Using Cap-and-Trade Revenue to Equitably Advance AB 32 and SB 375 Goals

Summary
We propose allocating a significant percentage of Cap-and-Trade Program revenues to targeted transit and transit-oriented developments that reduce greenhouse gas emissions and benefit the most-disadvantaged Californians.

Background
California’s Air Resources Board (ARB) developed the Cap-and-Trade Program to reduce greenhouse gas (GHG) emissions, pursuant to its authority under AB 32 (Pavley, 2006). In implementing AB 32, the board is required to:

[D]irect public and private investment toward the most disadvantaged communities in California and provide an opportunity for small businesses, schools, affordable housing associations, and other community institutions to participate in and benefit from statewide efforts to reduce greenhouse gas emissions.\(^1\) (emphasis added)

SB 535 (De Leon) would set a 10 percent floor for investment of cap and trade revenues in disadvantaged communities, defined geographically. Our proposal takes a broader view of “disadvantaged communities” and is intended to compliment SB 535.

In 2012-13, the Cap-and-Trade Program will generate approximately $1 billion in state revenue from the auction of emissions allowances to polluting entities\(^2\). By 2020, it may bring in as much as $10 billion annually. Under legal nexus rules, these funds must be used to further the GHG reduction goals of AB 32 or to mitigate the impacts of the emissions.\(^3\)

Governor Brown proposes allocating the revenue to four broad categories: (1) sustainable infrastructure development, including transportation and housing; (2) clean and efficient energy programs; (3) natural resource protection; and (4) low-carbon transportation, including transit.\(^4\)

The Link Between GHG Emissions, Transportation, and Land Use
The transportation sector is responsible for nearly 40% of GHG emissions in California, the most of any sector.\(^5\) These emissions are caused primarily by burning fuel in motor vehicles.

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\(^1\) California Health and Safety Code Section 38565
\(^2\) Governor’s Budget Summary, 2012-13, page 98
\(^3\) See Sinclair Paint Company vs. State Board of Equalization, CA Supreme Court, 1997
\(^4\) Governor’s Budget Summary, 2012-13, pages 98-99
\(^5\) See Climate Change Scoping Plan, Air Resources Board, 2008, and findings in Senate Bill 375 of 2008
There are three ways to reduce the sector’s emissions: (1) cleaner burning fuels, (2) more-efficient vehicles, and (3) reduced driving. ARB has adopted multiple approaches to address the first two. Now, a concerted strategy to achieve reductions from the third prong is essential.

SB 375 (Steinberg, 2008) created a planning framework that envisions reducing driving by providing more affordable homes in the right locations and better transportation choices. In its implementation recommendations, the ARB’s multi-stakeholder advisory committee said:

The affordability of housing and transportation and access to employment play a critical role in determining where Californians live, how much they travel and, therefore, directly affect the level of greenhouse gas reduction.⁶

In Quantifying Greenhouse Gas Mitigation Measures, the California Air Pollution Control Officers Association assesses a host of transportation and land use strategies that result in significant GHG reductions. Many of these also create savings for residents and businesses.

For example, an urban multifamily development near frequent transit and affordable to lower income households could reduce GHG emissions by as much as 65%.⁷ The key to achieving this level of reduction is building the right type of homes near a high-quality transit system. Because high-frequency transit and well-located affordable homes are significantly underbuilt in California, investments in their expanded production will have real impacts on GHG emissions.

**Our Proposal: Equity + Environment + Economy**

California can achieve demonstrable GHG reductions, benefit disadvantaged Californians, and create good jobs by allocating a significant portion of cap and trade revenues to:

1. Expanded and improved transit, vanpool, bicycle and pedestrian facilities within developed areas, especially in highly-congested areas and in low-income communities.
2. Transit-oriented “green” residential development affordable to core transit riders and households with the highest propensity to “shed” their cars and take transit when available.

These investments are the next step in on-the-ground implementation of SB 375 and are essential for California communities to realize the benefits of the bill’s enhanced planning. All Californians will benefit from (1) job creation in the transit and housing construction sectors (2) improved travel and housing options, and (3) healthier air.

This approach is especially important for disadvantaged Californians whose high housing and transportation costs consume the vast majority of their modest budgets and who face the most severe health impacts from exposure to emissions. To fulfill AB 32’s mandate, they must accrue significant benefits from cap and trade expenditures. Our proposal, combined with SB 535, accomplishes this goal – and the broader goals of AB 32.

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