Cap and Trade Expenditure Plan

The California Global Warming Solutions Act of 2006 (AB 32) established California as a global leader in reducing greenhouse gas emissions (GHGs). To meet the goals of AB 32, the state has adopted a three-pronged approach to reducing emissions: adopting standards and regulations, providing emission reduction incentives via grant programs, and establishing a market-based compliance mechanism known as Cap and Trade. The Cap and Trade program sets a statewide limit on the GHG sources responsible for 85 percent of California GHGs. Through an auction, it establishes a financial incentive for industries subject to the statewide cap to make long-term investments in cleaner fuels, more efficient energy use, and transformational technological and scientific innovations. The Cap and Trade program provides GHG emitters the flexibility to implement the most efficient options to reduce GHGs. Based on the first update to the Climate Change Scoping Plan, the Cap and Trade program will be responsible for approximately 30 percent of the required GHG reductions to meet the AB 32 goal of reducing GHGs to 1990 levels by 2020. A portion of the auction proceeds generated from the sale of allowances are available to the state for expenditure.

2030 Greenhouse Gas Emission Reduction Goal

California is already experiencing impacts from climate change, such as more severe wildfires, a longer fire season, more extreme heat days, and sea-level rise. The state is also facing the fourth year of prolonged and serious drought conditions made worse by the effects of climate change. California's residents, especially those in areas

disproportionately affected by changes in the environment, contend with higher average temperatures exacerbated by urban heat islands, smoke from wildfires, and diminishing water supply.

Understanding California's role in reducing GHGs to mitigate climate change and protecting the state's residents and economy from a changing climate, the Governor issued Executive Order B-30-15 establishing a GHG reduction target of 40 percent below 1990 levels by 2030. Along with this target—the most ambitious in North America—the Governor also required state agencies to incorporate climate resiliency into planning and funding decisions to protect the State's resources from California's changing climate. To meet the GHG reduction target specified in the Executive Order, the Administration is pursuing policies that by 2030:

- Increase electricity derived from renewable resources to 50 percent.
- Reduce petroleum use in cars and trucks by up to 50 percent.
- Double energy efficiency achieved at existing buildings, and make heating fuels cleaner.
- Reduce the release of short-lived climate pollutants, such as methane and black carbon.
- Increase carbon sequestration on farms and rangelands, and in forests and wetlands.

The May Revision supports the Governor's 2030 GHG reduction target by including a $2.2 billion Cap and Trade Expenditure Plan that will further reduce emissions by providing additional resources for clean transportation and mass transit, energy efficiency and renewable energy, waste reduction, and ecosystem restoration programs. (see Figure CAP-01). Each administering agency will utilize a public process to engage stakeholders in the development and implementation of the programs. The increased resources in the plan reflect a revised auction proceed estimate, as well as the establishment of a prudent reserve to account for potential volatility in future auction proceeds.

Specifically, the increased proceeds result in a total of $1.6 billion for clean transportation, mass transit and sustainable community development. These resources will provide a significant investment towards meeting the 2030 goals. See the Transportation chapter for more detail.

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
	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
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.

The Expenditure Plan is consistent with the 2013 Cap and Trade Auction Proceeds Investment Plan and Chapter 830, Statutes of 2012 (SB 535). Through investment in the programs identified in the Expenditure Plan, the state will meet the SB 535 disadvantaged community targets. The May Revision also includes additional resources to expand the assistance available to disadvantaged communities to increase program awareness, access to funding, and participation.

In addition to reducing GHGs, the programs and projects funded by the Cap and Trade Expenditure Plan also support the following several other priority statewide initiatives.

Energy and Water Conservation in the Fourth Year of the Statewide Drought

California is experiencing the fourth consecutive year of below-average rain and snow, and is currently facing severe drought conditions statewide. Water levels in the state's reservoirs are depleted, the state's rivers are experiencing reduced flows, and recent surveys have recorded Sierra Nevada snowpack at record lows. For additional information on drought-related expenditures, see the Emergency Drought Response chapter.

The Cap and Trade Expenditure Plan includes an additional $128 million for the following programs that will reduce GHGs by saving energy through water conservation:

- $40 million for the California Department of Food and Agriculture's existing State Water Efficiency and Enhancement Program to provide incentives to agricultural operations to invest in energy-efficient irrigation technologies that reduce water use.
- $30 million for the Energy Commission to begin implementation of the Water Energy Technology Program to provide funding for innovative technologies that (1) display significant energy and water savings, (2) demonstrate actual operation beyond the research and development stage, and (3) document readiness for rapid, large-scale deployment in California.
- $30 million for the Energy Commission to implement a consumer rebate program for the replacement of energy-inefficient water-consuming appliances, such as dishwashers and washing machines.
- $20 million for the Department of Water Resources' existing Water Energy Grant Program to reduce energy demand and GHGs through local projects that also support water use efficiency and conservation.
- $8 million for the Department of General Services for projects that will reduce energy use through water conservation at state prisons located in the Central Valley.

Wetland Carbon Sequestration — Water Action Plan and California EcoRestore

The Water Action Plan, a comprehensive five-year water infrastructure and management strategy to support sustainable water management, includes actions to protect and restore important ecosystems. The Water Action Plan identified several specific action items to achieve the co-equal goals of water supply reliability and ecosystem restoration for the Delta, including the implementation of near-term Delta improvement 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. The Cap and Trade Expenditure Plan supports these Cal EcoRestore restoration efforts identified in the Water Action Plan with an additional $40 million for Delta wetland restoration projects.

Energy Efficiency in Higher Education

The state's universities are working towards reducing GHGs at all campuses. Toward that end, the Cap and Trade Expenditure Plan provides $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.

Carbon-Rich Healthy Soils Initiative

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. The Cap and Trade Expenditure Plan includes $20 million to support demonstration projects that increase carbon in soil.

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