

Proposed

State of California
Air Resources Board

**Draft Final Cap-and-Trade Auction Proceeds
Fourth Investment Plan**

Resolution 21-25

November 19, 2021

Agenda Item No.: 21-12-5

Whereas, the California Global Warming Solutions Act of 2006 (Assembly Bill (AB) 32, Chapter 488, Statutes of 2006), codified in Health and Safety Code section 38500 et seq., declares that global warming poses a serious threat to the economic well-being, public health, natural resources, and environment of California;

Whereas, Senate Bill (SB) 32 (Chapter 250, Statutes of 2016) added Health and Safety Code section 38566 to further direct CARB to ensure that state GHG emissions are reduced to at least 40 percent below the 1990 statewide GHG level no later than December 31, 2030;

Whereas, SB 1383 (Chapter 395, Statutes of 2016) added Health and Safety Code section 39730.5 et seq., which requires emissions of methane and hydrofluorocarbons (HFC) in the state to be reduced to 40 percent below 2013 levels by 2030 and anthropogenic black carbon emissions to be reduced 50 percent below 2013 levels by 2030;

Whereas, Governor Jerry Brown issued Executive Order (EO) B-55-18 to achieve carbon neutrality as soon as possible and no later than 2045;

Whereas, Governor Gavin Newsom issued EO N-79-20, which advances strategies for a just economic transition away from fossil fuels and establishes goals that 100 percent of in-state sales of new passenger cars and trucks will be zero emission by 2035, that 100 percent of drayage trucks and off-road vehicle and equipment operations in the State be zero emission by 2035, and that 100 percent of medium- and heavy-duty vehicles in the State be zero emission by 2045;

Whereas, Governor Gavin Newsom issued EO N-82-20, establishing an agenda for results-driven, comprehensive nature-based solutions to support carbon neutrality and climate resilience;

Whereas, Health and Safety Code sections 38562(c) and 38570 authorize CARB to adopt regulations that utilize market-based compliance mechanisms;

Whereas, pursuant to the regulatory purposes of Division 25.5 (commencing with Section 38500) of the Health and Safety Code, CARB, in Resolution 11-32, adopted regulations, specified in Sections 95800 to 96022, inclusive, of Title 17 of the California Code of Regulations, that utilize a market-based compliance mechanism, and those regulations were later amended and implemented to create the Cap-and-Trade Program (Cap-and-Trade);

Whereas, Government Code section 16428.8 created the Greenhouse Gas Reduction Fund as a special fund in the State Treasury to receive all monies, except for fines and penalties, collected by CARB from the auction or sale of State-owned allowances under Cap-and-Trade;

Whereas, Government Code section 16428.8 requires that all moneys deposited in the Greenhouse Gas Reduction Fund shall be available for appropriation by the Legislature and shall be separately identified in the Budget Act;

Whereas, Health and Safety Code section 39712 requires that the moneys appropriated from the Greenhouse Gas Reduction Fund shall only be used to further the regulatory purposes of Division 25.5 (commencing with section 38500) of the Health and Safety Code, consistent with law, and to facilitate the achievement of reductions of greenhouse gas emissions in California and, where applicable and to the extent feasible:

- Maximize economic, environmental, and public health benefits to the State;
- Foster job creation by promoting in-state greenhouse gas emissions reduction projects carried out by California workers and businesses;
- Complement efforts to improve air quality;
- Direct investment toward the most disadvantaged communities and households in California;
- Provide opportunities for businesses, public agencies, nonprofits, and other community institutions to participate in and benefit from statewide efforts to reduce greenhouse gas emissions; and
- Lessen the impacts and effects of climate change on the state's communities, economy, and environment.

Whereas, Health and Safety Code section 39712 identifies potential investment areas for moneys appropriated from the Greenhouse Gas Reduction Fund including, but not limited to:

- Funding to reduce greenhouse gas emissions through energy efficiency, clean and renewable energy generation, distributed renewable energy generation, transmission and storage, and other related actions, including, but not limited

to, at public universities, state and local public buildings, and industrial and manufacturing facilities;

- Funding to reduce greenhouse gas emissions through the development of state-of-the-art systems to move goods and freight, advanced technology vehicles and vehicle infrastructure, advanced biofuels, and low-carbon and efficient public transportation;
- Funding to reduce greenhouse gas emissions associated with water use and supply, land and natural resource conservation and management, forestry, and sustainable agriculture;
- Funding to reduce greenhouse gas emissions through strategic planning and development of sustainable infrastructure projects, including, but not limited to, transportation and housing;
- Funding to reduce greenhouse gas emissions through increased in-state diversion of municipal solid waste from disposal through waste reduction, diversion, and reuse;
- Funding to reduce greenhouse gas emissions through investments in programs implemented by local and regional agencies, local and regional collaboratives, and nonprofit organizations coordinating with local governments; and
- Funding in research, development, and deployment of innovative technologies, measures, and practices.

