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metro.net**AD-HOC SUSTAINABILITY COMMITTEE
MARCH 20, 2013****SUBJECT: CAP AND TRADE REVENUES****ACTION: ADOPT STAFF RECOMMENDED POSITION ON CAP AND
TRADE PRINCIPLES****RECOMMENDATION**

Staff recommends that the Board adopt a support position on principles related to the allocation of cap and trade revenues to ensure that a significant portion of cap and trade revenues are invested in transportation. These principles should clarify that funds allocated to our region should be allocated by the county transportation commissions.

ISSUE

California has commenced a comprehensive greenhouse gas (GHG) emissions reduction program with a goal of reducing 2020 GHG emissions to 1990 levels. One of the most significant efforts under this overall program is the implementation of a Cap-and-Trade Program.

The Department of Finance and the California Air Resources Board are charged with developing an expenditure plan for generated revenues pursuant to AB 1532 (Perez) approved by the Legislature last year. In March of last year Metro's Board of Directors adopted a support position on Speaker Perez's bill (AB 1532) as it called for allocation of cap and trade revenues to transit.

DISCUSSION

The Transportation Coalition for Livable Communities is advocating a set of principles for the allocation of cap and trade revenues. These principles are generally in line with our agency's efforts to secure cap and trade revenues for transportation with one notable exception. These principles reference regional project selection which inherently includes funding allocation. Project selection and fund allocation in Southern California is traditionally done at the county level by the county transportation commissions.

Staff recommends that the Board support the principles with an amendment that allows for project selection and funding allocation to be done by the County Transportation Commissions:

- Auction revenue from fuels should implement the AB 32 regulatory program to reduce GHG emissions from transportation.
- Favor cost-effective and integrated transportation and land use strategies.
- Project funding determinations should be done primarily at regional level under statewide criteria for evaluating GHG impacts. Criteria for project selection should be uniform statewide and developed by the State of California. Regions shall administer competitive funding processes and select projects based on these criteria.
- Allow flexibility at the regional and local level to develop most cost effective projects.
- Assist local governments in meeting regional GHG reduction goals.
- Create performance-based approach to maximize regional flexibility with improved modeling and verification systems to ensure effective results.
- Promote innovation, collaboration, economic development and rural sustainability.
- Support co-benefits: air quality, public health, resource protection, equity, affordable housing, agriculture, and safety.

California's Cap-and-Trade Program establishes an annual emissions cap on companies covered by the program. Major sources of GHG emissions covered under the program include refineries, power plants, industrial facilities and transportation fuels (beginning in 2015). Each entity is required to have an emissions allowance for every metric ton of carbon dioxide emitted. Emission allowances can be allocated to a company by the government, bought at auction, traded amongst covered entities, or created through offset projects. Entities without enough allowances to cover their emissions face a fine. Each year, the overall cap is reduced to bring the economy closer to the 2020 target emission level.

The Cap-and-Trade Program began late 2012. At that time, the California Air Resources Board (CARB) began allocating and auctioning emission allowances. However, companies compliance obligations did not begin until 2013. Two Cap and Trade auctions have been held to date. The first was January 2013 and the second occurred February 2013.

A number of studies have documented the role the transportation sector plays in the generation of greenhouse gas emissions. Based on reported emissions to CARB since 2008, the transportation sector constitutes 38% of the GHG's emitted in California, the largest for any sector in the California economy. Any strategy to reduce GHG's must therefore take this into consideration.

Last year the California Transit Association began an effort to advocate for cap and trade revenues to be allocated to transportation. These efforts have borne fruit in that the Administration of Governor Brown has clearly identified that transportation must be one of the main areas in which cap and trade funds are invested. This prioritization along with transportation's role in GHG reduction and its recognized co-benefits in the areas of reduced air pollution and improved health (especially in disadvantaged communities), improved mobility and safety, reduced traffic congestion, enhanced energy security, job creation, and protection of natural resources through efficient operations provide a very clear rationale for investing significant portions of cap and trade revenues in the transportation sector. The challenge will be to determine exactly how those funds are administered. The Brown Administration has also indicated that cap and trade revenues should be available to fund the California High Speed Rail project.

Also, last year a coalition began to form to further advocate for cap and trade revenues to be invested in transportation. This coalition included the California Alliance for Jobs, the California Transit Association, Transportation California and the California State Association of Counties. This coalition has now expanded to include metropolitan planning organizations.

The potential amount of revenue that could be generated from this program is unknown at this time. However, the State estimates between \$660M to \$3B in revenue from 2012-2013 auctions, and up to \$1 billion dollars annually during full auction years until 2020.

Projects eligible for the cap and trade revenues must further the objectives of AB 32 which include reducing greenhouse gases that contribute to climate change as well as reducing other forms of air pollution; particularly in disadvantaged communities. There are a myriad of uses for which cap and trade revenues could be applied in Metro's projects and programs. These may include funding the construction of new transit systems, retrofit of existing facilities, funding new transit services, bicycle and pedestrian facilities, transit oriented developments, smart highway projects, and freight related projects that reduce GHG's.

At this time, the Department of Finance and the California Air Resource Board are preparing an expenditure plan pursuant to AB 1532. This plan has been subject to public hearings at which Metro has testified. The Expenditure Plan will be released in the Governor's May Revision to his January Budget proposal. The Legislature will consider his plan in the budget process.

DETERMINATION OF SAFETY IMPACT

Staff has reviewed the item for impacts to safety and have determined that there is no impact to safety at our agency.

FINANCIAL IMPACT

It is difficult to predict the amount of funds that could be available for transportation from this program. Previous estimates in the budget deliberations projected that potentially \$1 billion could be available this year. Some of those funds could be used to fund high speed rail. A portion of the balance may then be allocated to local agencies theoretically based on the amount of GHG's in a given region and the proximity of disadvantaged communities that benefit the projects. While this amount may be relatively small in the current year it could grow significantly if the cap and trade program grows as projected.

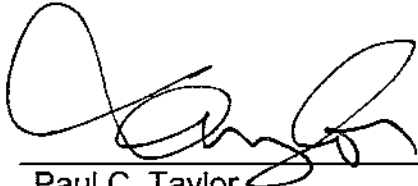
ALTERNATIVES CONSIDERED

Staff considered not taking a position on the principles related to the use of cap and trade revenues. This alternative was rejected as it would forego an opportunity to advance the long-term sustainable program of projects and services in Los Angeles County.

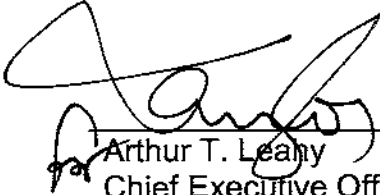
NEXT STEPS

Staff will continue to work with the Transportation Coalition for Livable Communities to both advance the need to invest cap and trade revenues in transportation and to ensure that the funds are allocated by the county transportation commissions in Southern California. Should the Board adopt a support position on these principles, Metro Government Relations staff will pursue legislation related to an expenditure plan being developed by the Department of Finance the California Air Resources Board for inclusion in a State Budget Trailer.

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