<u>Please note</u>: This is the prepared script, not a transcript of the actual speech. The speaker may have departed from the text.

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Update on Prop 1B program and AB 32 implementation
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First, I would like to take note of the Chamber's recent article on the BYD Auto Company in Los Angeles. I understand the Chinese electric car company's decision to establish its North American headquarters here will create hundreds of jobs – direct and indirect – in the marketing, research and development of the next generation of clean cars – the plug-in hybrids and fully electric vehicles.

BYD came here because California is a huge and influential market for advanced clean vehicles, but also because of our state's progressive environmental policies.

Green industries can find suitable labor and real estate markets in many areas of the nation. But, as with all smart business people, the CEOs and investors in the green revolution also seek a favorable political climate.

They look for laws, policies and government incentives that nurture the growth of their industry. They favor long-term regulatory certainty to ensure that costly construction and equipment will pay off in the long run. And they seek public support for a low-carbon future – gauged by the level of public funding for research and development.

California has rolled all these incentives and more into a prospectus yet developed for producers and suppliers of clean and efficient energy. We call this prospectus "Assembly Bill 32."

AB 32 – the Global Warming Solutions Act of 2006 – is California's path to a clean-energy economy. It's a catalyst to innovate and grow beyond the measures you've already taken. It's an accelerator to hasten the arrival of higher-wage, clean-energy jobs; more secure energy and – let's be clear – healthier air. And may I remind you that metropolitan Los Angeles remains the smoggiest urban area in the nation, with an average of more than 140 days a year of dangerous ozone levels, according to American Lung Association's most recent State of the Air report.

You've asked me to brief you today on the implementation of AB 32 and the disbursement of Proposition 1B money for cleaning up harmful diesel emissions in the movement of goods through the Los Angeles area. The two programs are inter-related. The same port and rail yard operations that spew toxic diesel exhaust, of course, also emit greenhouse gases. In cleaning up the one pollutant, we clean up the other.

The term we use at the air board is co-benefits. It just means you don't do things for only one purpose. Everything we do must achieve multiple benefits.

We can't count on global warming concerns alone to increase consumer demand for more fuel-efficient cars and solar panels or to reduce driving and urban sprawl.

We're banking on ambitious and forward-looking policies to speed and ease California's shift to a more efficient, low-carbon economy.

AB 32 sets the targets. It requires the state to taper its greenhouse gas emissions to the 1990 level by 2020. That's about a 15 percent drop from today's level. Beyond that, the air board's implementation plan calls for an 80 percent reduction below the 1990 level by 2050.

Our climate policies are designed to get us there. They're already changing the way we plan our cities and build our homes, driving the next generation of clean fuels and accelerating the rollout of zero-emission vehicles. By 2035, we expect that the majority of new models offered for sale in California will run pollution free.

This is the path that scientists say we need to take to avert the worst effects of climate change. But it's also the road that takes Californians where they need and want to be on air quality, energy security and economic sustainability.

Think of AB 32 as an accelerator that gets us where we want and needs to be anyway – only faster.

Of course, not everyone is on board with AB 32. It does, after all, hold industries publicly accountable for their climate-altering emissions.

Some critics claim that AB 32 is practically suicidal for California's economy. Yet every one of the credible forecasts to date predicts the economic impacts would be small.

In reality, California's economy will continue to grow robustly whether or not we implement AB32. But with those measures in place, we would:

- Be less dependent on fossil fuels.
- Have greater energy security.
- Strengthen our clean tech industry with many more good-paying, sustainable jobs.
- Become more competitive in the global clean-tech market.

We cannot afford to cede the field to Texas or Massachusetts, let alone China.

Far from straight-jacketing industry, AB 32's measures will continue to unleash innovation and investment in cleaner fuels and fuel-saving technologies. As a result, California businesses and consumers will see their fuel expenditures drop by an average of 5 percent in 2020, according to the air board's latest economic analysis.

