Air Resources Board

Mary D. Nichols, Chair
1001 I Street • P.O. Box 2815
Sacramento, California 95812 • www.arb.ca.gov

Matthew Rodriquez
Secretary for
Environmental Protection

Edmund G. Brown Jr.
Governor

TO: Allison Joe
Deputy Director
Strategic Growth Council
1400 10th Street
Sacramento, California 95814

FROM: Cynthia Marvin, Chief
Transportation and Toxics Division

DATE: August 8, 2016

SUBJECT: GREENHOUSE GAS REDUCTION FUND: STRATEGIC GROWTH COUNCIL SECOND REVISION TO EXPENDITURE RECORD FOR FISCAL YEAR 2015-16 SUSTAINABLE AGRICULTURAL LANDS CONSERVATION PROGRAM

Thank you for submitting the revised expenditure record (attached) on behalf of the Strategic Growth Council (SGC) on August 8, 2016 to satisfy the requirements of Senate Bill 1018 (Budget and Fiscal Review Committee, Chapter 39, Statutes of 2012) for expenditures from the Greenhouse Gas Reduction Fund (Fund). This second revision reflects the actual FY 2015-16 proceeds generated from Cap-and-Trade auctions available to SGC for this Program. We appreciate the iterative consultation process with SGC staff on the development of this record to support expenditures from the Fund for the Sustainable Agricultural Lands Conservation Program.

This memorandum documents that Air Resources Board (ARB) staff concurred on August 8, 2016 that the attached record is consistent with the statutory requirements of Government Code Section 16428.9 and with ARB's expectations, as documented in the *Funding Guidelines for Agencies that Administer California Climate Investments.*

The SGC Revised Expenditure Record for the Sustainable Agricultural Lands Conservation Program for Fiscal Year 2015-16, along with this memorandum, will be published on the ARB Cap-and-Trade Auction Proceeds website at: www.arb.ca.gov/auctionproceeds.

If you have any questions concerning this memorandum, please contact me at (916) 324-0062 or via email at Cynthia.Marvin@arb.ca.gov.

Attachment
cc: See next page.

Greenhouse Gas Reduction Fund: Expenditure Record

Fiscal Year: 2015-16

Strategic Growth Council
Sustainable Agricultural Lands Conservation Program

Second Revision to Reflect $365.8 Million Appropriation

The Strategic Growth Council (SGC) prepared a preliminary expenditure record in January 2016 for the $480,000,000 in Affordable Housing and Sustainable Communities (AHSC) funding based on the Fiscal Year (FY) 2015-16 amount referenced in the budget for FY 2016-17. The actual amount of FY 2015-16 funds was contingent upon State proceeds generated from Cap-and-Trade auctions that occurred during FY 2015-16. The revised expenditure record reflects the actual FY 2015-16 funds available for AHSC of $365.8 million and the unallocated FY 2014-15 Sustainable Agricultural Lands Conservation (SALC) Program funds.

First Revision to Reflect Joint Program with CNRA

This Expenditure Record has been revised to include the California Natural Resources Agency (CNRA) and its role in the SALC Program.

Health and Safety Code Section 39719 (b)(1)(c) provides a continuous appropriation from the Greenhouse Gas Reduction Fund (GGRF) to the SGC for the AHSC program, appropriating twenty percent of the annual proceeds of the fund to SGC for the AHSC Program. The SGC administratively transferred appropriation authority to the Department of Conservation (DOC), and CNRA, to implement the SALC Program.

(1) A description of each expenditure proposed to be made by the state agency pursuant to the appropriation

❑ Agency that will administer funding	▪ Strategic Growth Council, with implementation by the Department of Conservation and the California Natural Resources Agency.
❑ Amount of proposed expenditure and appropriation reference	▪ Health and Safety Code Section 39719 (b)(1)(c) provides a continuous appropriation from the Greenhouse Gas Reduction Fund (GGRF) to the SGC for the Affordable Housing and Sustainable Communities (AHSC) program, appropriating twenty percent of the annual proceeds of the GGRF to the SGC. ▪ The Council approved two programmatic areas for these local assistance funds: the AHSC Program and SALC Program, and designated Housing and Community Development and the Department of Conservation, respectively, to implement these programs in coordination with the SGC.

- For the AHSC Program for 2015-16, the actual appropriation for the broader Program is $365,827,000. The SALC program, as discussed below, is a subset of this broader program.

