

ENVIRONMENTAL PROTECTION

The California Environmental Protection Agency works to restore, protect, and enhance environmental quality. The agency coordinates the state's environmental regulatory programs to provide fair and consistent enforcement of the law.

The Budget proposes total funding of \$3.6 billion (\$54 million General Fund and \$3.5 billion other funds) for all programs included in this Agency.

CAP AND TRADE INVESTMENT PLAN

The California Global Warming Solutions Act of 2006 (AB 32) established California as a global leader in reducing greenhouse gas emissions (GHGs). To meet the goals of AB 32, the state has adopted a three-pronged approach to reducing greenhouse gas emissions, including adopting standards and regulations, providing emission reduction incentives via grant programs, and establishing a market-based compliance mechanism known as Cap and Trade. The Cap and Trade program, as one component of the state's comprehensive approach, sets a statewide limit on the GHG sources responsible for 85 percent of California GHG emissions. Through an auction mechanism, it establishes a financial incentive for industries subject to the statewide cap to make long-term investments in cleaner fuels, more efficient energy use, and transformational technological and scientific innovations. The Cap and Trade program provides GHG emitters the flexibility to implement the most efficient options to reduce GHG emissions. Based on the draft update to the AB 32 Scoping Plan, the Cap and Trade program will be responsible for

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approximately 30 percent of the required GHG emission reductions to meet the AB 32 goal of reducing GHG emissions to 1990 levels by 2020.

The Air Resources Board has held five auctions to date. The remaining two auctions for 2013-14 will occur in February and May 2014. Currently, GHG emissions from electricity and large industrial sources are subject to the cap. The sale of allowances consigned to auction by electric distribution utilities resulted in proceeds of \$836 million, to be used as directed by the California Public Utilities Commission or governing boards for ratepayer benefits consistent with the goals of AB 32. In addition, the five auctions to date have generated \$532 million in state auction proceeds.

Chapter 830, Statutes of 2012 (SB 535), requires that at least 10 percent of the proceeds received by the state be invested within the most impacted and disadvantaged communities and at least 25 percent of the proceeds be invested to benefit these communities. The California Environmental Protection Agency (CalEPA), directed by SB 535, determined the list of disadvantaged communities using CalEnviroScreen, a tool developed by the Office of Environmental Health Hazard Assessment, in collaboration with stakeholders and an advisory group.

From October 2012 to May 2013, an inter-agency team drafted and developed the first three-year investment plan for Cap and Trade auction proceeds, consistent with the requirements of Chapter 807, Statutes of 2012 (AB 1532). Outreach included public meetings in Fresno, Los Angeles and Sacramento, and an Air Board workshop and hearing. The final investment plan, released in May 2013, contained a summary of the more than 350 public comments received. The plan, which continues through the 2015-16 fiscal year, emphasizes investments in existing programs in sectors which have the greatest GHG emissions—transportation, energy, waste and natural resources—with proposed investments commensurate with relative emissions. The plan aims to advance GHG reductions, strengthen communities, especially those most impacted by emissions, create jobs and spur innovation, with the goal of supporting California's transformation to a clean economy. The 2013 Budget Act included a \$500 million loan of auction proceeds to the General Fund.

The Budget proposes to invest \$850 million of Cap and Trade proceeds to support existing and pilot programs that will promote GHG reductions and meet SB 535 goals (see Figure EPA-01). This amount includes repayment of \$100 million of the 2013 Budget loan, with the remaining balance being repaid within the next few years. State agencies worked in coordination with stakeholders to develop the plan. It draws on the findings

Figure EPA-01
Cap and Trade Expenditure Plan
(Dollars in Millions)

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Amount</i>
Sustainable Communities and Clean Transportation	High-Speed Rail Authority/ Caltrans	Rail Modernization	\$300
	Strategic Growth Council	Sustainable Communities	\$100
	Air Resources Board	Low Carbon Transportation	\$200
Energy Efficiency and Clean Energy	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	\$80
	Department of General Services	Green State Buildings	\$20
	Department of Food and Agriculture	Agricultural Energy and Operational Efficiency	\$20
	Department of Water Resources	Water Action Plan - Water and Energy Efficiency	\$20
Natural Resources and Waste Diversion	Department of Fish and Wildlife	Water Action Plan - Wetlands and Watershed Restoration	\$30
	Department of Forestry and Fire Protection	Fire Prevention and Urban Forestry Projects	\$50
	Cal Recycle	Waste Diversion	\$30
Total			\$850

of related climate policy documents, including the discussion draft of the Governor's Environmental Goals and Policy Report and the draft update to the AB 32 Scoping Plan. These reports describe the latest climate science, which indicates a need for immediate reductions in both greenhouse gases and short-lived climate pollutants, and a long-term shift to more sustainable practices. The Budget's expenditure plan meets these goals by investing in both near-term emission reductions and projects that support California's longer-term climate targets. Finally, these programs improve air and water quality, invest at least \$225 million for the benefit of disadvantaged communities, and create jobs.

