Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 26, 2015
9:30 a.m. or Upon Adjournment of Session
Hearing Room 112

Consultants: Farra Bracht and Catherine Freeman

PART A

CAP-AND-TRADE

Resources—Environmental Protection—Energy—Transportation

OVERVIEW OF THE CAP-AND-TRADE PROGRAM

Background. The goal of the state's climate plan is to reduce greenhouse gas (GHG) emissions to 1990 levels by the end of this decade. The Cap and Trade program, a key element in the Administration's plan to achieve these goals, sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. The Cap-and-Trade program places a "cap" on aggregate GHG emissions from entities responsible for roughly 85 percent of the state's GHG emissions. To implement the Cap-and-Trade program, the Air Resources Board (ARB) allocates a certain number of carbon allowances equal to the cap. Each allowance equals one ton of carbon dioxide equivalent. The ARB provides some allowances for free, while making others available for purchase at auctions. Once the allowances have been allocated, entities can then "trade" (buy and sell on the open market); in order to obtain enough to cover their total emissions for a given period of time. As part of its program, the ARB will give free allowances to the state's large industrial emitters, as well as the state's electric utilities, in order to reduce the economic impact of the Cap-and-Trade program.

Subsequent to the passage of AB 32, (Núñez and Pavley), Chapter 488, Statutes of 2006, the Legislature passed several bills related to the reduction of GHGs. These bills have provided guidance to the Administration as it continues to develop expenditure plans for auction proceeds. In addition, the Administration has issued several executive orders that, though not law, have also provided input into the development of the expenditure plan. Select statutory and executive guidance for cap-and-trade expenditures are summarized in the following table.

Select Statutory and Executive Guidance for Cap-and-Trade Expenditures

Statute	Summary
Global Warming Solutions Act 2006, Chapter 488 Statutes of 2006 AB 32 (Núñez and Pavley)	• Established the goal to reduce greenhouse gas emissions to 1990 levels by 2020.
Chapter 830 Statutes of 2012 SB 535 (de León)	• Requires 10 percent of cap and trade proceeds be invested within the most impacted and disadvantaged communities. • Requires 25 percent of auction proceeds to benefit impacted and disadvantaged communities.
Chapter 807 Statutes of 2012 AB 1532 (Pérez)	• Required the Administration to develop a three-year investment plan for auction proceeds.
Chapter 728 Statutes of 2008 SB 375 (Steinberg)	• Directs the Air Resources Board to set regional GHG reduction targets and guides sustainable community strategies.
Chapter 39 Statutes of 2012 SB 1018 (Committee on Budget)	• Provides guidance for collection and allocation of auction funds. • Requires state agencies to provide up-front information on GHG emission reductions prior to expenditure for any proposed auction-revenue funded program.

Executive Order	Summary
Executive Order B-18-12 (2012)	• Requires state agencies to reduce GHG emissions by 10 percent by 2015 and 20 percent by 2020.
Executive Order B-16-12 (2012)	• Establishes targets for zero-emission vehicles in the state. • Establishes a GHG emission reduction target of 80 percent less than 1990 levels in the transportation sector by 2050.

Implementing Benefits to Disadvantaged Communities. All auction revenues are subject to the provisions of SB 535 (de Léon), Chapter 830, Statutes of 2012. As discussed previously, SB 535 requires 10 percent of cap-and-trade proceeds be invested within the most impacted and disadvantaged communities, and 25 percent of auction proceeds to benefit impacted and disadvantaged communities. The Secretary for Environmental Protection (Cal-EPA) and the Air Resources Board (ARB) are charged with overseeing the implementation of this chapter, including identification of disadvantaged communities and reporting on the implementation as funding is distributed.

SB 535 directs the Secretary for Cal-EPA to identify disadvantaged communities. Identification must be based on geographic, socioeconomic, public health, and environmental hazard criteria. The criteria may include, but are not limited to:

- Areas disproportionally affected by environmental pollution and other hazards that can lead to negative public health effects, exposure, or environmental degradation.

- Areas with concentrations of people that are low-income, high unemployment, low levels of homeownership, high rent burden, sensitive populations, or low levels of educational attainment.