Whereas, AB 398 (Chapter 135, Statutes of 2017), which amends certain provisions of AB 32 through 2030, expressly supports CARB's authority to adopt regulations that utilize market-based compliance and indicates the intent of the Legislature that moneys from the Greenhouse Gas Reduction Fund be appropriated to include, but not be limited to:

- Air toxic and criteria air pollutants from stationary and mobile sources.
- Low- and zero-carbon transportation alternatives.
- Sustainable agricultural practices that promote the transitions to clean technology, water efficiency, and improved air quality.
- Healthy forests and urban greening.
- Short-lived climate pollutants.
- Climate adaptation and resiliency.
- Climate and clean energy research.

Whereas, Health and Safety Code section 39716 requires the Department of Finance, on behalf of the Governor, and in consultation with CARB and any other relevant State entity, to develop and submit to the Legislature a three-year investment plan, consistent with the requirements of Health and Safety Code section 39712, that:

- Identifies near-term and long-term greenhouse gas emission reduction goals and targets by sector;
- Analyzes gaps in current State strategies for meeting greenhouse gas reduction goals by sector;

- Identifies priority investments that facilitate greenhouse gas reductions;
- Assesses how proposed investments interact with current state regulations, policies, and programs;
- Evaluates if and how those proposed investments could be incorporated into existing programs; and
- Recommends metrics that would measure progress and benefits from the proposed programmatic investments.

Whereas, Health and Safety Code section 39713 requires that the investment plan reflect minimum allocations of 25 percent of the available moneys in the Greenhouse Gas Reduction Fund to projects located in and that provide benefits to the disadvantaged communities identified pursuant to Health and Safety Code section 39711, 5 percent of the available moneys in the Greenhouse Gas Reduction Fund to projects located in and benefiting low-income communities and households located anywhere in the State, and 5 percent of the available moneys in the Greenhouse Gas Reduction Fund to projects located in and benefiting low-income communities and households located within one-half mile of a disadvantaged community;

Whereas, Health and Safety Code section 39716 requires CARB to consult with the Public Utilities Commission to ensure the investment plan is coordinated with, and does not conflict with or unduly overlap with, activities under the oversight or administration of the Public Utilities Commission undertaken pursuant to Part 5 (commencing with section 38570) of Division 25.5 or other activities under the oversight or administration of the Public Utilities Commission that facilitate greenhouse gas emissions reductions, and that the investment plan include a description of the use of any moneys generated by the sale of allowances received at no cost by the investor-owned utilities pursuant to a market-based compliance mechanism;

Whereas, Health and Safety Code section 39716 requires the Climate Action Team, established under EO S-3-05, to:

- Provide information to the Department of Finance and CARB to assist in the development of the investment plan;
- Participate in each public workshop; and
- Provide testimony to CARB on each investment plan;

Whereas, Health and Safety Code section 39716 requires CARB to hold at least two public workshops in different regions of the state and one public hearing prior to the Department of Finance submitting the investment plan;

Whereas, the Legislature has enacted AB 361 (Chapter 361, Statutes of 2021) and Governor Newsom has issued EOs N-29-20, N-08-21, and N-15-21 to allow state agencies to hold public workshops and meetings by teleconference during the COVID-19 public health emergency;

Whereas, three previous investment plans for Fiscal Years 2013-14 to 2015-16, 2016-17 to 2018-19, and 2019-20 to 2021-22 were completed and submitted to the Legislature in accordance with Health and Safety Code section 39716;

Whereas, the *Cap-and-Trade Auction Proceeds Fourth Investment Plan (Fourth Investment Plan)* will cover Fiscal Years 2022-23 to 2024-25 and is due to the Legislature in January 2022;

Whereas, on February 23, 2021, CARB conducted a virtual public workshop to solicit early input on the development of the *Fourth Investment Plan*, which drew over 100 participants;

Whereas, on August 19, 2021, the draft *Cap-and-Trade Auction Proceeds Fourth Investment Plan: Fiscal Years 2022-23 through 2024-25 (Draft Fourth Investment Plan)* was released for public review and comment;

Whereas, on September 2, 2021, CARB conducted a second public workshop to obtain public comment on the *Draft Fourth Investment Plan*, which drew over 230 participants;

Whereas, on October 27, 2021, the draft final *Cap-and-Trade Auction Proceeds Fourth Investment Plan: Fiscal Years 2022-23 through 2024-25 (Draft Final Fourth Investment Plan)* was released for additional public comment, reflecting input provided at the virtual public workshops and submitted during the public comment period;

Whereas, the State has increasingly recognized the need to meaningfully integrate equity and environmental justice considerations into programs and policies in partnership with affected communities;

