

PROPOSITION 70: GREENHOUSE GAS REDUCTION RESERVE FUND

March 2018

SDCTA Position:

OPPOSE

Rationale for Position:

Proposition 70 adds another layer of legislative hurdles that is inconsistent with the existing budget approval process. Furthermore, a delay in the appropriation of cap-and-trade funds could have negative consequences on the climate-related projects that have been relying on them.

Title: Proposition 70

Jurisdiction: State of California

Type: Legislatively Referred Constitutional Amendment

Vote: Simple Majority

Status: On the June 5, 2018 Primary Election Ballot

Issue: Creation of a Greenhouse Gas Reduction Reserve Fund

Description: A legislatively referred constitutional amendment to create a Greenhouse Gas Reduction Reserve Fund for revenues from the state's cap and trade program in 2024 and to require a one-time two-thirds vote of the Legislature to spend these revenues at a future date.

Fiscal Impact: Proposition 70 could cause a potential temporary increase in sales tax revenue amounting up to a few hundred million dollars annually. Additionally, it is possible that Proposition 70 could change the amount of funds allocated to various greenhouse gas reduction programs relative to how they would be allocated if Proposition 70 did not pass. Placing the bill on the ballot will also have one-time General Fund costs for printing and mailing of up to a few hundred thousand dollars.

Background

Executive Order S-3-05

In order to address growing concerns about climate change, Governor Arnold Schwarzenegger signed an executive order in 2005 to establish greenhouse gas (GHG) emissions reduction targets for the State of California. These targets were to reduce GHG emissions to 2000 levels by 2010, to 1990 levels by 2020, and to 80 percent below 1990 levels by 2050. The targets were based on a scientifically established warming threshold of 2 degrees Celsius that is necessary to prevent major consequences of global climate change. The order also required oversight by various government agencies and biannual reporting on progress, the impacts of global warming, and mitigation strategies by the Secretary of the California Environmental Protection Agency.

California Global Warming Solutions Act of 2006

The Global Warming Solutions Act of 2006, or Assembly Bill 32, became law to help accomplish the GHG reduction goals set forth in Executive Order S-3-05. AB 32 required the California Air

Resources Board (CARB) to develop methods and regulations for reducing emissions and gave CARB the authority to regulate GHG emissions through required reporting, monitoring, and enforcement of emissions limits and reduction targets.

State Cap-and-Trade Program

AB 32 allowed CARB to develop market-based compliance mechanisms as part of their regulations. This market-based mechanism is the state's cap-and-trade program, which launched in 2012 as a cost-effective method of achieving the aggressive emissions reduction goals. This program sets a strict "cap" on GHG emissions that is reduced by about 3 percent every year. Companies must pay a penalty if they exceed the cap.

The state issues a limited number of permits which allow the emission of one metric ton of GHGs and which are required for certain sectors that are larger emitters. The total amount of emissions allowed varies based on industry and efficiency relative to industry benchmarks. Some of these permits are sold at quarterly auctions and others are given away for free. Companies who emit more GHGs can buy extra permits from auctions or from companies who do not emit large quantities of GHGs and who thus do not need their permits.

Because the cap is reduced annually, the effective price of these permits increases. Companies that reduce emissions more quickly can profit from the sale of these permits or from reserving them for future use. Trading these increasingly-expensive permits incentivizes companies to invest in innovative technology that will help them reduce GHG emissions on their own.

The revenue collected from the cap-and-trade program is deposited into the Greenhouse Gas Reduction Fund (GGRF) which is used to fund state and local GHG reduction programs. Spending from the fund is determined through the annual budget process with certain continuous appropriations established in the law.

Figure 1: California Legislative Analyst’s Office Estimated 2017-18 Cap and Trade Spending¹

Figure 1
Estimated 2017-18 Cap-and-Trade Spending^a
(In Millions)

