public health alliance of southern california

A Partnership for Healthy Places

Cap-and-Trade Program Brief

CALIFORNIA's CAP-AND-TRADE PROGRAM IS A MECHANISM DESIGNED TO HELP THE STATE MEET ITS CLIMATE GOALS

In 2006, the California state legislature passed Assembly Bill 32, the Global Warming Solutions Act, which set a goal of reducing greenhouse gas emissions to 1990 levels (an approximately 30% reduction) by 2020, and 80% below 1990 levels by 2050.[1] To meet this goal, the State identified a series of strategies, including creating a cap-and-trade program, which would also raise revenue to pay for programs that could incentivize a shift away from fossil fuels.

The cap-and-trade program was signed into law in 2012 and the program began holding auctions in 2013.[2] In 2014, the Greenhouse Gas Reduction Fund (a.k.a. California Climate Investments Program) was established to allocate the revenues generated from cap-and-trade to programs that reduce greenhouse gas emissions. The Greenhouse Gas Reduction Fund (GGRF) currently funds programs such as the Affordable Housing Sustainable Communities (AHSC), Urban Greening, Transformative Climate Communities (TCC), and Low Carbon Transit Operations, and Active Transportation Programs (ATP).[3]

Cap-and-trade was initially authorized as a tool to help meet AB 32's 2020 climate goal—and therefore will expire soon. The 2016 approval of Senate Bill 32 created *new* GHG reduction targets for 2030 (40% below 1990 levels), and will likely necessitate the extension of a Cap-and-Trade or similar carbon pricing program as way of meeting these new goals.

RECENT CHALLENGES HAVE HINDERED THE PROGRAM'S EFFECTIVENESS

Is Cap-and-Trade a Tax? Since the inception of the program, there has been opposition from certain industries, primarily oil companies and manufacturers whose operations are regulated and significantly impacted by the cap-and-trade program. The California Chamber of Commerce sued the State in 2013, arguing that cap-and-trade was a tax, and thus should have been approved by a two-thirds majority in the legislature (it had passed with a simple majority). The State rebutted that cap-and-trade was a fee on pollution and not a tax. In April 2017, the California Court of Appeals sided with the State, but the case may be appealed to the Supreme Court.[4] Lawmakers have the goal of creating new legislation re-authorizing cap-and-trade, with approval from a two-thirds majority –thereby avoiding the uncertainty over the program's legality in the future.

HOW DOES CAP-AND-TRADE WORK?

Cap-and-trade systems work by setting a "cap" on greenhouse gas emissions (GHGs), and then allowing those who are polluting to trade with each other to keep overall emissions under that cap. The cap is also meant to incentivize industries to invest in cleaner technologies that generate less GHGs. The California Air Resources Board holds auctions each quarter for companies to trade allowances with each other, and the revenue generated from those auctions flows into the Greenhouse Gas Reduction Fund (GGRF). The cap declines approximately 3 percent every year beginning in 2013, and the auction prices vary based on supply and demand. For more information, see the Air Resources Board's Cap-and-Trade program fact sheet, available here.

WHAT IS THE GREENHOUSE GAS REDUCTION FUND?

Revenues from the cap-and-trade program are deposited in the Greenhouse Gas Reduction Fund, also known as the California Climate Investments Fund. In the first two years of existence, cap-and-trade auctions generated $900 million, and close to $2.2 billion by the end of 2015. This funding is used for programs that reduce greenhouse gas emissions and provide co-benefits. The fund is split into a continuous appropriation, with several programs receiving 60% of annual auction proceeds, and the remaining 40% allocated annually by the Governor through the budget process. Senate Bill 535 (2012) and Assembly Bill 1550 (Gomez) set aside portions of this funding for disadvantaged communities, currently ranging from 25-35% within each program . Current GGRF programs include the Affordable Housing Sustainable Communities program, Low Carbon Transportation, High Speed Rail, Low Income Weatherization, Urban Greening, and the Active Transportation Program.