Whereas, State agencies that administer climate change mitigation programs and members of the public have identified important lessons learned to improve program implementation and support broad-based community participation, consistent with the State's equity goals;

Whereas, achieving the State's climate goals requires coordinated, multi-sectoral approaches;

Whereas, the Board finds that:

1. The *Draft Final Fourth Investment Plan* identifies near-term and long-term greenhouse gas emission reduction goals and targets; analyzes gaps in current State strategies for meeting greenhouse gas reduction goals by identifying investment needs by sector; identifies priority investments that facilitate greenhouse gas reductions; assesses how proposed investments interact with current state regulations, policies, and programs by discussing existing State funding programs for potential investment types and integrating findings from relevant State research and planning documents; evaluates if and how those proposed investments could be incorporated into existing programs; and

recommends metrics that would measure progress and benefits from the proposed programmatic investments in accordance with the requirements of Health and Safety Code section 39716;

2. The *Draft Final Fourth Investment Plan's* recommendations for priority investments are consistent with the requirements of Health and Safety Code section 39712 on the use of moneys from the Greenhouse Gas Reduction Fund;
3. The *Draft Final Fourth Investment Plan's* recommendations for priority investments are consistent with the requirements for a minimum percentage of Greenhouse Gas Reduction Fund monies to go towards projects that are located in and provide benefits to disadvantaged communities and low-income communities and households as specified in Health and Safety Code section 39713;
4. CARB staff consulted with the Public Utilities Commission on the development of the *Draft Final Fourth Investment Plan* in accordance with the requirements of Health and Safety Code section 39716;
5. The *Draft Final Fourth Investment Plan* includes a description of the use of moneys generated by the sale of allowances received at no cost by the investor-owned utilities pursuant to a market-based compliance mechanism in accordance with the requirements of Health and Safety Code section 39716;
6. The *Draft Final Fourth Investment Plan* was developed in an open public process, in consultation with affected parties, through public workshops, individual meetings, and other outreach efforts;
7. CARB held two public workshops and one public hearing prior to the Department of Finance submitting the *Fourth Investment Plan*, in accordance with Health and Safety Code section 39716 as modified during the COVID-19 public health emergency by AB 361 and EOs N-29-20, N-08-21, and N-15-21;
8. Members of the Climate Action Team or their designees provided information to the Department of Finance and CARB to assist in the development of the *Draft Final Fourth Investment Plan* and a subset participated in each public workshop in accordance with the requirements of Health and Safety Code section 39716;
9. CARB's public hearing on the *Draft Final Fourth Investment Plan* included testimony on behalf of the Climate Action Team in accordance with the requirements of Health and Safety Code section 39716;
10. The recommendations for priority investments in the *Draft Final Fourth Investment Plan* would further the goals and purposes of AB 32, SB 32, EO B-55-19, EO N-79-20, EO N-82-20, and related State policies;

11. The recommendations for priority investments and metrics to track progress would provide direct, meaningful, and assured benefits to priority populations and other underserved communities; enhance the State's ability to evaluate benefits from investments across sectors; and deliver a balanced portfolio of projects that facilitate greenhouse gas emissions reductions while supporting community participation and delivering co-benefits;
12. The recommendations for priority investments and metrics to track progress provide opportunities for enhanced coordination across State agencies and sectors; and
13. Local communities, community-based organizations, and government institutions are important partners for the State in designing and implementing programs to address climate change in California's communities.

Now, therefore, be it resolved that the Board affirms that the *Draft Final Fourth Investment Plan* was developed in accordance with the requirements set forth in Health and Safety Code sections 39713 and 39716 and consistent with Health and Safety Code section 39712;

Be it further resolved that the Board supports the balanced approach presented in the *Draft Final Fourth Investment Plan* to achieve near-term greenhouse gas emissions reductions while investing in projects across sectors to support long-term economic transformation;

Be it further resolved that the Board recognizes the importance of integrating workforce development, capacity building, technical assistance, and other supporting and cross-sectoral investments into the funding portfolio to support State goals;

Be it further resolved that the Board recognizes opportunities for enhanced coordination across agencies to achieve multiple benefits from project implementation, reduce program overlap, and streamline project delivery;

Be it further resolved that the Board encourages CARB staff to continue collaborating with the Department of Finance and other State agencies to implement practices to enable community participation;

Be it further resolved that the Board encourages CARB staff to work collaboratively with State agencies to incorporate the recommended metrics to track progress as appropriate; share best practices; communicate program benefits; and update program guidelines and implementation as needed to respond to lessons learned and opportunities for program improvement;

Be it further resolved that the Board appreciates and acknowledges the time and expertise of the many State agencies and external stakeholders that supported the development of the *Draft Final Fourth Investment Plan* and participated in the public workshops.