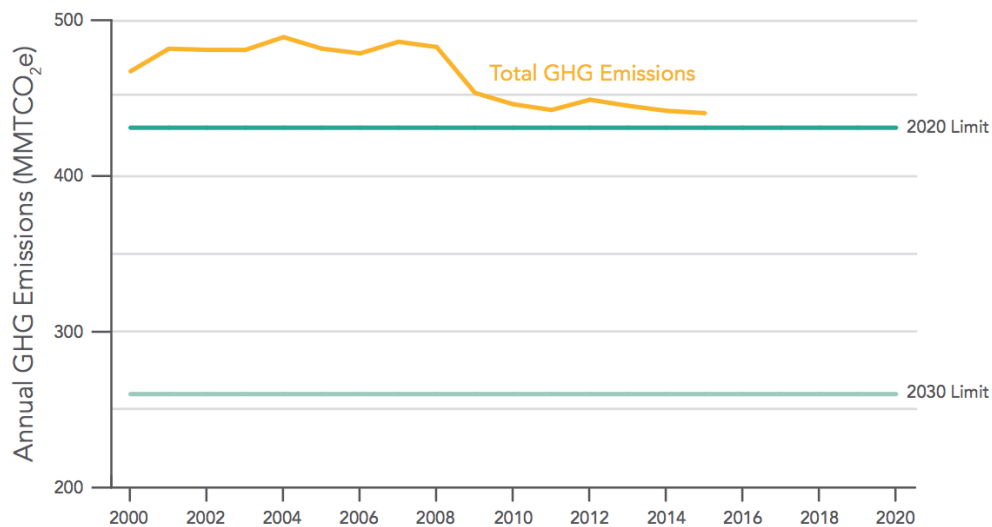
Program	Amount
Incentives for low-emission vehicles and equipment	\$810
High-Speed Rail	730
Affordable housing near transit	584
Public transit	438
Forestry and fire prevention	325
Agricultural emission reductions	250
Other	187
Total	\$3,324

^a Assumes \$3 billion in revenues in 2017-18. Amount could be higher or lower depending on actual auction results.

Executive Order B-30-15

In 2015, California was on track to meet or exceed GHG emission targets for 2020.² On April 29 of that year, Governor Jerry Brown signed Executive Order B-30-15 to set a new emission target of 40 percent below 1990 levels by 2030. This target was meant to help the state reach its final goal of 80 percent below 1990 levels by 2050, set by Governor Schwarzenegger in 2005.

Figure 2: California Air Resources Board GHG Inventory Trend³



¹ “Proposition 70 Analysis,” *Legislative Analyst’s Office*, 2018, www.lao.ca.gov/ballot/2018/Prop70-060518.pdf.

² “Governor Brown Establishes Most Ambitious Greenhouse Gas Reduction Target in North America,” *Office of Governor Edmund G. Brown, Jr.*, April 29, 2015, www.gov.ca.gov/2015/04/29/news18938.

³ “California’s Greenhouse Gas Emissions and the 2030 Target,” *California’s 2017 Scoping Plan*, Sacramento: California Air Resources Board, November 2017, p. 10, www.arb.ca.gov/cc/scopingplan/scoping_plan_2017.pdf.

Extension of Cap-and-Trade

In July 2017 after much negotiation, Governor Brown and the state Legislature approved an extension of the cap-and-trade program through 2030 in order to aid in meeting the new GHG reduction target. Along with the extension, the legislature approved new pollution regulations and Assembly Constitutional Amendment No. 1, which was referred to voters in June 2018.

Proposal

Proposition 70, otherwise known as Assembly Constitutional Amendment No. 1, was written by Representative Chad Mayes in 2017. As discussed above, it is a result of negotiations to extend the state cap-and-trade program and its intent is to ensure that the expenditure of cap-and-trade funds maintains broad support within the Legislature about half-way between the time the program was extended and the time it is set to expire. Proposition 70 would add a new section to the California Constitution, the details of which are outlined below.

Beginning January 1, 2024, all revenue collected from the state's cap-and-trade program would be deposited into a new Greenhouse Gas Reduction **Reserve** Fund (as opposed to the GGRF). The money would continue to be deposited into the reserve until a bill is passed by two-thirds of the state Legislature to appropriate the reserve funds for the same purposes for which they could be spent if they had been in the GGRF.

All money collected after the effective date of the bill for appropriation of the reserve fund would return to being deposited into the GGRF and would only require spending approval by a simple majority of the Legislature.

Finally, Section 6377.1 of the State Revenue and Taxation Code—a Sales and Use Tax exemption for manufacturing and research and development equipment until July 1, 2030—would not apply while the revenues are being deposited into the reserve fund. In other words, the full amount of sales tax would be applied to businesses for the purchase of these types of equipment from January 1, 2024 until the date that the appropriations bill becomes effective.

Fiscal Impact

If the California Legislature passes a bill with a two-thirds vote to appropriate the funds in question on January 1, 2024, then there will be no effective change in these funds. If a bill is not approved by that time, funds from the state cap-and-trade program will accumulate in the Greenhouse Gas Reduction Reserve Fund and no new funds will enter the GGRF, including for those continuous appropriations that occur automatically based on current law, until the time an appropriations bill is approved by two-thirds of both houses of the Legislature.

