

July 14, 2017

The Honorable Ricardo Lara, Chair  
Senate Appropriations Committee  
State Capitol, Room 2206  
Sacramento, CA 95814

**Re: AB 398 (Eduardo Garcia) California Global Warming Solutions Act of 2006:  
Market-Based Compliance Mechanisms – SUPPORT**

Chair Lara:

On behalf of the California Transit Association, I write to you today to express our **SUPPORT** for AB 398 (E. Garcia), and to respectfully request your “AYE” vote when the bill is heard in the Senate Appropriations Committee on July 17. This bill would extend the Cap and Trade program until December 30, 2030, while altering the program by establishing a price ceiling for auction allowances and limiting the use of carbon offsets; and, would make several changes to the Revenue and Taxation Code and the Public Resources Code intended to benefit manufacturers and certain taxpayers.

Current law requires the State of California to reduce GHG emissions to 40 percent below 1990 levels by 2030, and authorizes the California Air Resources Board to adopt rules and regulations intended to maintain these emissions reductions in perpetuity. Actions taken by Governor Schwarzenegger (S-03-05) and Governor Brown (B-16-12) further solidify the State's goal of reducing GHG emissions by setting an ambitious GHG emissions reduction target for 2050, and requiring that the transportation sector contribute its fair share of emissions reductions. Though it is a vital component of the state's GHG emissions reduction strategy, a market-based compliance mechanism (i.e. a Cap and Trade system) is only explicitly authorized by current law through December 31, 2021.

As you may know, the Association has long-supported the extension of the Cap and Trade program as a means of creating stability in the market for Cap and Trade auction proceeds. The structural changes to the Cap and Trade program that would be made by this bill, namely its introduction of a price ceiling for auction allowances and limits on the use of carbon offsets, are smart policy that create price certainty for regulated industries and address air quality concerns raised by the Environmental Justice community. For these reasons, the Association supports this important measure.

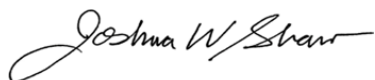
Our support for this bill, notwithstanding, we have significant concerns about the impact to the Greenhouse Gas Reduction Fund (GGRF) resulting from the bill's amendments to the Revenue and Taxation Code and the Public Resources Code. These amendments

would: extend the current sales and use tax exemption on manufacturing equipment to July 1, 2030 and suspend the State Responsibility Area (SRA) fire prevention fee, beginning July 1, 2017, respectively; and, backfill lost revenue with auction proceeds from the GGRF. We estimate that together these actions would result in an approximately \$400 million to \$600 million impact to the GGRF, leaving fewer dollars on the table for investment in emissions reduction projects, like public transit capital and operations. Moreover, as written, the bill does not indicate whether auction proceeds that are diverted from the GGRF would be taken from the total collected annually (i.e. off the top), from the 40 percent that is currently unallocated and subject to annual appropriation by the Legislature, or from the 60 percent that was continuously appropriated by the Legislature in SB 862 (Committee on Budget and Fiscal Review) [Chapter 36, Statutes of 2014] for affordable housing, public transit and high-speed rail.

For that reason, we qualify our support for this bill by urging the Legislature to honor its commitment to public transit by maintaining the continuous appropriations to the Transit and Intercity Rail Capital program (TIRCP) and the Low Carbon Transit Operations program (LCTOP) established by SB 862. To protect these programs, which are essential for inciting the mode shift necessary to reach our state's environmental goals, we encourage the Legislature to backfill lost revenue in a manner that does not decrease the percentage of total Cap and Trade auction proceeds that these programs receive, or reduce the absolute level of investment in public transit envisioned in SB 862. Finally, as the Legislature develops its Cap and Trade Expenditure Plan, we urge the Legislature to consider that the California Transportation Plan 2040 – the Brown Administration's long-range policy framework for meeting our future mobility needs and reducing GHG emissions – identifies significant new investment in public transit as indispensable to meeting our 2030 and 2050 GHG emissions targets. We recommend acting on the California Transportation Plan's findings by doubling the continuous appropriations to the TIRCP and LCTOP.

Once again, we **SUPPORT** AB 398 and respectfully request your "AYE" vote on this bill. Thank you for your consideration. Please contact me directly at (916) 446-4656 if you have any questions or comments.

Sincerely,



Joshua W. Shaw  
Executive Director

cc: The Honorable Eduardo Garcia, California State Assembly  
Members and Consultants, Senate Appropriations Committee  
Nancy McFadden, Executive Secretary, Office of the Governor  
Camille Wagner, Legislative Secretary, Office of the Governor  
Alice Reynolds, Senior Advisor, Office of Governor Edmund G. Brown Jr.  
Catalina Hayes-Bautista, Deputy Legislative Secretary, Office of the Governor  
Michael Martinez, Deputy Legislative Secretary, Office of the Governor  
Brian Kelly, Secretary, California State Transportation Agency  
Mary Nichols, Chair, California Air Resources Board