CAPCOA
CALIFORNIA AIR POLLUTION CONTROL OFFICERS ASSOCIATION

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March 14, 2013

Mary Nichols, Chair
California Air Resources Board
1001 I Street, P.O. Box 2815
Sacramento, CA 95812

Regarding: Recommendations for the Investment Plan for Cap and Trade Auction Proceeds

Dear Chairman Nichols,

The California Air Pollution Control Officers Association (CAPCOA) appreciates the opportunity to comment on the Air Resources Board's (ARB's) Draft Concept Paper for a Cap-and-Trade Auction Proceeds Investment Plan (Draft Plan). We especially appreciate the additional time to finalize our comments.

CAPCOA recognizes that ARB and the Department of Finance face considerable challenges as you develop an investment plan that will ensure auction revenues are deployed in an equitable, efficient, and effective way. California has many funding needs and the auction proceeds will not be sufficient to satisfy all of them, not even when the needs are limited to those that will reduce greenhouse gas emissions. CAPCOA believes the best plan will articulate strategic priorities and a transparent process, and will also provide a clear mechanism to adjust both as needs evolve.

Recommendations on Broad Elements of the Draft Plan

CAPCOA supports the general concepts and approaches set forth in the Draft Plan. We believe there are three key improvements that ARB should incorporate into the Plan, to ensure that funds are strategically deployed in a manner that will best achieve the goals of AB 32 and further the mission of ARB.

1. Maximize Co-benefits: When AB 32 was approved, the legislation specifically directed ARB to ensure that its implementation complements efforts to attain air quality goals and protect public health from air pollution. ARB has consistently affirmed these basic tenets in implementing AB 32 requirements. CAPCOA believes ARB has an extraordinary opportunity in drafting this investment plan to ensure that Cap-and-Trade revenues advance all three goals at the same time by giving highest priority to GHG reduction projects that also secure co-benefits in reducing air pollution and decreasing exposure to harmful air contaminants. We urge that you do this as an overarching element of your investment plan, and that you incorporate the principle into the criteria for evaluating individual strategies and projects. To address co-benefits in your plan, we recommend the following change to Draft Investment Principle #3 (see page 15):

3. Investments should be prioritized toward:
   a) sectors with both the highest GHG emissions and the greatest need for future reductions to meet GHG goals; and
   b) strategies and projects that maximize co-benefits for improving air quality and decreasing exposure to harmful air contaminants.

To address co-benefits when evaluating individual strategies and projects, we recommend a scoring system that awards additional points for co-benefits on a sliding scale, with greater co-benefits earning higher points.

2. Maximize use of Existing Program Structures and Processes: While some of the proceeds will be directed to centralized, statewide efforts, we believe the majority of the grants will be targeted to strategies and projects at the regional and local level. Rather than duplicating existing grant process, we recommend ARB adapt current processes to meet the specific program needs for GHG reduction efforts.

Over the last decade, ARB and the local air districts have collaboratively managed the investment of approximately 1.5 billion dollars in incentives to reduce emissions from goods movement, heavy-duty diesel engines, school buses, and other similar sources of pollution. In addition, local air districts have further provided nearly a billion dollars in incentive funds to reduce motor vehicle pollution since 1992.

We encourage ARB to rely on these existing pathways to allocate regional and local grant funds. The air districts' programs already have procedures in place with experienced staff to evaluate project proposals, administer and enforce contract performance, and accountably track funding streams and emission reductions. Air districts also have considerable expertise in identifying disproportionate impacts and working closely with communities to address those impacts. In addition, air districts are in the best position to "ground truth" the proposals based on specific local conditions, and to determine how complimentary or well-integrated the proposal is in consideration of other plans, projects, and efforts already underway. We believe this is consistent with Draft Investment Principle #6, but would recommend clarifying the wording as follows:

6. Investments should be coordinated with other local, State, and federal funding programs and avoid duplicative efforts. Funding targeted towards local or regional projects should be distributed in partnership with the local or regional air districts. The State should coordinate its clean energy, transportation, and climate change investments to maximize their impacts.

In addition, we recommend that the references to "state agenc[ies]" in the Draft Investment Principles and the Draft Implementation Principles (see pages 15 and 16 of the Draft Plan) be changed to "implementing agenc[ies]" to provide for the option of a local or regional agency partner. ARB already uses the term "implementing agency" on page 15.

3. Enhance Available Tools: In the Draft Plan, ARB identifies CalEnviroScreen as the tool on which it plans to rely to identify disadvantaged communities and ensure funds are distributed to them as required by law. CalEnviroScreen is the draft tool under development by the Office of Environmental Health Hazard Assessment (OEHHA) to assess pollution burden on communities throughout California. CAPCOA provided comments on the last release of the draft tool (see Feb. 1, 2013 letter to Dr. John Faust). CAPCOA supports OEHHA's efforts to better characterize the vulnerability of communities to environmental and socioeconomic burdens through the creation of this new tool, and also believe that the tool could be helpful in directing investment, especially pollution mitigation grant funds. While the draft tool is a good start towards this effort, great care must be exercised in using OEHHA's Tool for this purpose. As expressed in our February comments to OEHHA on the draft tool, we look forward to working with OEHHA to make additional refinements to the tool. We would be happy to work with ARB staff in the near term to define additional strategies that may provide additional value in this process. Longer term, we encourage staff to consider dovetailing this analysis with the reviews we will be undertaking together to address impacts as part of ARB's Adaptive Management Strategy for the Cap-and-Trade program.