The Cal-EPA developed a tool called CalEnviroScreen to identify disadvantaged communities for investment. Through the Office of Environmental Health Hazard Assessment (OEHHA), the tool was developed to assess areas that are disproportionately affected by multiple types of pollution and areas with vulnerable populations. Using this tool, the Cal-EPA provided guidance to state agencies administering all cap-and-trade auction revenues in order to meet the provisions of SB 535.

In November 2014, the ARB released its first SB 535 report and included estimated auction revenue appropriations expected to benefit disadvantaged communities. The table below shows the funding and allocations with their respective benefits to disadvantaged communities. As shown, the Administration is planning to invest at least 33 percent of funds in areas benefiting disadvantaged communities, mainly from low-emission vehicle rebates, incentives for low-emission vehicles, and grants for weatherization and solar installation. For funding specifically targeted to disadvantaged communities, the majority is from the weatherization program and a small amount from the urban forestry program at CalFIRE.

2014-15 Investment in Disadvantaged Communities
As of November 2014

Department	Activity	2014-15 (in millions)	% Targed to DAC	Total Benefiting DAC	Total Located in DAC
High-Speed Rail Authority	Construction of the Phase 1 blended system for high-speed rail	$250	n/a	n/a	n/a
Strategic Growth Council	Affordable housing and sustainable communities	130	50%	$65	n/a
Transportation Agency	Transit and intercity rail capital	25	25%	$6	n/a
State Transit Assistance	Low carbon transit operation	25	32%	$8	n/a
Air Resources Board	Low-emission vehicle rebates and incentives for low emission vehicles	200	50%	$100	n/a
Community Services and Development Department	Grants for weatherization and solar installation including the Low-Income Home Energy Assistance Program	75	100%	$75	$75
Department of Forestry and Fire Protection	Fire prevention and urban forestry	42	n/a	n/a	$10
Department of Fish and Wildlife	Wetlands restoration (state and local assistance)	25	n/a	n/a	n/a
Department of Resources Recycling and Recovery	Waste diversion	25	10%	$3	n/a
Department of General Services	Energy efficiency upgrades in state buildings	20	n/a	n/a	n/a
Department of Food and Agriculture	Reducing agricultural waste	15	n/a	n/a	n/a
Totals		**$832**	**33%**	**$275**	**$85**
				33%	**10%**

(n/a): As of the time of reporting (November 2014), this information is not available.

GOVERNOR'S PROPOSAL

Governor's Cap-and-Trade Expenditure Proposal. The Governor's budget proposes to spend $1.0 billion from cap-and-trade auction revenue in 2015-16. For sixty percent of the funds allocated in 2015-16, the allocation amounts are ongoing, based on percentage allocations established for specific activities in Senate Bill 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, as shown in the table below.

Governor's Cap-and-Trade Expenditures
(Dollars in Millions)

Department	Activity	Percent in Law*	2014-15	2015-16 Proposed
High-Speed Rail Authority	Construction of the Phase 1 blended system	25 %	$250	$250
Strategic Growth Council	Affordable housing and sustainable communities	20 %	130	200
Transportation Agency	Transit and intercity rail capital	10 %	25	100
State Transit Assistance	Low carbon transit operation	5 %	25	50
Air Resources Board	Low-emission vehicle rebates and incentives for low emission vehicles	n/a	200	200
Community Services and Development Department	Grants for weatherization and solar installation including the Low-Income Home Energy Assistance Program	n/a	75	75
Department of Forestry and Fire Protection	Fire prevention and urban forestry	n/a	42	42
Department of Fish and Wildlife	Wetlands restoration (state and local assistance)	n/a	25	25
Department of Resources Recycling and Recovery	Waste diversion	n/a	25	25
California Energy Commission	Energy efficiency upgrades in state buildings	n/a	20	20
Department of Food and Agriculture	Reducing agricultural waste		15	15
Totals			**$832**	**$1,002**

*Other programs receive 40 percent of cap-and-trade funds with allocations to be determined in the future.

Transportation and Sustainable Communities. The Governor proposes $600 million for transportation-related programs and projects.

