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AIR QUALITY  
MANAGEMENT  
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SINCE 1955

June 8, 2012

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California Air Resources Board

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Jack P. Broadbent  
EXECUTIVE OFFICER/APCO

Subject: Investment of Cap-and-Trade Auction Proceeds

Dear Chair Nichols and Mr. Goldstene:

On behalf of Bay Area Air Quality Management District (District) staff, I am writing to provide input on the investment strategy for proceeds from the auction of allowances under California's Cap-and-Trade program. We support the intention of the Cap-and-Trade program to reduce greenhouse gas emissions and support long-term, transformative efforts to improve public health and develop a clean energy economy.

The Cap-and-Trade program holds the potential to generate significant financial resources for the State's greenhouse gas reduction program. We urge the State to invest these resources in activities that maximize the co-benefits of improving air quality and protecting public health. The State can support this objective by defining investment criteria and funding activities that support the reduction of greenhouse gas emissions as well as criteria and toxic air pollutants.

Investment Criteria

The investments that the State makes from the auction of allowances should be based on criteria that favor projects and programs that reduce criteria air pollutants and toxic air contaminants as well as greenhouse gas emissions. The District prioritizes communities that are highly impacted by emission sources, high pollutant concentrations, and high density of sensitive populations (seniors, children, and low income) in our grant and incentive programs and other activities. We recommend that the State similarly prioritize greenhouse gas reduction efforts that also achieve local air quality objectives in highly impacted communities. Such a prioritization in its investment criteria would serve public health and air quality goals.

Recent research, including the EPA's new "Black Carbon Report to Congress," reveals a growing threat to climate stability from black carbon. Because black carbon is a short-lived agent of climate change, actions taken today to reduce black carbon emissions can have an immediate effect on slowing atmospheric warming in the near-term. Slowing near-term warming can allow us the time needed to

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implement the policies and programs necessary to significantly reduce longer-term climate pollutants like carbon dioxide. Reductions in black carbon would also benefit public health. District staff recommends that the State's investment criteria favor activities that reduce emissions of black carbon.

#### Funding Priorities

In addition to the above recommendations on criteria for investments, we offer the following recommendations for priority funding through the use of auction proceeds.

- 1) Assist the implementation of sustainable communities strategies.  
The 110 cities and counties of the Bay Area have spent the past two years working with regional agencies to develop the region's Sustainable Communities Strategy as required under SB 375. Due to resource constraints at the local level, this effort stands at great risk of not accomplishing its goals. The issue of limited local resources for planning and development activities is even more critical without the availability of redevelopment funds. Funding from auction proceeds should support the local implementation of the sustainable communities strategies throughout California.
- 2) Assist the implementation of local climate action plans.  
Thirty jurisdictions in the Bay Area have adopted local climate action plans to reduce greenhouse gas emissions in their communities and many more jurisdictions are following suit. These plans will support the implementation of the region's sustainable communities strategy and will serve the goal of improving local air quality in the Bay Area. These plans are designed to help the State meet its greenhouse gas reduction goals under AB 32. Financial support from auction proceeds could greatly facilitate their implementation.
- 3) Target the existing built environment.  
Approximately one-fourth of the State's greenhouse gas emissions are from building energy use. When considering how the State will meet the goals of Executive Order S-3-05, it is important to note that two-thirds of all buildings that will exist in 2050 have already been built. In order to achieve the State's climate protection goals we must make significant strides in reducing energy use in existing buildings. The auction proceeds should target investments in technologies, policies and programs that increase the energy efficiency and use of renewable energy in the statewide stock of existing buildings. Such investment will also support the Cap-and-Trade goal of developing the State's clean energy economy.
- 4) Invest in new technologies: electric vehicles.  
In the transportation sector, investments in new technologies should include a focus on electric vehicles (EV) and EV infrastructure. Programs to buy-down the cost of EVs and EV charging infrastructure should be considered to increase their deployment, particularly in communities that are highly impacted by vehicle emissions.

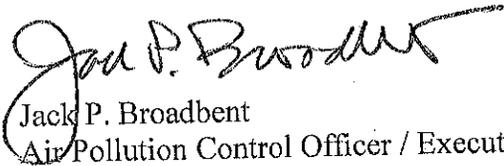
We believe that investing in these program priorities will not only help the State achieve its goals under AB 32 and develop a clean energy economy, but will also help achieve local air quality and public health objectives.

Participation of Local Air Districts

Air districts implement a variety of programs that could be utilized to distribute and administer programs funded with auction proceeds. In 2010, the District implemented a successful \$4 million grant program, funded through a settlement with the ConocoPhillips Company, to fund local projects to mitigate greenhouse gas emissions. Because of our relationships with local governments, our technical expertise in measuring and verifying greenhouse gas emissions, and our institutional readiness to implement grant and incentive programs, the District stands as a strong potential partner with the State for the administration and distribution of funds.

Thank you for providing the opportunity to provide recommendations on the Cap-and-Trade auction investment strategy. I look forward to working with you as you develop this critical program.

Sincerely,



Jack P. Broadbent

Air Pollution Control Officer / Executive Officer