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For the Public Record

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To: California Air Resources Board, Department of Finance, and Office of the Governor

Re: Comments on the Cap-and-Trade Auction Proceeds Concept Paper for Second Investment Plan

Thank you for considering these comments on the Cap-and-Trade Auction Proceeds Concept Paper and for the 2016-17 Investment Plan. Since 2006 my comments have consistently encouraged the California Air Resources Board (ARB) to return most of the auction proceeds to the public following the Cap & Dividend model.¹

I recognize the effort ARB has made since 2006. I consider ARB to be on the front lines of climate policy, the state's climate advocates and political leaders to be well-intentioned, and agencies receiving funds to be doing commendable work. You have successfully avoided the worst aspects of the European ETS. You have included brilliant advisors such as Dallas Burtraw and Severin Borenstein in the market development process. The California Climate Credit is a major step towards what I have been advocating for.

However, when reading the Cap-and-Trade Auction Proceeds Concept Paper, there is an elephant in the room. There are no metrics such as tons of GHGs reduced per dollar spent, quantitative analysis for how projects will assist disadvantaged communities by geography or income, or whether the emission reductions will take place before 2020. Why not? I believe the reason they are omitted from the Concept Paper, despite recommendations from the Legislative Advocates Office² and others is that the inclusion of such metrics would expose high-speed rail and transit-oriented development for what they are: politically-motivated projects that do not accomplish the State's AB 32 goals. High-speed rail and transit-oriented development are good things in and of themselves, but the question is whether they are the best uses of Cap-and-Trade funds.

Even if the projects chosen for funding were able to meet better metrics for emission reduction, it would still be problematic to spend the permit revenues on emission reduction. This is due to the unique economics of Cap-and-Trade, where the overall level of emissions is determined by the cap, not by the price of the permit. Emission reductions may reduce the price of the permit, but may only serve to create space in funded sectors under the cap that will be filled by emissions from other sectors. It

¹ An archive related to this work is at <http://www.carbonshare.org/californiaAB32.html#advoc>

² <http://www.lao.ca.gov/reports/2014/budget/cap-and-trade/auction-revenue-expenditure-022414.pdf>

appears that the Governor, Legislature, and the agencies and organizations receiving funding either don't know that, or are choosing to ignore it. I request ARB respond to this issue in the Investment Plan.

A better approach is to focus the Investment Plan on directing the funds back to people. The California Climate Credit showing up twice a year on electricity bills is a good start. The state could expand that to an off-bill per capita dividend that would be simple, transparent, and be inclusive of disadvantaged communities not just coastal cities. Please see my comment on the 2013 Investment Plan for additional information on suggestions for how to include a Household Dividend and a Transportation Dividend as steps toward a more general Climate Dividend.³

Many people do not understand climate dividends because they do not fund projects that reduce emissions. But it is about transforming the economic system, not about funding specific projects. I urge ARB staff to read Peter Barnes' books, including *Who Owns the Sky?*, *Capitalism 3.0*, and *With Liberty and Dividends for All*.

Liberals believe government is a tool for good. But liberals should also recognize when government is not the best entity to make certain decisions. In the case of Cap-and-Trade funds, it is turning into a slush fund for politicians to fund big infrastructure projects, but this is diverting the carbon pricing mechanism from its transformational potential. The dividend ties a carbon price to fight climate change to equity and climate justice. There is a movement among anti-poverty advocates to provide people with a "basic income." In a separate effort, the State is considering establishing a State Earned Income Tax Credit (EITC).⁴ The climate dividend could help make that a reality.

California seeks to be a national and international template for carbon pricing. California is sure to have an influential "subnational" delegation at the Paris Climate Conference in December. An upgraded Cap-and-Trade 2.0 would really give them something to brag about.

I also note that biochar is not mentioned in the Concept Paper for the Investment Plan. Biochar is a worthwhile potential carbon sequestration technique that complements composting and biogas generation.

Thank you for your consideration.

Sincerely,

Mike Sandler

³ <http://www.arb.ca.gov/lists/com-attach/209-ghgductfund13-VDdQQNvU20AY1c5.pdf>

⁴ <http://calbudgetcenter.org/blog/proposed-state-eitc-would-significantly-boost-the-incomes-of-californias-lowest-earning-workers/>
http://www.mercurynews.com/california/ci_28114306/california-budget-brown-set-release-revised-spending-proposal