- **High-Speed Rail Project (High-Speed Rail Authority).** The budget includes $250 million for the state high-speed rail project. Funding will support construction of the Phase 1 blended system which extends from the San Fernando Valley to Los Angeles Union Station, linking the upgraded Metrolink corridor to Anaheim and connecting to commuter and urban rail systems throughout the Los Angeles region. These improvements allow high-speed trains to travel the entire 520 miles between San Francisco, Los Angeles and Anaheim.

- **Affordable Housing and Sustainable Communities (Strategic Growth Council).** The budget proposes $200 million for grants and loans projects that reduce greenhouse gas emissions (GHGs) by creating more compact, infill development patterns, integrating affordable housing, encouraging active transportation and mass transit usage, and protecting agricultural land from sprawl development. Two prototype projects that have been identified to implement this strategy are transit-oriented development (reduce vehicle miles traveled in areas with high-quality transit systems) and integrated connectivity projects (reduce vehicle miles traveled in areas that lack high-quality transit). Funds will be allocated on a competitive basis. Final program guidelines have been published. The process to award projects involves submission of a concept proposal followed by a full application for projects SGC selects. Staff is currently finalizing the review of submitted concept proposals. Applicants will be notified of the results of concept proposal reviews by March 16, 2015. Full applications will be due by April 20, 2015, and projects will be awarded funding in June 2015.

- **Transit and Intercity Rail Capital Program (Transportation Agency).** The budget proposes $100 million as part of a two-year program to fund capital improvements and operational investments that will modernize California's transit systems and intercity, commuter, and urban rail systems to reduce emissions of greenhouse gases by reducing vehicle miles traveled in California. Draft guidelines were released in mid-December 2014. In February 2015, the California State Transportation Agency began accepting applications for the competitive program. Eligible applicants include public agencies that operate existing or planned intercity rail, commuter passenger rail, urban rail transit service, or bus services. Applicants may also partner with other transit operators to better integrate with bus or ferry service. All projects must demonstrate that they will achieve a reduction in greenhouse gas emissions. Grant recipients must also show benefits, such as improved transit ridership, integration with other rail and transit systems, including high-speed rail, and improved rail safety. Applications must be submitted by April 10, 2015, and the Transportation Agency will announce the grant recipients in the Summer of 2015.

- **Low Carbon Transit Operations Program (State Transit Assistance).** The budget includes $50 million to provide operating and capital assistance to transit agencies. The State Controller's Office (SCO) will allocate funding based on a formula to public transit agencies that currently qualify for funding in the State Transit Assistance Program. The SCO distributes allocations as follows: 50 percent of regional entities based on population and 50 percent to transit agencies based on farebox revenue. Eligible expenditures include new or expanded bus or rail services, including operating expenses, such as equipment acquisition, fueling, and maintenance. Funds for this program will go out in April 15, 2015 and June 30, 2015 and beginning in 2015-16 transit agencies will be able to accrue funds over multiple years.

- **Low Carbon Transportation (Air Resources Board).** The budget proposes $200 million to continue the existing clean transportation programs that provide incentives for sustainable freight technology, zero-emission cars, low-emission cars in disadvantaged communities, and clean trucks and bus programs. The previous year investments included: $116 million for the Clean Vehicle Rebate Project, which offers rebates directly to consumers who purchase zero-emission, and near-zero-emission vehicles; $85 million for low carbon trucks and buses with a focus on freight, for advanced technology, heavy duty vehicle and equipment deployments and demonstrations in disadvantaged communities; and, $10 million for continued funding of the Truck Loan Assistance Program, which helps smaller truck fleets that have difficulty obtaining loans to upgrade their trucks, and provides enhanced credit assurance so small fleets can access loans for trucks with clean diesel technologies.

Energy Efficiency and Clean Energy Programs. The Governor proposes $110 million for clean energy programs including:

- **Weatherization Upgrades and Local Energy Efficiency (Community Services and Development Department).** The budget proposes $75 million to continue to support the existing weatherization and solar programs through local service providers, combined with the federal Low-Income Home Energy Assistance Program (LIHEAP) and Weatherization Assistance Program. Services benefit disadvantaged communities through the installation of solar photovoltaic systems, solar water heating systems, and weatherization measures. The use of energy audit tools will determine the installation of cost-effective measures such as insulation, weather stripping and caulking, water heater blankets, fixing or replacing windows, refrigerator replacement, and other specific projects.