For more information on the GGRF and the programs it funds, see the Air Resources Board GGRF webpage and CA Climate Investments page.

Why have-Cap and-Trade Revenues Declined? Another cloud over the program has been that recent auctions have failed to generate much revenue.[5] At one point the program was generating several billion dollars per year, but recent quarterly auctions have brought in less than $10 million. There are various theories about why this is happening, including uncertainty about the legal outcome of the aforementioned court case and whether the program will continue to exist beyond 2020. There has also been a glut of free allowances being sold on the market, so demand for higher-priced allowances is currently very low.[6] This is likely to change in the future, but policymakers are closely watching the quarterly auctions to see if activity picks up, or if the program needs a substantial overhaul to work as intended. Auctions happen quarterly, and the next one is in May 2017.

Is Cap-and-Trade Revenue Being Spent in the Right Places? Health equity and social justice communities have raised concerns about where the revenue from cap-and-trade is spent, and have urged the State to invest in places with poor social determinants of health. Two existing laws, SB 535 and AB 1550, require at least 25% of cap-and-trade revenue allocated through the GGRF go to projects that reduce greenhouse gas emissions in disadvantaged communities,[7] but the primary tool to identify disadvantaged communities, CalEnviroScreen, does not capture many communities experiencing poverty and poor health outcomes.

Is Cap-and-Trade Reducing Pollution? One of the main criticisms from the environmental justice community has been that the cap-and-trade program allows manufacturers to continue polluting in disadvantaged communities as long as they offset it somewhere else. A recent USC study found that pollution actually increased in many disadvantaged communities after cap-and-trade was put into place, even though it decreased overall in the state.[8] The California Office of Environmental Health Hazard Assessment (OEHHA) conducted a study with similar findings, including that 57% of facilities regulated by cap-and-trade are located within a half-mile of a disadvantaged community.[9] The current legislative proposals, identified below, seek to mitigate these concerns, but many in the environmental justice community feel that Cap and Trade is not the right mechanism to reduce pollution in their neighborhoods and a direct tax on carbon would have a greater impact.

CURRENT LEGISLATIVE PROPOSALS TO EXTEND CAP-AND-TRADE

There are currently three pieces of legislation that would extend cap-and-trade, two from the Assembly and one from the Senate. The bills, if passed, will likely be reconciled and a final version will be presented to the Governor for his signature. The Governor has called for a resolution before the July legislative recess, which begins on July 21, 2017, but bills have until September 15 to pass.[10]

AB 151 (Burke, Cooper) would extend cap-and-trade indefinitely by decoupling it from the State's climate laws (AB 32 and SB 32). It would also reform the system for distributing offsets, including establishing a new task force to review compliance and develop protocols for approving offsets.

AB 378 (C. Garcia, E. Garcia & Holden) would extend cap-and-trade through 2030, tying it to SB 32's goal of reducing GHG emissions to 40% below 1990 levels by 2030. The bill would also require greater consideration of the social costs of reducing greenhouse gas emissions, and place additional scrutiny on selling allowances within disadvantaged communities. It would authorize "no-trade zones" in certain areas with high levels of pollution..

SB 775 (Wieckowski) would extend cap-and-trade through 2030, tying it to SB 32's goal of reducing GHG emissions to 40% below 1990 levels by 2030. It also sets a ceiling on the price of carbon, places caps on facility emissions, eliminates free permits, and removes offsets. ***This bill also significantly changes where the revenue from auction proceeds goes: most of the funding would no longer go to the GGRF and instead would be allocated per capita to California residents through a Climate Dividend program.*** Some funding would be preserved for infrastructure and for climate change research.

