# Guidance for Cap-and-Trade Revenue Distribution Protocol

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This guidance outlines factors ARB should consider regarding how to identify eligible projects and allocate funds to those projects.

The first priority of revenue allocation is statewide greenhouse gas (GHG) emissions reduction and meeting the State's goals (AB 32 and EO S-3-05) for GHG limits. Projects that demonstrate implementable strategies that significantly reduce anticipated GHG emissions or sequester carbon in the State and demonstrate the ability to do so in a cost-effective manner should be given the highest priority.

To do this, ARB should develop guidance for project proposals that includes, at a minimum, an estimated GHG reduction potential, cost assessment, and monitoring and reporting requirements. A clear and public ranking process should be developed to ensure funds are distributed to meet the State's GHG obligations, are equitable, and are cost-effective. Details and other considerations are provided below.

**Project Types and Prioritization**

Criteria for funding distribution may include identifying communities or regions that need to implement local actions (i.e., cannot rely on State/Federal initiatives) to achieve GHG reduction goals; this may provide better near-term options for investment as these tend to be communities anticipating growth and therefore, high increases in future GHG emissions. Higher ranking may be warranted for projects identified in existing plans for achieving GHG reduction goals, such as climate action plans and sustainable communities strategies; these would likely have been reviewed under CEQA and would have been developed and vetted at the local level.

ARB should provide guidance regarding the specific types of activities that will be eligible for funding. Plan development, rezoning, permit costs, or other fees may be necessary for proper project implementation and there should be guidance whether these activities could be funded through this program. ARB should specify whether projects must be located within the State, the U.S., or may be located internationally. For projects and plans located in California, guidance should include whether funding may be used for CEQA review or if there are mechanisms the State could implement to streamline review of certain types of projects (e.g., SB 226).

**Cost**

Projects that are regional and collaborative, or that can be combined and administered jointly, may provide a more cost-effective approach than similar projects administered by individual jurisdictions. ARB may consider administering some programs at the State level to reduce the administrative burden to local communities.

While cost-effectiveness (dollars invested per metric ton of GHG reduced) should be an important criterion for selecting projects, ARB may consider funding higher-cost pilot programs or demonstration projects that can be replicated in other areas at lower costs if successful. These projects should include a final report that details the program design, implementation, monitoring, success, and lessons learned from the project.

In addition, particular focus should be placed on groups that pay a high percentage of their income to carbon-intensive activities or who may be disproportionately affected by pass-through costs of the cap-and-trade program.

As stated above, criteria for revenue distribution should be clear and public; however, ranking priorities may differ among regions. Areas with poor air quality could place higher priority on projects that provide (in addition to GHG reduction) local air pollutant reductions, while economically-disadvantaged communities may place higher priority on subsidized residential energy-efficiency retrofits. ARB may consider using funding as an incentive to energy-efficient redevelopment/infill projects focused on low-income housing, for example.

**Monitoring and Enforcement**

ARB will likely be required to monitor the effectiveness of funds in meeting reduction goals. Establishing a monitoring and reporting protocol of funded projects may facilitate this process. ARB should consider requiring applicants to provide an estimated GHG reduction in their application and annual progress reports and independent verification once funded. GHG reductions should be tracked to inform progress toward the State's goals and future revenue distribution ranking.

GHG reductions resulting from a funded project should not be permitted to use reductions as part of another mitigation scheme, such as participating in a carbon offset program (i.e., avoid double-counting of emissions reductions); this should be clearly stated in ARB's guidance. ARB should consider a mechanism to reclaim revenue if the realized reductions are double-counted or are off by a certain percentage from the estimates provided in the application to deter overstatement of reduction potential. ARB may consider developing a reserve carbon fund or a process of using reclaimed revenue to purchase carbon offsets in cases where projects do not meet their goals.

**Other Considerations**

This revenue source is an opportunity for advancing awareness, implementation, and innovation of climate change mitigation. ARB should consider its role in each of these areas and develop a framework that achieves the goals of AB 32 but also looks beyond this near-term goal. Long-term initiatives may be funded that would promote the State's ongoing commitment to addressing climate change. This may include establishing forums or workshops for reporting and exchanging of ideas, successes, and lessons learned from funded projects. ARB should also consider allocating some funding to adaptation measures, or including adaptation as a co-benefit when prioritizing projects.

ARB should not reward high-emitting polluters; however, ARB should consider allocation of a small percentage of funds to research and development that will advance low-carbon technologies, which the State has acknowledged will be necessary to meet goals carbon reductions beyond 2020. Priority should be given to high-risk sectors (i.e., that may be subject to leakage and where there is no feasible alternative), sectors that would potentially provide an economic base in California, and to research institutions located in California.

Finally, ARB should recognize its role as administrator in this program and the need to develop effective long-term guidance for funding distribution and reporting requirements, for monitoring and verifying program effectiveness, and for enforcement. Additional Scoping Plan development for State-level policies beyond 2020 and establishing future caps on carbon emissions will also be efforts that are closely tied to this effort and ARB should ensure adequate funding to effectively manage these projects.

Thank you for the opportunity to comment on this process and I look forward to ARB's continued efforts in reducing greenhouse gas emissions and our State's role in mitigating and adapting to climate change.

Sincerely,

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