- **Green State Buildings (California Energy Commission).** The budget provides $20 million to support the expansion of energy efficiency financing programs to reduce GHGs and energy usage in state buildings. Funding is provided through the State Energy Conservation Assistance Account for purposes of tracking and providing loans that may be used by state agencies, including the University of California and California State University.

- **Emission Reductions through Agriculture (Department of Food and Agriculture [CDFA]).** The budget provides $15 million to support the development and implementation of three specific programs at CDFA: (1) dairy digester research and development program to facilitate the design and construction of dairy digester systems; (2) nitrogen research and management program to fund research and technical assistance on reducing nitrous oxide emissions, nitrification inhibitors, water and nitrogen movement in the environment, and evaluation of water and nitrogen management practices; and, (3) an alternative and renewable fuels program to develop fuel quality specifications and standards for renewable and zero emission fuels, such as biofuels produced from dairy digesters and other agricultural waste.

Natural Resources and Waste Diversion. The Governor proposes $92 million for natural resources and waste programs including:

- **Wetland Restoration (Department of Fish and Wildlife).** The budget provides $25 million for wetland restoration. Projects include: (1) planning and implementation of Sacramento-San Joaquin Delta and coastal restoration projects that integrate GHG reduction, flood protection, habitat restoration, and climate change readiness; (2) planning and implementation of mountain meadows restoration in the Cascade and Sierra Nevada mountain ranges including groundwater storage, stream flow stability, water supply and habitat restoration; and, (3) planning and implementation of wetland restoration and water efficiency projects on state-owned and administered lands. These projects will provide the state a dedicated program for integrating wetland restoration for fish and wildlife with water supply improvement and carbon sequestration.

- **Forest Management and Fire Prevention (Department of Forestry and Fire Protection [CalFIRE]).** The budget provides $42 million per year to support existing and expanded programs at CalFIRE. These include: (1) urban and community forestry local assistance grants; (2) demonstration state forests and cooperative wildland research, mainly at state forest facilities; (3) fuel reduction through CalFIRE's vegetation management program, which are designed to reduce wildland fire threat through a cost-sharing program with landowners that focuses on a combination of treatment types; (4) reforestation services under the authority of the state nurseries and reforestation studies statutory guidance; (5) funding for the forest legacy program to invest in forestlands to prevent future conversion to non-forest use; and, (6) continued implementation of the forest practice program and forest pest control programs.

- **Waste Reduction, Recycling, and Composting (CalRecycle).** The budget provides $25 million annually to support the expansion of existing recycling programs designed to reduce methane emissions at landfills and reduce further GHG in upstream management and manufacturing processes. The majority of funding will be used for grants and loans for in-state development of infrastructure to process organic materials and recyclable commodities into new value-added products.

ISSUES TO CONSIDER

Benefits to Disadvantaged Communities. Under state law, cap-and-trade expenditures must benefit disadvantaged communities. Some of these criteria are broad, across all expenditure categories, and others are program-specific. Should the Legislature require each funding pot to adhere to SB 535 guidelines, including transportation and high-speed rail? What would be the impact directly to disadvantaged communities if more funding were allocated for direct benefit within these communities?

Allocation of 40 Percent Unallocated. A significant amount of funding (40 percent) is available to the Legislature annually for allocation. At present, funding is distributed mainly to the Governor's priority areas, including low-emission vehicle rebates and incentives, weatherization programs, and various natural resources programs. To achieve lower emissions; as well as impact low-income areas and areas with greater impacts from climate change, the Legislature should consider options for this funding. For example, does the combination of waste diversion and energy efficiency upgrades in state buildings bring more benefits than, say, investment in clean and efficient drinking water systems? Would urban forestry programs make more of an impact in low-income and green-space poor areas? Should these programs, in particular, target a subset of need that has not yet been identified?