- This Expenditure Record specifically addresses the approximately $39.0 million in FY 2015-16 funds and $1.2 million in unallocated FY 14-15 funds ($37.8 million in Local Assistance) for the SALC Program. Although the fiscal resources for the AHSC Program are reflected in Table 1 below, an Expenditure Record for the AHSC program is provided separately.

❑ Estimated amount of expenditures for State agency administrative costs

Of the total amount appropriated for AHSC, the State Budget item 0650-001-3228 appropriated $1,840,000 in GGRF to the Office of Planning and Research (OPR) for SGC State administrative costs associated with the broader Affordable Housing and Sustainable Communities program.

- The total expenditure for the SALC Program includes $2.5 million for State administrative costs. Of the program support amount, $150,000 is available to the California Natural Resources for program support, and the remaining balance is available for the Department of Conservation administrative costs.

- A summary of the entire FY 2015-16 AHSC Program allocation is shown in Table 1 below.

Table 1
FY 2015-16 Affordable Housing and Sustainable Communities Program Allocations

TOTAL FY 2015 -16 Funding (Health and Safety Code Section 39719(b)(1)(c)	**$365,827,000**
Affordable Housing & Sustainable Communities (AHSC)	$363,987,000
AHSC State Operations (Item 0650-001-3228)	$1,840,000
TOTAL FY 2015 -16 Funding	**$365,827,000**
Affordable Housing & Sustainable Communities Program	$363,987,000
Less: AHSC Implementation (HCD State Operations)	$3,001,000
Less: SALC Local Assistance	$36,582,690
Less: SALC Implementation (DOC State Operations)	$2,352,000
Less: SALC CNRA for program support	$150,000
Total AHSC Funds for Local Assistance	**$321,901,310**

❑ If applicable, identify laws or regulations that govern how GGRF funds will be used	▪ SB 732 (Chapter 13, Statutes of 2008) established the SGC. ▪ Public Resources Code 75212 lists the type of projects eligible under the AHSC program. ▪ The Department of Conservation's authority for agricultural land protection derives from various sections of statute: Public Resources Code Sections 10200-10277; Public Resources Code Sections 10280-10283; Government Code Section 65570; Government Code Sections 51190-51294.7; Revenue and Taxation Code Sections 421-430.5; and Public Resources Code Division 9. ▪ AB 1532 (Pérez, Chapter 807, Statutes of 2012), SB 535 (de León, Chapter 830, Statutes of 2012), SB 1018 (Budget and Fiscal Review Committee, Chapter 39, Statutes of 2012), and SB 862 (Committee on Budget and Fiscal Review, Chapter 36, Statutes of 2014) provide the general framework for how the auction proceeds will be administered to further the purposes of AB 32.
❑ Continuation of existing Expenditure Record	▪ This fiscal year's appropriation will support a continuing program that will fund some of the same types of projects that have been previously funded under an existing Expenditure Record (Expenditure Record, Fiscal Year 2014-15, Strategic Growth Council, Sustainable Agricultural Lands Conservation Program). An additional project type, Strategy and Outcome grants has been added for FY 2015-16.
❑ Project category	▪ Transportation and Sustainable Communities ▪ Affordable Housing and Sustainable Communities ▪ Agricultural Land Conservation
❑ Type of projects that will be eligible for funding	Two project types are eligible in the SALC Program: ▪ Agricultural Land Conservation Strategy and Outcome (Strategies) grants are limited to five specific set of approaches and outcomes discussed in the Program Guidelines to protect important agricultural land resources under threat of conversion. This component of the program incentivizes local governments toward developing local and regional land use policies, and implementation activities that more fully integrate agricultural land conservation. Planning efforts can only be funded when they result in on-the-ground implementation that reduces GHG emissions. Therefore, the Strategies must ultimately result in zoning ordinances that effectively eliminate development on agricultural lands under threat of conversion, and/or result in the purchase of agricultural