Specifically, the Cap and Trade Expenditure Plan proposes investments in the following programs:

SUSTAINABLE COMMUNITIES AND CLEAN TRANSPORTATION

- Rail Modernization—\$300 million to continue the work of modernizing and integrating rail transportation. A modernized rail system benefits California by improving mobility across the state in a manner that will increase transit ridership and reduce GHG emissions. These funds will continue the work begun in 2012, when the Legislature approved Chapter 152, Statutes of 2012 (SB 1029), which

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provided \$7.8 billion in state and federal funds to start construction of high-speed rail and to modernize existing rail systems across the state. The Budget proposes the following allocation:

- High-Speed Rail—\$250 million for the High-Speed Rail Authority for construction of the Central Valley initial construction segment and further environmental and design work on the statewide system. Proposed legislation provides an ongoing state commitment of Cap and Trade proceeds to high-speed rail, which will leverage additional federal support for the project and facilitate future phases of the initial operating segment from Merced to the San Fernando Valley.
- Integration of Rail Systems—\$50 million for the Department of Transportation to administer a competitive grant program for existing rail operators for capital improvements to integrate rail systems, including those located in disadvantaged communities, and provide connectivity to the high-speed rail system.
- Sustainable Communities—\$100 million in local assistance funding to support regions in the implementation of the sustainable communities strategies required by Chapter 728, Statutes of 2008 (SB 375), and to provide similar support to other areas with GHG reduction policies, but not subject to SB 375 requirements. The Strategic Growth Council will coordinate this program with programmatic work performed by a multi-agency team of departments, including the Department of Transportation, the California Transportation Commission, the Department of Housing and Community Development, and the Natural Resources Agency. Selected projects will prioritize disadvantaged communities and will reduce GHG emissions by increasing transit ridership, active transportation (walking/biking), affordable housing near transit stations, preservation of agricultural land, and local planning that promotes infill development and reduces the number of vehicle miles traveled.
- Low Carbon Transportation—\$200 million for the Air Board to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities. This investment will support the state's clean air and climate change goals, as well as the Administration's goal to deploy 1.5 million zero-emission vehicles in California by 2025. The Air Board administers existing programs that provide rebates for zero-emission cars and vouchers for hybrid and zero-emission trucks and buses. This proposal will respond to increasing demand for these incentives, as well as provide incentives for the pre-commercial demonstration of advanced freight technology to move cargo in California, which will benefit communities near freight hubs.

ENERGY EFFICIENCY AND CLEAN ENERGY

- Weatherization Upgrades/Renewable Energy—\$80 million for the Department of Community Services and Development to assist in the installation of energy efficiency and renewable energy projects in low-income dwellings within disadvantaged communities. Weatherization measures typically include weather-stripping, insulation, caulking, water heater blankets, fixing or replacing windows, refrigerator replacement, electric water heater repair/replacement, and heating and cooling system repair/replacement. Renewable energy measures include installation of solar water heater systems and photovoltaic systems. This proposal will serve a mix of single- and multi-family dwellings, leveraging existing federal Low Income Home Energy Assistance Program and Weatherization Assistance Program funds, workforce development agency funding, utility-funded incentives, and other similar resources.
- Green State Buildings—\$20 million for the Department of General Services to implement Executive Order B-18-12 that requires state agencies to reduce GHG emissions by 10 percent by 2015 and 20 percent by 2020. The Department will assist state agencies in the construction of zero net energy state buildings, reduction of grid-based energy purchases at state-owned buildings, and the use of clean, on-site power generation, such as fuel cells, solar photovoltaic, solar thermal, and wind power generation.
- Agricultural Energy and Operational Efficiency—\$20 million for the Department of Food and Agriculture to support projects that reduce GHG emissions from the agriculture sector by capturing greenhouse gases, harnessing greenhouse gases as a renewable bioenergy source, improving agricultural practices and promoting low carbon fuels, agricultural energy, and operational efficiency. This proposal will support: 1) the design and construction of dairy digester systems; 2) research and technical assistance on reducing nitrous oxide emissions, nitrification inhibitors, water and nitrogen movement in the environment, and evaluation of water and nitrogen management practices; and 3) the development of fuel quality specifications and standards for renewable and zero emissions systems, such as biofuels produced from dairy digesters and other agricultural waste.
- Water Action Plan/Water-Energy Efficiency—\$20 million for the Department of Water Resources for water and infrastructure efficiency projects that also result in energy savings. This proposal will provide additional funding for grants that support water use efficiency projects, such as leak loss detection and repair projects that have a demonstrated ability to reduce GHG emissions, with additional

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consideration given to projects that help address critical water supply needs of disadvantaged communities. The proposal will also support efficiency upgrades at two State Water Project facilities, Thermalito and Hyatt, which will result in more efficient generation of clean power and improved system reliability.