Additional Revenue Likely Available. According to the LAO, future revenues are subject to substantial uncertainty. The amount of future auction revenue will depend on two basic factors: the number of state allowances purchased and the selling price of the allowances. Both of these factors are uncertain because they can be affected by many factors that are difficult to predict, including overall economic activity, covered entities' costs of emission reduction alternatives, market expectations about future allowance prices, industry expectations about future statutory or regulatory changes, and the degree to which other AB 32 policies reduce emissions. The figure below illustrates a range of potential revenues in 2014–15 and 2015–16, based on the LAO's use of different assumptions about the proportion of state allowances sold and the average price of allowances sold.

Range of Estimated Annual Cap–and–Trade Revenue
(In Billions)

		LAO Scenarios		
	Governor's Budget	**Low Revenue**	**Moderate Revenue**	**High Revenue**
2014–15	$0.7	$1.3	$1.5	$2.8
2015–16	1.0	2.0	2.3	4.9
Totals	**$1.7**	**$3.3**	**$3.7**	**$7.7**

To the extent revenues exceed the amount assumed in the budget, those programs that are continuously appropriated specified percentages of auction revenue would receive more funding in 2015–16 than is identified in the Governor's budget. For example, under the moderate revenue scenario, the 60 percent of continuous appropriations in 2015–16 would be allocated as follows:

- $570 million for high–speed rail,
- $456 million for affordable housing and sustainable communities,
- $228 million for transit and intercity rail capital program,
- $114 million for low carbon transit operations.

Under the Governor's proposal, any unanticipated revenue in 2014–15 above the $650 million assumed in the budget, as well as 40 percent of revenue above $1 billion collected in 2015–16, would remain unallocated. For example, an additional $800 million in 2014–15 revenue and $500 million in 2015–16 revenue would remain unallocated under the moderate revenue scenario discussed above.

According to the LAO, the Legislature could use additional auction revenue—relative to what is assumed in the Governor's budget—in many different ways. These options include: (1) waiting to spend funds until future years, (2) allocating funds to existing GGRF programs in 2015–16, and (3) allocating funds to other programs in 2015–16.

TRANSPORTATION AND SUSTAINABLE COMMUNITIES PROPOSALS

Item 0521: Secretary for Transportation Agency
Transit and Intercity Rail Capital Program
Low Carbon Transit Operations Program

The Transportation Agency will provide 1) an overview of the transit and intercity rail capital program and the low carbon transit operations program; 2) an update on the implementation of these two programs and; 3) discuss the timeline for awarding funds for these programs.

Questions for Both Programs:

1. Please discuss how the Transportation Agency is coordinating with the Air Resources Board, the Strategic Growth Council, the California Department of Transportation (Caltrans) and High-Speed Rail when developing these programs and ultimately awarding funds.

2. What mechanisms will be used to evaluate if the grants resulted in GHG emission reductions?

3. What happens if projects that are awarded grants do not achieve the anticipated level of GHG emission reductions?

4. Will the programs try to achieve a geographic balance of projects around the state? How are factors such as (a) the applicant's availability of matching funds, (b) estimated time to project completion, and (c) GHG emission reductions considered when determining who receives funds?

5. Please describe some of the types of projects that have been received in the first round of applications for the Low Carbon Transit Operations Program.

Staff Recommendation: Informational only item. No action necessary.

Item 0650: Governor's Office of Planning and Research, Strategic Growth Council Affordable Housing and Sustainable Communities Program

Background. Pursuant to SB 862, the Strategic Growth Council (SGC) is required to develop and administer the Affordable Housing and Sustainable Communities (AHSC) program (described in more detail above) and to leverage the programmatic and administrative expertise of relevant state agencies and departments in implementing the program. The Council's responsibilities include developing guidelines, reviewing applications, and providing funding as part of greenhouse gas reduction efforts associated with cap-and-trade funds.

The SGC is comprised of ten members representing six state agencies: the secretaries of the Natural Resources Agency; the California Environmental Protection Agency; California State Transportation Agency; the California Health and Human Services Agency; the California Business, Consumer Services and Housing Agency; and the California Department of Food and Agriculture; as well as the director of OPR, one public member appointed by the Governor, one member appointed by the Senate Rules Committee, and one member appointed by the Speaker of the Assembly.