Recommendations on Funding Categories in the Draft Plan

In the Draft Plan, ARB presents four eligible funding areas, and provides examples of strategies or projects for each area. CAPCOA's recommendations on funding are organized around the four areas identified by ARB. We have also identified our recommendations as near term or long term, consistent with ARB's presentation of the concept.

1. Low-Carbon Transportation and Infrastructure: *Reduce GHG emissions through the development of state-of-the-art systems to move goods and freight, advanced technology vehicles and vehicle infrastructure, advanced biofuels, and low-carbon and efficient public transportation.*

CAPCOA recommends the following near term priority investments:

- Incentives for zero and near-zero transportation and associated infrastructure. These are near term steps that support an important element of California's larger vision for transformation of the transportation sector.
- Incentives for voluntary speed reduction in ocean-going vessels to reduce fuel consumption. This is an opportunity for very near term and substantial reductions in both GHGs and smog-forming pollutants, some of the last "low-hanging fruit".
- Incentives for accelerated vehicle turnover to cleaner technology. This strategy is critical to remove the gross polluting on- and off-road engines from use and hasten the penetration of the newest, cleanest alternatives. It also can be designed to directly benefit disadvantaged communities.

CAPCOA recommends the following long term priority investments:

- Demonstration and deployment of zero and near-zero emission technologies for goods movement.
- Funding for technology advancement efforts for direct research, development, and deployment of mobile source technologies that would simultaneously advance the state's goals for climate protection and air quality improvement.

2. Strategic Planning for Sustainable Infrastructure: *Reduce GHG emissions through strategic planning and development of sustainable infrastructure projects, including, but not limited to, transportation and housing.*

CAPCOA recommends the following near term priority investments:

- Funding to support the development and implementation of local climate action plans.
- Funding to support the development and implementation of Sustainable Community Strategies under SB 375.

CAPCOA recommends the following long term priority investments:

- Development of a universal transportation model to support consistency in planning throughout the state.
- Development of a clearinghouse of best practices in sustainably communities planning to allow local governments to share information.

3. Energy Efficiency and Clean Energy: *Reduce GHG emissions through energy efficiency, clean and renewable energy generation, distributed renewable energy generation, transmission and storage, and other related actions, including, but not limited to, at public universities, state and local public buildings, and industrial and manufacturing facilities.*

CAPCOA recommends the following near term priority investments:

- Incentives and seed support for other creative financing (such as PACE) for energy efficiency retrofits to the existing building stock. This is especially critical in multi-family dwelling units where the property owner does not directly benefit from the energy savings that result from the project, and can also be targeted specifically to assist disadvantaged communities, and to use labor through organizations that train at-risk use to develop employment skills.
- Incentives and seed support for other creative financing production and distributed generation of clean renewable energy, and technologies to recover waste-heat for productive use at the site.
- Incentives, loans or PACE-type programs for stationary industrial sources to promote modernization for energy efficiency in their operations.

CAPCOA recommends the following long term priority investments:

- Funding for development and demonstration of new energy storage techniques needed to support greater grid reliance on renewable energy. There is a real potential to maximize the benefits by aligning the effort with transportation infrastructure needs.

4. Natural Resources and Solid Waste Diversion: *Reduce GHG emissions associated with water use and supply, land and natural resource conservation and management, forestry, and sustainable agriculture. Reduce greenhouse gas emissions through increased in-state diversion of municipal solid waste from disposal through waste reduction, diversion, and reuse.*

CAPCOA recommends the following near term priority investments:

- Funding for urban tree planting and reforestation. In addition to directly sequestering carbon, urban tree planting can promote walkable communities, with the added benefit of reduced reliance on fuel dependent modes of travel. These projects can be targeted to use labor through programs that serve at-risk youth by teaching them job skills (such as JobCorps, CalGreen Jobs Corps, and numerous local and regional efforts).
- Funding for incentives for cleaner residential wood combustion programs, specifically including rebates or other funding to replace existing stock of inefficient, high-polluting wood burning devices or public education and enforcement programs that change behavior to stop unnecessary residential wood burning. This type of project could be targeted to reach disadvantaged rural communities.
- Incentives for the electrification of existing agricultural internal combustion engines to reduce the GHG emissions associated with on-site fuel combustion.

CAPCOA recommends the following long term priority investments:

- Funding for demonstration and deployment of strategies that reduce agricultural and other organic wastes, particularly waste-to-energy and waste-to-fuel projects.

In sum, CAPCOA supports ARB's approach to establishing a framework for investing proceeds from the Cap-and-Trade auction. We encourage you to make key, strategic changes to the overall plan to specifically maximize co-benefits, to capitalize on existing pathways to grant funds at the regional and local level, and to enhance the analysis for identifying disadvantaged communities. We stand ready work with you, and support your efforts to achieve the state's climate protection goals, improve air quality, and protect public health.

Sincerely,

Brad Poiriez
President

CC: James Goldstene, California Air Resources Board
Cynthia Marvin, California Air Resources Board