POTENTIAL HEALTH EQUITY IMPACTS

Each of these three proposals contains changes that could significantly impact public health, especially in disadvantaged communities. Potential benefits include:

- **Restricting Trading in Polluted Areas:** All three bills propose changes that would potentially benefit disadvantaged communities by prohibiting trading of allowances in certain areas ("no trade zones") and banning offsets.
- **Higher Auction Prices Means More Revenue:** If more revenue is raised from the revised cap-and-trade system, then more revenue would be directed to disadvantaged communities, as two existing laws, SB 535 and AB 1550, require at least 25% of cap-and-trade revenue allocated through the GGRF go to projects that reduce greenhouse gas emissions in disadvantaged communities.[11]

There are some provisions that could have negative consequences, however:

- **Redistributing Revenue to a Dividend Program:** SB 775 would redirect most of the revenue from cap-and-trade auctions to a new Climate Dividend program. Under this proposal, approximately 60-90% of the revenue would be redistributed to California taxpayers as a rebate on a per-capita basis. The rationale is that cap-and-trade raises the price of carbon, and thus gasoline and other fossil fuels, so we should be passing along the money made from these regulations back to consumers. However, this may take funding away from programs that incentivize shifts away from fossil fuels and improve public health.
- **Reducing or Potentially Eliminating the GGRF:** If most of the revenue goes directly to consumers, and the GGRF programs disappear or are significantly curtailed, many public health departments and other government agencies would have less resources to carry out their work. Many local and regional governments have built GGRF funding into their long-range plans and would have to figure out new ways to pay for projects and programs.

WHAT CAN HEALTH DEPARTMENTS DO?

Public Health Departments can play a role in ensuring that funding continues to go to health-promoting programs within the GGRF, and that disadvantaged communities are not adversely impacted by changes to the cap-and-trade mechanism

1. **Communicate with other departments including planning and housing** to understand how much GGRF funding your community has received and applied for in the past. The State has created a map of awards.
2. **Partner with neighboring communities, your regional council of governments, and other agencies** to support the preservation of the GGRF, as well as any changes to the cap-and-trade system that could improve health in your communities.
3. **Work with professional associations** such as APHA, ASTHO, NACCHO, HOAC, CHEAC, and the National Association of Counties, to communicate your department's position to state legislators.
4. **Articulate the connections between public health co-benefits, cap-and-trade and the GGRF** in epidemiological studies, reports, external communications, conversations with elected officials and in your legislative platform.

HOW CAN I GET INVOLVED?

Join the Public Health Alliance of Southern California in tracking AB 151, AB 378 and SB 775 to develop a state-wide process for analyzing and responding to proposed changes to the cap-and-trade program. We encourage you to join our monthly Healthy Transportation calls, which occur on the first Monday of every month at 9:00 a.m. For more information contact Bill Sadler at bsadler@phasocal.org.

ADDITIONAL RESOURCES

A great deal of literature has been written about California's cap-and-trade program, as well as the current pieces of legislation. A few of these resources are provided below *(The Alliance does not agree with some of the statements made in these resources, however we have agreed to include them as a comprehensive round up of other background information).*

Air Resources Board, Cap-and-Trade Program website, https://www.arb.ca.gov/cc/capandtrade/capandtrade.htm

Air Resources Board, California Climate Investments website, http://www.caclimateinvestments.ca.gov/

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Cushing, L. et al., 2016. *A Preliminary Environmental Equity Assessment Of California's Cap-and-Trade Program,* http://dornsife.usc.edu/PERE/enviro-equity-CA-cap-trade

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[2] Air Resources Board, Cap-and-Trade webpage, available at https://www.arb.ca.gov/cc/capandtrade/capandtrade.htm
[3] The full list of programs is available here: https://www.arb.ca.gov/cc/capandtrade/auctionproceeds/auctionproceeds.htm
[4] Megarian, C. 2017, April 6. "California's cap-and-trade program survives a legal battle in a win for Gov. Jerry Brown and environmentalists." *Los Angeles Times,* available at http://www.latimes.com/politics/la-pol-sac-california-cap-trade-decision-20170406-story.html
[5] Megarian, C. 2017, May 1. "Companies would face tighter environmental restrictions in California under new cap-and-trade proposal." *Los Angeles Times,* available at http://www.latimes.com/politics/essential/la-pol-ca-essential-politics-updates-1493579947-htmlstory.html
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