SB 862 also transferred administrative oversight and staffing of the SGC from the Natural Resources Agency to OPR and the 2014 budget act appropriated $800,000 Greenhouse Gas Reduction Funds for six existing staff positions to support the ongoing work of SGC. This work is related to three grant programs funded by Proposition 84. These programs are 1) Sustainable Communities Planning Grant and Incentives Program; 2) Urban Greening for Sustainable Communities Grant Planning and Projects Program; and 3) Modeling Incentive Awards. As of June 30, 2014, the final rounds of funding for these programs will be awarded, committing the last of the Proposition 84 local assistance funding. According to SGC it continues to support existing grantees through program evaluation and technical assistance.

Budget Proposal. The OPR requests $255,000 (Greenhouse Gas Reduction Funds) for two permanent positions—one associate intergovernmental program analyst and one senior intergovernmental program analyst. These staff would directly oversee the administrative requirements associated with transferring, tracking, oversight, audits, and reporting that are related to coordination of the existing SGC programs and the AHSC program.

Staff Comments. The budget request for the two positions did not provide a workload justification. Currently, SGC has six staff working on the Proposition 84 grant programs. This request is for staff to provide more administrative to support existing programs and the BCP request is for staff for both AHSC and existing programs. However, when the six positions were transferred from the Resources Agency last year, there was no indication that additional staff was needed for the Proposition 84 workload.

Questions:

The Strategic Growth Council will provide 1) an overview of the AHSC program; 2) an update on the implementation of this program and; 3) discuss the timeline for awarding funds for the program.

1. Given that all of the Proposition 84 grant funds have been awarded, what specifically are the responsibilities of the current six SGC staff? How many staff are working on Proposition 84-related activities and how many staff are working on the AHSC program?

2. What mechanisms will be used to evaluate if the grants result in GHG emission reductions?

3. What happens if projects that are awarded grants do not achieve the anticipated level of GHG emission reductions?

4. Is the Council looking to fund a single large project to serve as a model for future projects, or many smaller projects? Please describe some of the types of projects that have been proposed.

5. How would active transportation projects compete for funding?

6. What is the Council doing to assess how projects will best implement local Sustainable Communities Strategies and coordinate with local agencies such as Metropolitan Planning Organizations (MPOs)?

Staff Recommendation: Hold open the request for two positions until a workload justification is received.

Item 3900: Low Carbon Transportation—Air Resources Board (ARB)

Budget Proposal

Item 3900: Low Carbon Transportation (Air Resources Board). The budget proposes $200 million for the existing clean transportation programs that provide incentives for sustainable freight technology, zero-emission cars, low-emission cars in disadvantaged communities, and clean trucks and bus programs.

Background. The ARB has existing programs designed to support low- and zero-emission vehicle technology (clean transportation programs). The ARB has allocated the funding (including 2013-14 and 2014-15) as follows:

- **Zero-Emission Cars and Heavy-Duty Hybrid or Zero-Emission Trucks.** $131 million for zero-emission and plug-in hybrid passenger vehicles (including purchase and lease incentives). $415 million for heavy duty hybrid or zero-emission trucks and buses.

- **Sustainable Freight Technology**. $50 million to support the development and demonstration of transformational zero or near zero-emission advanced goods movement technologies near California ports, rail yards, distribution centers, airports, and freeways.

- **Clean Trucks and Buses.** $25 million for truck and bus pilot projects in disadvantaged communities. $9 million for light duty pilot projects in disadvantaged communities.

Questions:

1. The zero-emission programs are not competitive, and are allocated on a first-come, first served, basis. Is this the best way to ensure that low-income and disadvantaged communities are able to access these funds? What amount of the funding has directly benefited disadvantaged communities?

2. Over 50 percent of the funds for low carbon transportation was allocated to zero-emission vehicles. What is the comparative metric for emission reductions between reducing emissions from freight or buses versus individual automobiles?

3. Does the ARB have a breakdown of where funding from the various programs is being allocated?

Item 2665: High-Speed Rail Authority

Will be discussed in Part B of this agenda.