NATURAL RESOURCES AND WASTE DIVERSION

- Water Action Plan/Wetlands and Coastal Watersheds—\$30 million for the Department of Fish and Wildlife to implement projects that provide carbon sequestration benefits, including restoration of wetlands (including those in the Delta), coastal watersheds and mountain meadows. In addition to meeting the goals of AB 32, these types of projects are identified in the Water Action Plan as integral to developing a more sustainable water management system statewide.
- Fire Prevention and Urban Forests—\$50 million for the Department of Forestry and Fire Protection to support urban forests in disadvantaged communities and forest health restoration and reforestation projects that reduce wildfire risk and increase carbon sequestration. This proposal will enhance forest health and reduce fuel loads in light of climate change impacting wildfire intensity and damage across the landscape.
- Waste Diversion—\$30 million for the Department of Resources, Recycling, and Recovery to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. Investment in new or expanded clean composting and anaerobic digestion facilities is necessary to divert more materials from landfills, a significant source of methane emissions. These programs reduce GHG emissions and support the state's 75 percent solid waste recycling goal.

STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board and the nine Regional Water Quality Control Boards preserve and enhance the quality of California water resources, and the allocation and use of state water. The Budget includes \$1 billion (\$23 million General Fund) and 1,864 positions for the Board.

REORGANIZATION OF THE DRINKING WATER PROGRAM

Programs designed to protect water quality for drinking and other purposes are housed in multiple agencies, reducing their effectiveness.

The Budget proposes to transfer \$200.3 million (\$5 million General Fund) and 291.2 positions for the administration of the Drinking Water Program from the Department of Public Health to the Water Board. Transferring the Drinking Water Program will achieve the following objectives:

- Establish a single water quality agency to enhance accountability for water quality issues.
- Better provide comprehensive technical and financial assistance to help communities, especially small disadvantaged communities, address an array of challenges related to drinking water, wastewater, water recycling, pollution, desalination, and storm water.
- Improve the efficiency and effectiveness of drinking water, groundwater, water recycling, and water quality programs.

Other Significant Adjustments:

- Water Action Plan—\$11.9 million from various fund sources and ten positions to more effectively manage groundwater and improve drinking water in disadvantaged communities. (See Water Action Plan in the Natural Resources Chapter.)
- Enforcement of Marijuana Cultivation Laws—\$1.8 million Waste Discharge Permit Fund and 11 positions to improve the prevention of illegal stream diversions, discharges of pollutants into waterways, and other water quality impacts associated with marijuana production. Currently, marijuana cultivation is threatening water quality and the sensitive habitat of endangered species. This proposal will be a coordinated effort with the Department of Fish and Wildlife.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery (CalRecycle) protects the environment by regulating solid waste facilities and promoting recycling. The Budget includes \$1.5 billion and 729 positions for the Department.

BEVERAGE CONTAINER RECYCLING PROGRAM REFORM

The Beverage Container Recycling Program is one of the state's most successful recycling and environmental protection efforts. The state's recycling rate currently exceeds 82 percent. However, because of the state's high recycling rate and mandated

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program payments, expenditures from the Beverage Container Recycling Fund exceed revenues by approximately \$100 million.

The Budget proposes several programmatic changes necessary to ensure the fiscal integrity of the program, while continuing efforts to increase the state's recycling rate. These program reforms, as well as those implemented through Budget actions last year, were developed through a stakeholder process aimed at addressing the structural imbalance and better aligning financial incentives to encourage recycling. Specifically, the Budget proposes the following reforms:

- Three-year phase-out of processing fee subsidies—Currently, the program subsidizes glass and plastic manufacturers by offsetting a portion of the cost to recycle containers. Offset payments that subsidize manufacturer costs will be reduced by \$26.3 million in 2014-15, another \$26.7 million in 2015-16, and by \$14 million in 2016-17 to reflect the full elimination. Under this proposal, manufacturers will ultimately bear the full cost of recycling. A three-year phase out will provide the industry with time to adjust to these reductions.
- Eliminate fee payments—Administrative fees paid to processors and recyclers will be eliminated, while also relieving their administrative burden by requiring and facilitating electronic filing. Projected savings are \$13 million in 2014-15, with ongoing savings of \$26 million beginning in 2015-16.
- Redirect existing funds to support local recycling and deter fraud—Existing payments to cities and counties do not provide incentives to increase recycling. Eliminating existing city and county payments, and redirecting funds to increase a competitive grant program by \$3.5 million and establish a \$7 million Recycling Enforcement competitive grant program will better support local recycling compliance and enforcement efforts.
- Diversify funding for local conservation corps—The Budget replaces \$15 million of existing Beverage Container Recycling Fund grants to local conservation corps by redirecting a like amount of other special funds to support local corps recycling programs. New funding for local corps programs will be provided by the Tire Recycling Management Fund (\$5 million), the Electronic Waste Recovery and Recycling Account (\$8 million), and the Used Oil Recycling Fund (\$2 million).