The reduced consumption of gasoline and diesel would save California $3.8 billion annually by 2020. That's money Californians can put back into local communities by spending on goods and services they'd like to have.

One of those goods they'd like to have is clean, healthful air. In 2006 – the same year the Legislature passed AB 32 -- California voters approved Proposition 1B, which authorized the sale of $1 billion in bonds to reduce toxic diesel pollution in neighborhoods downwind of shipping ports and rail yards.

The Los Angeles area has been the major beneficiary of the program.

Of the $247 million in Prop. 1B money that the air board has awarded to date, more than half -- $127 million – went to the South Coast Air Quality Management District to accelerate the replacement of more than 2,500 dirty old diesel cargo trucks working the ports of Los Angeles and Long Beach. The new, clean-running cargo trucks will be on the road by the end of this year – much sooner than otherwise would have occurred.

The South Coast air district is using the other $3 million for replacing or overhauling the aging switcher locomotives that belch dark smoke as they move freight cars around the rail yards serving Los Angeles and the Inland Empire.

The latest round of Prop 1B bond sales made another $200 million available for grant awards. Next week (June 24) ARB staff will go before the air board to recommend that $110 million of this money be awarded for additional cleanup of diesel exhaust in Los Angeles and inland. The proposal would designate:

- $42.5 million for replacing another 850 cargo trucks
- $61.3 million to install equipment at 23 berths allowing ships to hook up to the grid rather than power the lights and equipment off dirty diesel generators. Berthed ships will be required to power off the grid starting in 2014.
- $6.2 million to replace or overhaul more of the dirty switcher locomotives.

We're already seeing a public health payoff of the ports and rail yards cleanup.

A just-released (June 3) Port of Los Angeles inventory of cargo handling emissions shows that since 2008, the amount of toxic diesel soot has dropped 37 percent while ozone-forming nitrogen oxides fell 28 percent.

Port officials said the air quality improvement went beyond what would be expected from the decline in cargo during the recession. They attributed most of the improvement in 2009 to their Clean Truck Program, which subsidized the replacement of dirty diesel trucks and banned pre-1989 cargo trucks from port entry. The port also credited ARB's new rule requiring low-sulfur fuel in ocean-going vessels within 24 nautical miles of the coast.

Reducing pollution in the movement of goods is part of the larger AB 32 goal of accelerating California's move to low-carbon world – and our strong efforts to make the transition as seamless and painless as possible.

One of the least expensive ways to de-carbonize our economy is to allow companies to buy and sell emission allowances among themselves. This is the thrust of our proposed cap-and-trade regulation scheduled for the air board's consideration later this year.

This "market" approach gives companies the flexibility to reduce emissions in the most cost-effective way they can find -- using cleaner fuels or more efficient equipment – rather than being told what type of pollution control equipment to install.

The federal EPA has used cap-and-trade successfully for years to combat acid rain by capping emissions of sulfur dioxide from coal-fired power plants in the Midwest.

To set the California system in motion, the Air Resources Board would either auction or give away emission "allowances" that add up to industries' pollution limits under the cap.

Companies that can cost effectively go beyond their obliged emission reductions – for example, a modern natural gas-fired generator – can sell their excess allowances to businesses such as coal-fired electricity generators and oil refineries that face higher compliance costs.

A market price on carbon provides a powerful incentive for companies to become more efficient: The less energy they use, the more they save and the more emission allowances they have to sell.

Another important AB 32 measure coming before the air board in a few months relates to the state's new "sustainable communities" law – known as Senate Bill 375.

In September, the Board is expected to set emission reduction targets for cars and SUVs in 18 regional planning areas. And, like the Cap-and-Trade program, we're working to make this effort as seamless and painless as possible. We're relying on local government to help us set those targets, and the law leaves it to the local government to decide how best to achieve them.

This calls for an unprecedented level of collaboration among city, county and regional planners. For the first time, California's urban areas will integrate transportation and land-use plans and align them with realistic projections of future housing needs.