Energy Efficiency and Clean Energy Programs

Weatherization Upgrades and Local Energy Efficiency

Budget Proposal.
Item 4700: Community Services and Development Department (CSD). The budget proposes $75 million ($75 million local assistance and $5 million state operations) to support the expansion of existing weatherization and solar programs through local service providers, combined with the federal Low-Income Home Energy Assistance Program (LIHEAP), and Weatherization Assistance Program. Services will benefit disadvantaged communities through the installation of solar photovoltaic systems, solar water heating systems, and weatherization measures. The use of energy audit tools will determine the installation of cost-effective measures such as insulation, weather stripping and caulking, water heater blankets, fixing or replacing windows, refrigerator replacement, and other specific projects.

Background. The CSD partners with a statewide network of more than 40 local service providers (LSPs), which include private, nonprofit, and local government organizations. The CSD traditionally allocates federal block grants for low-income programs to the LSPs for workforce development, weatherization, and energy assistance.

Federal funding declined over several years until 2009, when CSD received $186 million in American Recovery and Reinvestment Act (ARRA) federal funds. With these funds, CSD, in conjunction with its LSP partners, weatherized nearly 60,000 low-income homes. Funds from this initial allocation are nearly exhausted; however, the networks and program capacity remains.

Questions:

1. Funding from this program is required to benefit disadvantaged communities. Funding for the weatherization programs are anticipated in March and June of this year. What is the geographic distribution of the projects that have been awarded?

2. Should the program be expanded beyond existing service providers in order to serve a more people in the state?

Energy Efficiency in Public Buildings

Budget Proposal

Item 3360: California Energy Commission: The budget proposes $20 million to provide energy efficiency and energy generation projects in public buildings, including the University of California, the California State University, and courts. Energy savings projects will include lighting systems, energy management systems, and equipment controls. Projects may also include building insulation and heating, ventilation, and air conditioning equipment.

Questions:

1. How does the CEC plan to allocate funds to the various program areas?

2. Can non-state public buildings, such as city halls or local water agencies, compete for the funding?

3. What has been the response to the solicitation? If the Legislature were to expand this category of funding to include public infrastructure (beyond buildings), how would the CEC need to amend the regulations and solicitation?

Natural Resources and Waste Reduction

Wetland and Watershed Restoration

Budget Proposal.
Item 3600: Department of Fish and Wildlife (DFW). The budget proposes $25 million for wetland and watershed restoration. These projects will provide the state a dedicated program for integrating wetland restoration for fish and wildlife with water supply improvement and carbon sequestration. This proposal does not include a specific GHG reduction target, but does include metrics for measurement of reduction of GHGs through carbon update, measured in carbon per acre.

Background. The DFW currently manages or participates in several wetland-related programs, including:

- **Wetland Habitat Program.** Wetland habitat preservation and enhancement are accomplished primarily through technical and financial assistance, participation on key wetland steering committees, such as the Central Valley Joint Venture, and the authoring and distribution of current wetland management information.

- **Natural Communities Conservation Plans and Habitat Conservation Planning.** In addition to consulting with locals on natural area planning, the department coordinates habitat acquisition associated with plans, local assistance grants for conservation planning and implementation, conservation and mitigation banking, and voluntary integrated resource management plans. This includes activities within the Sacramento-San Joaquin River Deltas and the Bay-Delta Conservation Plan.

Questions:

1. The department plans to allocate funding in three main areas: delta coastal wetlands, mountain meadows, and water efficiency on state lands owned by Department of Fish and Wildlife. How was the solicitation structured so that non-state entities could compete with the state for funding.

2. How will the department measure greenhouse gas emissions? What recourse does the state have if a project proponent is unable to reduce greenhouse gas emissions in the manner they describe for the project?

3. Were state conservancies eligible for funding and if so, how many applied?

Forest Management and Fire Prevention

Budget Proposal

Item 3450: Department of Forestry and Fire Protection (CalFIRE). The budget proposes $42 million per year to support existing and expanded programs at CalFIRE. Of this amount, $18 million is allocated for urban forestry projects. The remaining funds will be allocated to:

(1) demonstration state forests and cooperative wildland research;

(2) fuel reduction through CalFIRE's vegetation management program, which are designed to reduce wildland fire threat through a cost-sharing program with landowners that focuses on a combination of treatment types;

(3) reforestation services under the authority of the state nurseries and reforestation studies statutory guidance;

(4) funding for the forest legacy program to invest in forestlands to prevent future conversion to non-forest use; and,

(5) continued implementation of the forest practice program and forest pest control programs.

