



# California Cap-And-Trade Policy & Sierra Nevada Communities

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This Sierra CAMP policy memo provides background on California's cap-and-trade system and why its reauthorization is important to Sierra communities.

## Background

**AB 32 and SB 32:** The California Global Warming Solutions Act of 2006 (AB 32), passed in 2006, requires California to reduce its GHG emissions to 1990 levels by 2020 — a reduction of approximately 15 percent below emissions expected under a “business as usual” scenario. This monumental legislation also led to the creation of an implementation strategy in the form of a Scoping Plan, as well as California's cap-and-trade system, the subsequent Greenhouse Gas Reduction Fund (GGRF), and consideration of environmental justice as a key component of implementation.



SB 32, passed in 2016, addresses the issue of reauthorizing AB 32 and continuing emission reductions beyond 2020. SB 32 sets the interim emission reduction goal at 40% below 1990 levels by 2030, and directs the California Air Resources Board to continue implementation based on AB 32 standards. However, the legislation does not reauthorize the cap-and-trade program to continue beyond 2020. In September 2016 Governor Brown signed SB 32 into law.

**AB32 Scoping Plan:** The AB 32 Scoping Plan, first approved by the Air Resources Board in 2008, lays out statewide strategies to reduce GHG emissions; from what sector California will achieve the GHG reductions, and the most cost-effective technologies to achieve the GHG reductions. The plan is updated every 5 years. In 2016, legislators passed AB 187, a companion bill to SB32 directing an additional update to the Scoping Plan to reflect the new targets established by Governor Brown's Executive Order B-30-15 and codified in SB 32. The Scoping Plan outlines strategies to reduce GHG emissions from the energy, transportation, agriculture, water, waste management, and natural and working lands sectors.

**Cap-and-Trade and the Greenhouse Gas Reduction Fund:** California's cap-and-trade program, which began on January 1, 2013, is a crucial part of AB 32 that commits to statewide GHG emissions reductions to 1990 levels by 2020, a 15% reduction from "business as usual". With cap-and-trade, the state sets a cap to limit emissions and auctions off permits that represent a designated quantity of allowed emissions. Companies that keep their emissions below the cap can “trade” emission credits to those companies exceeding their limit.

Revenue generated from sales of these permits is restricted to achieving GHG emission reductions and dedicated to the Greenhouse Gas Reduction Fund (GGRF). The distribution of the GGRF is determined every three years by the California Air Resources Board, the California Department of Finance, the Governor, and the Legislature, (See Sierra CAMP's [State of Cap-and-Trade Funding in the Sierra](#) report for more information).

**SB 535:** Adopted in 2012, SB 535 set mandatory disadvantaged community expenditures for allocation of the GGRF. It directs at least 25% of expenditures to fund projects that benefit disadvantaged communities (DACs), and at least 10% to fund projects that take place directly within these communities. Unfortunately, the tool used to define disadvantaged communities, CalEnviroScreen 3.0, relies on urban-focused pollution criteria, resulting in the complete absence of eligible DACs in the Sierra, the North Coast, and many inland rural areas. As CalEnviroScreen still functions well for determining pollution burden, to address the disparity faced by non-pollution burdened low income communities in the Sierra there needs to be a rural set-aside, or a parallel regional approach such as a “floor” to ensure a minimum amount of rural investment. (See Sierra CAMP’s [Disadvantaged Communities in the Sierra Nevada](#) report for more information.)

## Visual Representation



## Climate Policy and the Sierra Nevada

**GGRF:** The fate of the GGRF depends on whether cap-and-trade is reauthorized during the 2017 legislative season. While GGRF funding to the Sierra Nevada is currently limited, without it Sierra communities will lose critical access to potential funding for carbon sequestration and forest restoration with multiple co-benefits for the surrounding communities. Low-income rural communities face even greater challenges adapting to climate change impacts – especially wildfire and flooding – due to economic disadvantage, marginalization, isolation, and other factors. Current and future GGRF funding for forest and watershed management and sustainable economic development in rural communities depends on cap-and-trade’s reauthorization.

## Reauthorization of Cap-and-Trade

**Benefits of Cap-and-Trade:** The cap-and-trade system offers multiple co-benefits in addition to meeting the emissions targets of 2020 and beyond. For regulated entities, the system provides compliance flexibility even while ensuring certain and measurable emissions reductions. Other benefits include jobs and economic growth, cost-effectiveness relative to other alternatives, and the ability of the system to serve as a backstop to ensure that target emissions reductions are met if other emissions reduction measures fail to meet their projected targets. The trading system also enables collaboration with other regions such as Quebec, serves as

an international model for emissions reduction, delivers clean air benefits, prioritizes reductions at large stationary sources, allows flexibility over time, and allocates trading proceeds via the GGRF to communities that are most in need of continued investment. However, many of these benefits – including GGRF allocations to Sierra communities, forests, and watersheds – will be discontinued if cap-and-trade is not reauthorized.

**Concerns about Cap-and-Trade:** There are environmental justice concerns related to the short-term pollution burden on communities located near pollution sites, which the current cap-and-trade legislation enables. Since the permit system allows some companies to continue emitting as usual, nearby communities (often communities of color, DACs, or otherwise underserved areas) continue to see pollution concerns unaddressed. Though such emitters will eventually be forced to reduce emissions based on a narrowing cap on available permits, these communities face a short-term pollution burden that is not faced by other communities. As such, there is opportunity for the legislation to address these concerns with an environmental justice provision.



**Why Reauthorize?** AB 32 (2006) does not explicitly authorize cap-and-trade after 2020, creating uncertainty about the cap-and-trade system's continuation, even though SB 32 (2016) extends the emissions reductions target to 2030. This uncertainty translates to fewer entities buying emissions permits, which in turn results in greatly reduced revenue for the GGRF. The functionality of the emissions trading system and the resulting funds are critical for continued statewide investment in GHG emissions reduction initiatives and investment in underserved communities. As such, it is imperative that cap-and-trade be reauthorized to reestablish certainty in the emissions trading market.

There is opportunity in the reauthorization of cap-and-trade to better leverage GHG reduction activities to create economic opportunity and resilient economic growth across all parts of the state. Implementation of GHG reduction actions has reduced emissions while the state has seen robust growth in GDP. To be sure this holds true as reductions become more difficult to achieve, we need strategies that establish regional goals linked to improving economic performance at the community level. Moreover, there is further opportunity here to address concerns regarding rural access and equity. In addition to reauthorization, it is critical that the legislation designates an emissions reduction strategy and funding pathway that is region-specific. This would link GHG reduction activities to improving community-level economic performance and allow rural Sierra communities' access to GHG reduction programs in an equitable proportion and manner.

## What's Next?

It is important to make sure that the cap-and-trade system is reauthorized as soon as possible to ensure the continued investment of GGRF in Sierra communities.

Sierra Business Council and Sierra CAMP will be working with our partners to advocate on behalf of the Sierra Nevada, ensuring that the benefits of cap-and-trade reauthorization to our communities are addressed. To learn more, contact Sierra CAMP Director Diana Madson at [dmadson@sierrabusiness.org](mailto:dmadson@sierrabusiness.org).

*The Sierra Climate Adaptation and Mitigation Partnership (“Sierra CAMP”) works to reduce the burden of climate impacts on communities and ecosystems throughout the Sierra Nevada region, and in the downstream urban communities that depend on those rural resources. Learn more at [sbcsierracamp.org](http://sbcsierracamp.org).*

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