SB 375 has already received a positive review by the Urban Land Institute, the development industry's top think tank on land use. Their analysis, released earlier this month, predicts that the law will provide – quote – "more consistency, coordination and clarity to the development process – which the land use industry needs to start recovering from the recession."

Inclusion a sustainability strategy, they said, enhances a community's ability to attract high-quality investors, employers and development. It signals a stable and predictable development environment. It saves communities money and time fight CEQA challenges on climate change impacts. And it encourages the kind of compact developments that appeal to a highly underserved market of first-time homebuyers, renters and empty nesters.

Your MPO -- The Southern California Association of Governments – recently recognized some planning efforts in the Los Angeles as models of collaboration in the spirit of SB 375.

They included the City of Santa Monica’s draft Land Use and Circulation Element, which breaks with past planning practices by linking transportation and land use policies. It specifies clear criteria for where and how new development should be located along corridors served by the Expo Light Rail. I understand that more than 4,000 Santa Monica residents and members from 66 interest groups participated in this planning effort.

Communities in the San Gabriel Valley also are breaking tradition in plan to redevelop a blighted stretch of the Arrow Highway.

Most urban corridors are examined city by city, so you end up with disjointed redevelopment and a hodgepodge of winners and losers in terms of revenue, economic revival and municipal service responsibilities. This project involves all six jurisdictions along a 9-mile stretch of the Arrow Highway – Azusa, Baldwin Park, Covina, Glendora, Irwindale and unincorporated Los Angeles County. Together, they’re looking at mutually beneficial sales-tax sharing programs and infrastructure financing districts.

What we’re doing in regional transportation and land use planning, in our clean car program and other climate change measures is part of an overarching policy that we’ve been pursuing for years, and those policies did come with a cost, but they came with significant benefits too. Anyone who remembers Los Angeles even 30 years ago knows that.

AB 32 is not likely to go away. Let me tell you why.

The scientific foundation for the law continues to grow stronger. The recently reported inaccuracies in the Intergovernmental Panel on Climate Change assessments are unfortunate. But they do not undercut the remarkably vast body of evidence linking human-caused pollution to global warming.

Congress won't likely derail or preempt the measures in AB 32, beyond, perhaps, folding California's cap-and-trade program into a federal version.

The federal climate bill passed by the House last fall borrows heavily from AB 32 – as does the Kerry-Lieberman bill released last month (May 12).

If anything, California's climate actions, together with those in other states, will gain more steam nationally as Congress squabbles and stalls. As you may know, last year the federal EPA adopted on a national scale California's policy of limiting greenhouse gas emissions from new passenger vehicles.

And last month President Obama signed an order making it clear that California retains its authority under the Clean Air Act to set its own, tougher standards on the next generation of vehicles and fuels. But our goal is to develop, with the federal agencies, a single national standard, so that manufacturers will be able to build a single, light-duty national fleet.

It's safe to say that investing in clean technology will continue to be a good bet. Even in 2009 – one of the worst years in economic history – clean energy revenue continued to expand.

AB 32 creates the conditions that allow California to remain No. 1 in clean energy investments. Three out of every five dollars invested in clean technology in North America comes to California. We've laid the groundwork to go after those markets and jobs.

So we have every reason to keep the momentum in implementing AB 32. We've laid the groundwork to go after the green markets and green jobs. And if California slackens its pursuit of them, others will eagerly and swiftly fill the void.

AB 32 is a job generator, not a job killer.

Forty years of fighting smog in California reveal the fallacy of the jobs-versus-environment dichotomy. It's a false choice. In California, they not only go together, they are indivisible.

There were naysayers back then, and there are naysayers today claiming AB 32 spells the end of California civilization as we know it. But we kept on moving forward, and in every case – whether it was cars or scrubbers or reformulated fuels – we came back and did it at less expense – far less than our critics thought possible.

And all the while our economy continued to grow.

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