Questions:

1. How will the department prioritize the use of working forest conservation easements that result in permanent and enforceable commitments to improved habitat and watershed function?

2. The department has a dedicated funding source for fuel reduction statewide on all State-Responsibility Area (SRA) lands (SRA fee). The SRA fee has a healthy fund-balance that the department has not proposed to use this budget year. How did the department prioritize the cap-and-trade funds for additional fuel reduction activities that can be funded by the SRA fee, compared than other forest priorities?

3. The Department of Finance required the department to allocate all of the urban forestry program funding to disadvantaged communities. What communities does this miss? Would it not be more appropriate to set a percentage of all of these funds for disadvantaged communities?

4. Wouldn't the Wildlife Conservation Board's Forest Program, which is the state's expert in conservation easements, particularly those that cross department boundaries, and that includes a Legislative Advisory Committee, be a more appropriate funding agent for the non-urban forestry grant program?

Waste Reduction, Recycling, and Composting

Budget Proposal:
Item 3970: Department of Resources Recycling and Recovery (CalRecycle).
The budget proposes $25 million annually, to support the expansion of existing recycling programs designed to reduce methane emissions at landfills and reduce further GHG in upstream management and manufacturing processes. The majority of funding ($15 million per year) will be used for grants and loans for in-state development of infrastructure to process organic materials and recyclable commodities into new value-added products. An additional $10 million per year will be used to establish a new GHG revolving loan fund to provide financial assistance through low-interest loans for recycling market development zones and to increase recycled manufacturing.

This proposal includes metrics for measurement of GHG reduction and a specific target of 1-2 million metric tons of GHG reduction by the end of 2014-15.

Background. Significant GHG reduction can be achieved by redirecting organic materials from landfills to composting and anaerobic digestion. Similar significant emission reductions can be obtained by substituting recyclable commodities for virgin materials in manufacturing processes, to produce recycled-content products. The department has co-developed six technical papers and an implementation plan through the ARB's 2013 Scoping Plan Update. The current draft of the waste sector plan acknowledges that meeting waste reduction and greenhouse gas emission reduction goals will require adjustments in waste streams.

Questions:

1. How does this proposal meet the state's 75 percent recycling goal?

2. What has been the interest in the loan program and how does the department envision this shifting to a self-sustaining fund?

Emission Reductions through Agriculture

Budget Proposal:

Item 8570: Department of Food and Agriculture (CDFA).

The budget proposes $25 million to support the development and implementation of three specific programs at CDFA: (1) $12 million for a dairy digester research and development program to facilitate the design and construction of dairy digester systems; (2) $10 million for water use efficiency projects; and, (3) $3 million for an alternative and renewable fuels program to develop fuel quality specifications and standards for renewable and zero emission fuels, such as biofuels produced from dairy digesters and other agricultural waste.

This proposal anticipates the reduction of between 15,000 and 21,600 metric tons of CO2 through the dairy digester program. The other programs do not specify a GHG reduction target but do include metrics for such measurement. This proposal includes metrics for measurement of GHG reduction and a specific target of 1-2 million metric tons of GHG reduction by the end of 2014-15.

Background. According to the department, methane emitted from dairy operations is approximately 21 times more potent than carbon dioxide as a greenhouse gas. Dairy digesters capture methane gas at dairy farms and convert it into energy in the form of electricity or fuel. Despite having the largest number of dairies of any state, there are only 15 dairy digesters in operation in California. New York, with fewer dairies and less land, has 22 digesters.

Questions:

1. The department has completed its first round of solicitations for water use efficiency. What projects were funded and how much of a reduction in greenhouse gas emissions and water are these projects anticipated to achieve?

2. The department's proposal is focused largely on three aspects of agriculture, most of which have co-benefits related to biofuels. What other areas of agriculture did the department explore as it came up with its proposal and what are the relative GHG reduction amounts and co-benefits from those sectors?