According to the California Legislative Analyst's Office analysis of the proposition, there may be a potential temporary increase in state sales tax revenue of up to a few hundred million dollars each year due to the suspension of the manufacturing equipment sales tax exemption. The amount of additional revenue earned would depend on the length of time that passes between January 1, 2024 and the date

the appropriations bill is approved by both houses. The California Assembly Floor Analysis estimated that additional sales tax would amount to about \$260 million each year.⁴

There may also be changes in how revenue from the sale of GHG emission permits is spent due to the required two-thirds vote of the Legislature. Because a higher voting threshold would be required, there may be different program spending priorities captured by the appropriations bill than there would have been with a simple majority vote.⁵

Proposition 70 will also have a one-time General Fund cost of a few hundred thousand dollars to print and mail the measure on the June 2018 ballot. The number of pages depends on a variety of factors including proponent and opponent arguments.

Governance Impact

Current law states that the Department of Finance is required to create a three-year investment plan for the revenues from the cap-and-trade program which are placed in the GGFR. This investment plan must consider the state's long- and short-term GHG reduction goals by sector, identify areas where more action is needed, and determine priority investments for achieving these goals. The investment plan is developed in coordination with the Public Utilities Commission, the Climate Action Team, and the public.

Money from the fund is then appropriated through the annual budget process consistent with the investment plan with certain continuous appropriations.⁶ According to the California Constitution, the State's budget has a requirement for a simple majority vote of approval by the Legislature as of Proposition 25 in November 2010.

Proposition 70 would increase the required vote to pass a spending bill for cap-and-trade revenues placed into the reserve fund from a simple majority to a two-thirds majority.⁷

Proponents

Governor Edmund J. Brown
California Chamber of Commerce
Assemblymember Chad Mayes

California State Firefighters' Association
Western United Dairymen

Proponent Arguments

"It is essential that future climate change revenues continue to reduce emissions and provide benefits to all Californians. Proposition 70 provides a strong safeguard against any effort to undermine this

⁴ Christian Griffith, "Assembly Floor Analysis," *California State Assembly*, July 14, 2017, www.leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201720180ACA1.

⁵ "Proposition 70 Analysis."

⁶ "Cap-and-Trade Auction Proceeds Budget Appropriations," *California Air Resources Board*, December 21, 2017, www.arb.ca.gov/cc/capandtrade/auctionproceeds/budgetappropriations.htm.

⁷ The California Chamber of Commerce had previously sued to block the cap-and-trade auctions, arguing that they constituted a tax for businesses which require a two-thirds supermajority vote. The case was thrown out because courts decided that the auctions were a fee, not a tax.

goal. It forces two-thirds of the legislature to come together in 2024 to evaluate if the money has been spent wisely and beneficially for the good of all Californians...Proposition 70 is part of a historic bipartisan effort to achieve our climate goals, retain good paying jobs to sustain our growing economy, and protect air quality and public health.” – Argument in Favor of Proposition 70

“The CalChamber Board voted to support this measure because ACA 1 will encourage bipartisan support for an expenditure plan and allow for a process to negotiate expenditures that furthers the goals of the Legislature as a whole. The pause on expenditures will allow time to evaluate the efficacy of programs that are being continuously funded.” – California Chamber of Commerce

Opponents

Senator Ben Allen	jPoder!
Assemblymember Todd Gloria	Communities for a Better Environment
Coalition for Clean Air	Environmental Health Coalition
League of Women Voters California	SCOPE
Natural Resources Defense Council	Azul
California League of Conservation Voters	Center for Biological Diversity
NextGen California	Central Coast Alliance United for a Sustainable Economy
Physicians for Social Responsibility Los Angeles	The Greenlining Institute
California Environmental Justice Alliance	Leadership Council for Justice & Accountability
Friends of the Earth	PolicyLink
The Courage Campaign	Climate Hawks
Sierra Club California	Center on Race, Poverty, and the Environment
Asian Pacific Environmental Network	
Center for Community Action and Environmental Justice	

Opponent Arguments

“This measure would add a requirement that two thirds of legislators approve the first appropriation of any money collected from the sale by CARB (California Air Resources Board) of Cap-and-Trade allowances after 2024. At a time that we need efficient and effective investments in climate change solutions, this requirement could lead to deadlocks, inefficiency, and poor decisions.” – League of Women Voters

“Proposition 70 is undemocratic. It would let a small group of politicians who have opposed our successful clean air strategies derail progress on climate change and pollution reduction. We can’t allow that to happen. There is too much at stake for our health, our planet and for future generations. Big oil companies and other industries that cause our worst pollution want Proposition 70 so they can sideline pollution reduction programs and keep poisoning our air and water.” – Rebuttal to the Argument in Favor of Proposition 70

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