

**State of California
Air Resources Board
Board Item Summary**

**Item # 21-12-5: Public Hearing to Consider the Draft Final
Cap-and-Trade Auction Proceeds Fourth
Investment Plan**

Staff Recommendation:

Staff recommends that the California Air Resources Board (CARB or Board) approve Resolution 21-25 in support of the recommendations included in the Draft Final Cap-and-Trade Auction Proceeds Fourth Investment Plan (Draft Final Fourth Investment Plan or Plan).

Discussion:

The State's share of Cap-and-Trade auction proceeds are deposited into the Greenhouse Gas Reduction Fund (GGRF) for appropriation to California Climate Investments programs, which facilitate greenhouse gas (GHG) emission reductions and provide a variety of co-benefits.

Each year, the Legislature and the Governor work together to develop an expenditure plan for the GGRF through the annual budget act. To guide this process, Health and Safety Code section 39716 requires the Department of Finance, in consultation with CARB and other State agencies, to submit an Investment Plan to the Legislature every three years that:

- Identifies the State's near-term and long-term GHG emissions reduction goals and targets by sector, and analyzes gaps, where applicable, in current State strategies to meeting the goals.
- Identifies priority programmatic investments of moneys that will facilitate the achievement of feasible and cost-effective GHG emission reductions toward the achievement of GHG emissions reduction goals and targets by sector, consistent with requirements and priorities described in statute.
- Assesses how proposed investments interact with current State regulations, policies, and programs, and evaluates if and how those proposed investments could be incorporated into existing programs.
- Recommends metrics that would measure progress and benefits from the proposed programmatic investments.

Pursuant to these requirements, CARB staff have worked with the Department of Finance to develop the Draft Final Fourth Investment Plan. The Plan identifies high-level strategies to facilitate GHG emission reductions while supporting the State's other climate, environmental, equity, and economic goals. Funding recommendations included in the Plan provide

guidance to the State on funding opportunities, but inclusion in the Plan does not guarantee funding and the Plan itself does not make appropriations.

Statute requires that CARB conduct two public workshops and one public hearing before the Department of Finance submits the document to the Legislature. CARB staff conducted an initial public workshop in February 2021. The Administration released a Draft Cap-and-Trade Auction Proceeds Fourth Investment Plan for a 30-day public comment period in August 2021, and CARB staff conducted a second public workshop in September 2021. The Plan responds to feedback received on the draft and the public workshop.

Summary and Impacts:

The Draft Final Fourth Investment Plan establishes five guiding principles to prioritize investments:

- Support implementation of State climate goals.
- Advance equity and environmental justice.
- Improve public health.
- Support a climate-resilient and prosperous economic future.
- Foster interagency coordination.

Based on analysis of key State documents, lessons learned from California Climate Investments implementation, and stakeholder input, the *Draft Final Fourth Investment Plan* includes six key recommendations that collectively support the guiding principles, drive climate progress, and achieve multiple State goals simultaneously:

- Invest in key sectors that support GGRF statutory priorities and drive progress on State climate goals (e.g., sustainable transportation and communities; low-carbon energy, buildings, and industry; natural and working lands; livestock; and waste diversion).
- Provide dedicated funding to advance equity, environmental justice, and community participation.
- Direct funding towards high-quality jobs and high road workforce development.
- Integrate nature-based solutions and zero-emission technologies into investment types across sectors.
- Support policy-relevant research and program evaluation tied to emissions-reducing projects.
- Advance support for priority populations and other underserved communities through exploring opportunities to increase or establish investment minimums, where appropriate.

Following the hearing, CARB staff will work with the Department of Finance to develop a final Cap-and-Trade Auction Proceeds Fourth Investment Plan, which the Department of Finance will submit to the Legislature in January 2022. The *Fourth Investment Plan* will serve as a resource for the annual budget process for Fiscal Years 2022-23 through 2024-25.