	conservation easements, thereby avoiding conversion of strategic farmland and rangeland to urban and rural residential development. No funds from the GGRF may be reimbursed to the project until the proposed Strategy demonstrates an outcome that protects agricultural lands from conversion and results in a quantifiable GHG reduction as identified in the Program Guidelines. GHG reductions achieved by Strategy projects may not be included in a subsequent request for GGRF monies. ▪ Agricultural Conservation Easement grants to record permanent conservation easements on cultivated and non-cultivated land (including rangeland and pasture) at risk of conversion.
❑ Intended recipients	▪ Eligible applicants for Strategies grants are counties and/or cities as lead applicants in collaboration with other partners (e.g., agricultural organizations, land trusts, open space districts). ▪ Eligible applicants for Agricultural Conservation Easement grants include cities, counties, nonprofit organizations, Resource Conservation Districts, regional park and open space districts or regional park or open space authorities that have the conservation of farmland among their stated purposes, as prescribed by statute, or as expressed in the entity's locally adopted policies.
❑ Process for selecting projects for funding	▪ The process for selecting projects for funding will be through a competitive process, based on the merits of the applications submitted and the proposed use of funds. The threshold requirements and application selection criteria focus on the extent to which proposed projects meet the SALC Program objectives of reducing GHG emissions, protecting agricultural land at risk of conversion to nonagricultural uses, and other co-benefits as defined in the fiscal year 2015-16 SALC Program Guidelines, approved by the SGC Council, and available at: https://www.sgc.ca.gov/s_salcprogram.php

(2) A description of how a proposed expenditure will further the regulatory purposes of Division 25.5 (commencing with Section 38500) of the Health and Safety Code, including, but not limited to, the limit established under Part 3 (commencing with Section 38550) and other applicable requirements of law.

❑ How the expenditure is reflected in the three-year Investment Plan and the Scoping Plan	▪ AB 1532 requires that GGRF monies be appropriated in a manner that is consistent with the three-year Investment Plan (Health and Safety Code Section 39718). The 2013 "Cap-and-Trade Auction Proceeds Investment Plan" states, "preserving and managing our natural and cultivated lands offers the opportunities to sequester carbon." It lists agricultural management, including conservation easements for agricultural lands; and practices to reduce GHG emissions. ▪ The First Update to the Climate Change Scoping Plan (May 2014) includes as a strategy to reducing GHG emissions the conservation of agricultural lands, as stated: "Recent research has shown that GHG emissions from urban areas are much greater than those from agricultural lands on a per-acre basis. As California's population increases, pressures to convert agricultural croplands and rangelands to urban and suburban development also increase. Conservation of these lands will be important in meeting our long-term climate goals. Farmland and open space conservation can be an important policy to support the objectives of the Sustainable Communities Strategies, including reducing vehicle miles traveled. This could be accomplished by using incentives for conservation easements, supporting urban growth boundaries, and maintaining agricultural zoning." The SALC Program incentivizes these agricultural land protection approaches, among others.

(3) A description of how a proposed expenditure will contribute to achieving and maintaining greenhouse gas emission reductions pursuant to Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

❑ Describe how expenditures will achieve GHG reductions or net GHG benefits	▪ There are two SALC Program project types in FY 2015-16: agricultural conservation easements and agricultural land conservation strategies and outcomes. Both project types protect agricultural lands at risk of conversion thereby avoiding GHG emissions from more GHG-intensive land uses. Projects will result in the extinguishment of development rights thereby avoiding increases in GHG emissions by limiting opportunities for expansive, vehicle-dependent forms of development. The quantification methodology estimates the avoided GHG emissions based on the avoided vehicle miles traveled.

❑ Expected time frame when reductions will be achieved and how expenditure will maintain GHG reductions or net GHG benefits	▪ The SALC Program's avoided GHG emissions are quantified over a project life of 30 years, although the majority of SALC projects result in the extinguishment of development rights in perpetuity. ▪ The reductions are achieved at the time the agricultural land is protected, via easement or other mechanism. First reductions for projects awarded in FY 2015-16 will be achieved in 2017.

(4) A description of how the state agency considered the applicability and feasibility of other nongreenhouse gas reduction objectives of Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

❑ Expected co-benefits, particularly environmental, economic, public health and safety, and climate resiliency	Sustainable land use policies and practices that value the conservation of agricultural lands provide numerous co-benefits, beyond avoided increases in GHG emissions. Examples of these benefits include, but are not limited to: ▪ Economic benefits (e.g., retention of local jobs and agricultural revenues, entrepreneurial opportunities, reduction in spending on municipal services for dispersed development). ▪ Improved air quality resulting from reduced vehicle miles traveled. ▪ Ecosystem services (e.g., wildlife habitat, pollination, and natural food web adaptation). ▪ Open space values. ▪ Increases in local food production promoting food security and resilience, and a greater understanding of agriculture's importance among both urban and rural Californians.
❑ How the project will support other AB 32 objectives	▪ The SALC Program projects support AB 32 objectives to reduce GHG emissions and are complementary to the projects funded by the SGC Affordable Housing Sustainable Communities Program. These programs fund land-use, housing, transportation and land preservation projects to support infill and compact development. ▪ The AHSC Program, including the SALC component, help maximize additional environmental and economic co-benefits for California, complement the State efforts to improve air quality, and support public and private investment towards the most disadvantaged communities in California.

