four years of drought have impacted forests with insect/disease epidemics and severe moisture stress, potentially reducing the amount of carbon that can be sequestered, while at the same time increasing fire risk.
3. **Low Carbon Transportation:** The May Revision proposes a \$150 million increase to the Air Resources Board Low Carbon Transportation programs, for a total of \$350 million. The programs support the expansion and creation of clean transportation by providing incentives for sustainable freight technology, near and zero-emission passenger vehicles, and clean trucks and buses. The chart below illustrates how these additional funds are proposed to be used:

Project Category	January Budget (\$ millions)	May Revision (\$ millions)	Increase (\$ millions)
Clean Vehicle Rebates	\$111	\$158.8	\$47.8
Car Share Pilot	2.5	5	2.5
Public Fleets Pilot	3	5	2
Enhanced Fleet Modernization	2	20	18
Financing Assistance	1.5	5	3.5
Agricultural Van Pools	0	3	3
California Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project	5	10	5

Low NOx Trucks Certified to Optional Standards	5	5	0
Truck Pilot Commercial Deployment Projects	10	20	10
Bus Pilot Commercial Development	25	45	20
Advanced Technology Demonstration	35	59	27
Freight Equipment Pilot Commercial Deployment	0	9	9
State Operations	3	5.2	2.2

4. **Waste Diversion and Recycling:** The May Revision proposes \$35 million for the Department of Resources Recycling and Recovery to support activities that reduce methane emissions from landfills and decrease GHG emissions through upstream management and manufacturing processes. This proposal also includes continuing funding for 9 positions, along with trailer bill language to clarify statute regarding project eligibility.
5. **Low-Income Weatherization Program:** The May Revision proposes \$65 million for the Department of Community Services and Development to provide additional grants for weatherization and solar programs benefiting disadvantaged communities.
6. **Energy Efficiency for Public Buildings:** The May Revisions proposes \$60 million and 6 positions at the Department of General Services to implement Executive Order B-8-12 requiring state agencies to reduce GHG emissions and reduce energy usage in state facilities. The May Revision also moves this program from the California Energy Commission to the Department of General Services.

- 7. GHG Emissions Reductions in Agriculture: The May Revision includes \$80 million and 14 positions to support Department of Food and Agriculture activities that promote GHG emission reductions in agriculture. This request includes \$40 million, which is to be available until June 30, 2017 to support grants that reduce energy and water usage; and \$20 million is to be available until June 30, 2018 to support agricultural energy and operational efficiency activities that reduce methane emissions from dairy waste. In addition to these two requests, the May Revision proposes the new Soils proposal at the Department of Food and Agriculture, discussed in the previous agenda item.**

STAFF COMMENTS

Staff Recommendation: Informational Item

0521 SECRETARY FOR TRANSPORTATION
0650 OFFICE OF PLANNING AND RESEARCH
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
2660 CALTRANS
2665 HIGH SPEED RAIL AUTHORITY
3360 CALIFORNIA ENERGY COMMISSION
3900 CALIFORNIA AIR RESOURCES BOARD

ISSUE 4: CAP AND TRADE ADMINISTRATIVE AND STAFFING PROPOSALS

The May Revision contains several proposes regarding the administration and monitoring of various Cap and Trade programs.

BACKGROUND

The May Revision proposes several administration proposals. They include the following:

- **Transit and Intercity Rail Capital Program**—It is requested that Item 0521-001-3228 be added in the amount of \$71,000 and 1 position for the Transit and Intercity Rail Capital Program. It is also requested that provisional language be added to this item to clarify that these resources are from the program's share of Cap and Trade proceeds.
- **Affordable Housing and Sustainable Communities Technical Adjustment**—It is requested that provisional language be added to Item 0650-001-3228 to specify that these resources are from the program's share of Cap and Trade proceeds (see Attachment 2).
- **Affordable Housing and Sustainable Communities Program**—It is requested that position authority in Section 39719(b)(1)(c) of the Health and Safety Code be increased by 11 positions and funded by transfers from the Greenhouse Gas Reduction Fund (GGRF), as approved by the Strategic Growth Council (SGC). The SGC designated the Department of Housing and Community Development (HCD) to administer the Affordable Housing and Sustainable Communities Program. Additionally, it is requested that trailer bill language be added to provide clarification that the SGC has the authority to transfer funds to HCD and other designated agencies for specified activities.

- **Low Carbon Transit Operations and the Transit and Intercity Rail Capital Programs**—It is requested that Item 2660-001-3228 be increased by \$439,000 and 4 positions to support the implementation of the Low Carbon Transit Operations Program and the Transit and Intercity Rail Capital Program administered by the Department of Transportation. It is also requested that provisional language be added to this item to clarify that these resources are from the program's share of Cap and Trade proceeds.
- **High Speed Rail Project**—It is requested that Item 2665-001-3228 be added in the amount of \$103,000 and 1 position to support disadvantaged communities liaison activities at the High Speed Rail Authority. This position will work with state entities, local governments, and community groups during the station area planning process to maximize benefits for disadvantaged communities. It is further requested that provisional language be added to this item to clarify that these resources are from the program's share of Cap and Trade proceeds.
- **Energy Conservation Assistance Account Program Support Reduction**—The Energy Conservation Assistance Account will be decreased by \$603,000 and 5 positions in response to the shift of \$20 million to the Department of General Services to implement Executive Order B-8-12 that requires state agencies to reduce GHG emissions, and reduce energy usage in state facilities.

Tracking and Quantifying GHG Emissions—The May Revision includes augmentations to the funds available to quantify and track GHG emission reductions. The specific proposals are as follows:

- **GHG Reduction Quantification Methods**—It is requested that Item 3900-001-3228 be increased by \$1,820,000 and 7 positions to augment the resources the ARB has to develop and validate the application of GHG reduction quantification methodologies given the increased number of GGRF programs and project types. The additional assistance for quantification methodologies is needed by state agencies to provide consistent and comparable information across GGRF programs.
- **GGRF Expenditure Project Tracking System**—It is requested that Item 3900-001-3228 be amended to include provisional language making expenditure of \$1 million available for a project tracking system only upon project approval by the Department of Technology (see Attachment 2). This language was inadvertently omitted in the proposed budget. It is also requested that Item 3900-490 be added to reappropriate \$1 million provided to the ARB in the 2014 Budget Act for the project tracking system (see Attachment 2). These funds will be available until June 30, 2017, only upon project approval by the Department of Technology.

STAFF COMMENTS

These proposals are relatively small compared to the size of State's investment in the Greenhouse Gas Reduction Funds being overseen by the requesting departments. In addition, these proposals include resources for tracking greenhouse gas investments and outreach to disadvantaged communities—both respond to feedback provided by the Subcommittee at hearings.

Staff Recommendation: Adopt May Revisions Proposals for Administration and Tracking Outlined above
