

3. Finance EBR

DEPARTMENT OF FINANCE ENROLLED BILL REPORT

AMENDMENT DATE:
RECOMMENDATION:

August 30, 2006
Sign

BILL NUMBER: AB 32
AUTHOR: F. Nunez

ASSEMBLY: 47/32
SENATE: 23/14

BILL SUMMARY: Greenhouse Gas Emissions: Global Warming Solutions Act

This bill will enact the California Global Warming Solutions Act of 2006 (Act). It will establish within the Air Resources Board (Air Board) a statewide mandatory reporting system to track and monitor greenhouse gas (GHG) emission levels and establish a limit on GHG emissions, requiring emission reductions in California to be reduced to 1990 levels, an estimated 25 percent reduction, by the year 2020.

The bill will require the Air Board to develop a regulatory framework of emission reduction measures, which may include multi-sector market-based compliance options. Additionally, the bill will authorize the Air Board to design rules, by 2011, under which market-based options could be used to help meet the 2020 limit.

Finally, the bill will authorize the Governor to suspend its provisions, for up to one year at a time under specified circumstances, and will continue the Governor's Climate Action Team created in 2005.

FISCAL SUMMARY

The Air Board estimates ongoing costs of approximately \$27 million annually and 140 positions to implement the bill. These costs include regulatory development, including development of regulations for the approximately 20 GHG reduction strategies already identified by the Climate Action Team (CAT) in their March 2006 report. The cost estimate also includes many other required tasks, including emissions inventory development and maintenance, mandatory reporting oversight, compliance flexibility and market-based compliance options development, stakeholder involvement/interaction, and compliance enforcement.

The bill will authorize the Air Board to adopt, by regulation, a schedule of fees to be paid by the sources of greenhouse gas emissions regulated pursuant to the Act. Revenues collected will be deposited into the Air Pollution Control Fund to be available, upon appropriation by the Legislature, to enforce the Act. Nevertheless, there may be a political reluctance to pay for the full cost of the program through fees. Consequently, Finance believes this bill could result in significant cost pressures to the Motor Vehicle Account and the General Fund. Both of these funds are facing significant long term fiscal constraints.

The Energy Commission estimates a cost of approximately \$1 million and 5 positions to implement the bill's provisions. Other state entities, including the Secretary for Environmental Protection, may also incur costs. However, no estimate of these costs is available at this time. The bill does not contain an appropriation. Finance notes that any future funding related to the bill's provisions will be subject to review and approval as part of the overall budget preparation process.

COMMENTS

The Department of Finance recommends this bill be signed because it is consistent with the Administration's policy to reduce GHG emissions in California. Despite the considerable costs identified by the Air Board, the bill's goal of substantially reducing the state's GHG emissions is a priority of the Administration. Moreover, it is Finance's understanding that the enrolled version of AB 32 reflects an agreement between the Administration and the Legislature on the best method of achieving GHG emission reduction targets by 2020.

(Continued)

Analyst/Principal	Date	Program Budget Manager	Date
(0623) M. Army <i>Matt Army</i>	9/13/06	Fred Klass <i>[Signature]</i>	for 9/13/06
Department Director		Date	
<i>John Kluge</i>	9/14/06		

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F. Nunez

August 30, 2006

AB 32

COMMENTS (continued)

This bill will enact the California Global Warming Solutions Act of 2006 (Act). Specifically, the bill will require the Air Board to:

- Adopt a list of early action measures by July 1, 2007 that can be implemented by January 1, 2010.
- Establish, by January 1, 2008, a statewide GHG emissions cap for 2020 based on 1990 emissions.
- Adopt mandatory reporting rules by January 1, 2009 for significant sources of greenhouse gases.
- Adopt a plan by January 1, 2009 indicating how emission reductions will be achieved from significant GHG sources through market mechanisms, regulations, and other actions.
- Adopt regulations by January 1, 2011 to achieve the maximum technologically feasible and cost-effective reductions in GHGs, including provisions for using both market mechanisms and alternative compliance mechanisms.
- Convene an Environmental Justice Advisory Committee and an Economic and Technology Advancement Advisory Committee to advise the Air Board and ensure public notice and opportunity for comment for all Air Board actions.
- Evaluate several factors prior to imposing new requirements or authorizing market mechanisms, including but not limited to: (1) impacts on California's economy, the environment, and public health, (2) equity between regulated entities, (3) electricity reliability, (4) conformance with other environmental laws, and, (5) potential for disproportionate impact on low-income communities.

The bill also will authorize the Governor, in the event of extraordinary circumstances, catastrophic events, or threat of significant economic harm, to adjust the applicable deadlines for individual regulations, or for the state in the aggregate, to the earliest feasible date after that deadline. The bill will limit the adjustment period to one year unless the Governor makes an additional adjustment subject to the bill's notification and other provisions.

Finally, the bill will clarify legislative intent in numerous areas related to GHG reductions required by the Act, including its intent that the Climate Action Team, established by the Governor to coordinate the efforts set forth under Executive Order S-3-05, continues its role in coordinating overall climate policy.

Code/Department Agency or Revenue Type	(Fiscal Impact by Fiscal Year)									Fund Code	
	SO	LA			2006-2007			2007-2008			2008-2009
	CO	PROP	FC	FC	FC	FC	FC	FC	FC		
0556/Environ Prot	SO	No			See Fiscal Summary					0044	
3300/Energy Comm.	SO	No	C		\$500	C		\$1,000	C	\$1,000	0465
3000/Air Res Bd	SO	No	C		\$13,750	C		\$28,880	C	\$28,505	0044
1250/Other Reg Fee	RV	No			See Fiscal Summary					0115	

Fund Code	Title
0044	Motor Vehicle Account, STF
0115	Air Pollution Control Fund
0465	Energy Resources Programs Account

SUGGESTED VETO MESSAGE

AB 32

(as amended August 30, 2006)

I am returning Assembly Bill No. 32 without my signature.

The bill would establish within the Air Resources Board (Air Board) a statewide mandatory reporting system to track and monitor greenhouse gas (GHG) emission levels and institute a limit on GHG emissions, requiring emission reductions in California to be reduced to 1990 levels by the year 2020. The bill would require the Air Board to develop a regulatory framework of emission reduction measures and authorize the Air Board to design rules, by 2011, under which market-based options could be used to help meet the 2020 limit. The bill would also authorize the Governor to suspend its provisions for up to one year at a time, under specified circumstances or the threat of significant economic harm, and will continue the Governor's Climate Action Team created in 2005.

My Administration has taken the lead in establishing GHG emission reduction targets for California. I signed Executive Order S-3-05 which establishes aggressive new GHG reduction targets and directs the Secretary for Environmental Protection to coordinate efforts to achieve them. I intend that California continue to be a leader in the fight against global warming and protecting our environment. California's scientists lead the world in evaluating the impacts of GHG emissions. Many California companies have taken significant steps to reduce GHG emissions from their operations and to develop products that will reduce GHG emissions. I wholeheartedly support efforts to reduce GHG emissions that meet the needs of both our economy and environment.

However, I am vetoing this bill because it would inappropriately place overall responsibility for a program that impacts statewide government and numerous state departments within the Air Board. Such a task should be entrusted to an Agency-level or multi-agency entity capable of coordinating all the state's efforts. Moreover, the bill's compressed timeframe for adoption of GHG reduction measures is unrealistic and would likely lead to increased costs for businesses. Increased costs for electricity and fuel will hurt our state's competitiveness, and drive businesses and jobs out-of-state, to other states with less stringent requirements. Such an action is inconsistent with my Administration's ongoing efforts to improve the state's business climate and enhance our economic recovery.