❑ Percentage of total funding that will be expended for projects that are "located within" and "provide benefits to" disadvantaged communities, per the criteria in Volume 2 of ARB's Funding Guidelines	▪ SB 862 establishes the target of expending 50 percent of the overall Affordable Housing and Sustainable Communities Program (both AHSC and SALC) allocated to the Strategic Growth Council for projects benefiting disadvantaged communities. ▪ SGC has a minimum target of expending 10 percent of the overall Affordable Housing and Sustainable Communities Program allocated to the Strategic Growth Council for projects located within disadvantaged communities. ▪ The funding allocated by the Council to the Sustainable Agricultural Lands Conservation Program for investments in agricultural land protection that meet the common needs of and are located within or provide benefits to disadvantaged communities is included in reaching the overall targets.
❑ Describe the disadvantaged community benefits and explain strategies the agency will use to maximize benefits	▪ The SALC program considers a project as benefitting a disadvantaged community when it meets the criteria identified in ARB's Funding Guidelines to provide a direct, meaningful, and assured benefit to a disadvantaged community, and meaningfully addresses an important community need. ▪ Under the SALC Program, applications for any project that provide meaningful benefits to Disadvantaged Communities will be accompanied by a checklist documenting the common needs of and benefits to Disadvantaged Communities, in order to describe project benefits. In order to determine community needs, applicants are asked to consider the factors in CalEnviroScreen, version 2.0, that caused an area to be defined as a disadvantaged community, report on needs identified during a public outreach process, or refer to documents that indicate community support such as letter of support from the community. Community needs meaningfully addressed may include public health benefits, economic needs, or environmental needs. ▪ Though we have not yet received applications for FY 2015-16, Program staff expect the common community needs addressed by the protection of agricultural land to be identified as: support for California-based small businesses and increasing access to parks, greenways, open space, recreation and other community assets. ▪ In recognizing the importance to maximize benefits to disadvantaged communities, Agricultural Land Conservation Strategy and Outcome grants providing benefits to disadvantaged communities will be awarded 5 additional

	points toward their total score. Applications for agricultural conservation easements providing benefits to disadvantaged communities will be eligible for 10 percent match, the lowest required match funding proportion available under the program, assuming all other eligibility and selection criteria can be attained.

(5) A description of how the state agency will document the result achieved from the expenditure to comply with Division 25.5 (commencing with Section 35800) of the Health and Safety Code.

❑ How the agency will track and report progress to make sure projects are implemented per GGRF requirements	▪ The Department of Conservation will require funding recipients to maintain records and provide quarterly status reports in accordance with the grant agreement. In addition, the agency will conduct periodic reviews of selected projects. ▪ If a funding recipient does not perform in accordance with program requirements, the recipient will be subject to the remedies for non-performance, as identified in the program guidelines. ▪ Progress will be reported pursuant to ARB's Funding Guidelines for both the strategy and outcome projects and agricultural conservation easements projects.
❑ Approach that will be used to document net GHG reductions before and after project completion. Include citations for references that support methodology	▪ The Department of Conservation will quantify GHG reductions using a quantification methodology developed by ARB, "Greenhouse Gas Quantification Methodology for the Strategic Growth Council Sustainable Agricultural Land Conservation Program. Greenhouse Gas Reduction Fund, Fiscal Year 2015-16," available at: http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/quantification.htm ▪ The quantification methodology uses specific components of the "California Emissions Estimator Model" (CalEEMod) tool to estimate the avoided vehicle miles traveled associated with a project.
❑ Type of information that will be collected to document project results, as described in ARB guidelines	The agency will collect any necessary data to document GHG emission reductions in accordance with ARB's Funding Guidelines, quantification methodology and other guidance. This may include but is not limited to information on: ▪ Project geographic area; ▪ Number of development rights extinguished; ▪ Avoided GHG emissions over the project life; ▪ Avoid increases in vehicle miles travelled; ▪ Acres of agricultural land preserved; ▪ Acres of wildlife habitat preserved (if applicable);

	▪ Other project benefits or results; and ▪ Project accomplishments, including benefits to disadvantaged communities
❑ How the agency will report on program status	The agency will provide regular updates on expenditures, project status, project location, and benefits in reports to the Strategic Growth Council and reports prepared according to ARB's Funding Guidelines. At a minimum, the reports will include expenditure amounts, current estimates of GHG emissions reductions, and information on other applicable co-benefits.