California’s Cap & Trade program was authorized (somewhat indirectly) by AB 32 in 2006. It is designed to limit the aggregate amount of greenhouse gas (GHG) emissions from sources that represent 80 percent of all GHGs statewide. Entities that emit at least 25,000 MMTCO$_2$e are subject to the overall cap. About 350 entities will be covered, including electricity generators and other large industrial entities. Covered entities to reduce. Transportation fuel refiners will be subject to cap beginning January 1, 2015.
Cap-and-Trade Plays Relatively Small Role in Achieving AB 32 Target

![Graph showing reductions in MMTCO2e](image)

- **2009 Actual**: 457 MMTCO2e
- **2020 Business as Usual**: 507 MMTCO2e
- **2020 Forecast Adjusted**: 444 MMTCO2e
- **2020 Forecast Emissions**: 427 MMTCO2e

**2020 Target**: 427 MMTCO2e

*Millions of Metric Tons of CO2-equivalent*

*Source: Air Resources Board*
Background
Mechanics of Cap & Trade

- Covered entities must comply with cap by obtaining one allowance for each ton of CO$_2$e emitted during each compliance period (multiple years).

- Entity can choose to reduce emissions, purchase allowances at auction or purchase offsets in open market (up to 8% of their compliance obligation)

- The covered entity must submit allowances to ARB.

- Compliance with the 2020 emissions goal is assured by reducing the annual supply of new allowances each year.
Revenue Potential Through 2020
Scale of the Allowance Market

Cap and Trade Revenue Forecast Scenarios

Dollars in millions


High
Medium
Low

ICF International, Dec. 2013
Revenue Potential
Scale of the Allowance Market

- ARB estimates that between 2012 and 2020, 2.5 billion allowances will be made available, with half auctioned and half given away for free.

- The ARB regulation set a floor and ceiling on the price of carbon ranging from $10 to $50 per ton.

- First auction was held November 2012; 8 auctions have been held since generating $833 million to date in state-owned allowances (additional revenue is generated at each auction for utilities and rebated directly to consumers).

- In August 2014, average allowance sold at $13.65/ton.
How Will Cap & Trade Funds Be Spent?

- AB 1532 (Perez, 2012) required Air Resources Board to adopt a Cap & Trade Auction Proceeds Investment Plan.
- Investment plan for FY 2013-14 thru FY 2015-16 was adopted in May 2013.
- Legislature loaned $500 million in initial proceeds to the state’s General Fund in FY 2012-13 and FY 2013-14.
- In June 2014, the Legislature appropriated $872 million to various new programs and adopted a long-term framework for future years, with annual percentages allocated to various transportation programs in future years.
Cap & Trade Funding in FY 2014-15 State Budget

![Pie chart showing distribution of cap & trade funding]

- High Speed Rail: $250.00
- Affordable Housing and Sustainable Communities: $242.00
- Transit and Intercity Rail Capital Program: $130.00
- Low Carbon Transit Operations: $25.00
- Energy Conservation and Natural Resources: $25.00
- Low Carbon Transportation (clean vehicle incentives): $25.00

METROPOLITAN TRANSPORTATION COMMISSION
Long Term Cap and Trade Funding Structure (SB 862, 2014)
Benefits to Disadvantaged Communities

- SB 535 (2012) and 862 (2014, Budget trailer bill) establish targets, for share of funds to benefit Disadvantaged Communities

<table>
<thead>
<tr>
<th>Funding Program</th>
<th>Minimum “Benefit” Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit Statewide Competitive Program</td>
<td>≥ 25%</td>
</tr>
<tr>
<td>Transit Formula Program</td>
<td>≥ 50%</td>
</tr>
<tr>
<td>Affordable Housing &amp; Sustainable Communities</td>
<td>≥ 50%</td>
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</tbody>
</table>
Benefits to Disadvantaged Communities

- CalEPA is responsible for identifying disadvantaged communities, for purpose of SB 535 and SB 862.

- They have proposed a method known as the Cal EnviroScreen 2.0, which ranks census tracts based on 19 variables to create a combined score. Those ranking at the top 20% are considered disadvantaged.

- Include only 46 census tracts in the Bay Area; excludes many very low income areas, including Hunter’s Point in S.F. and parts of Richmond and West Oakland.

- MTC’s Communities of Concern includes 1.4 million residents and about 300 census tracts.
Opportunities for Influence: Guideline Development

- State agencies developing draft guidelines now; anticipated to be released in Fall 2014 and early 2015.

<table>
<thead>
<tr>
<th>Program</th>
<th>Responsible Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit Capital and Intercity Rail</td>
<td>California State Transportation Agency (CalSTA)</td>
</tr>
<tr>
<td>Low Carbon Transit Operations</td>
<td>Caltrans, in coordination with ARB</td>
</tr>
<tr>
<td>Affordable Housing and Sustainable Communities</td>
<td>Strategic Growth Council</td>
</tr>
</tbody>
</table>
Cap & Trade Funding in Plan Bay Area

- Plan Bay Area, assumes $3.1 billion in C&T funding over 28 years
- SB 862 provides no guaranteed funding, except for the small transit formula program.
- MTC advocacy efforts will strive to deliver our adopted framework.