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**Comments of the Local Government Sustainable Energy Coalition to
California Air Resources Board Regarding
“Public Input on Investment of Cap-and-Trade Auction Proceeds”**

June 22, 2012

The Local Government Sustainable Energy Coalition (“LGSEC”)¹ applauds the work of the Air Resources Board in seeking stakeholder input regarding the investment plan for the auction proceeds from the cap-and-trade program. LGSEC is the only statewide organization that advocates before California’s energy and environmental regulatory agencies for the interests of local governments. Our members are leaders among local governments in energy efficiency, renewable energy, climate action planning, and related issues. LGSEC supports and joins in the comments made by the first panel of experts² selected to speak at the workshop on May 24, 2012 to the extent that each speaker highlighted the important role of local governments in helping reach AB 32 targets and simultaneously helping to improve public health and develop a clean energy economy. Some of the key points regarding the role of local governments in achieving the state’s goals are highlighted below.

As California implements AB 32, local governments have the most direct connection to residential and business constituencies and the most experience with implementing programs and

¹ Across California, cities, counties, associations and councils of government, special districts, and non-profit organizations that support government entities are members of the LGSEC. Each of these organizations may have different views on elements of these comments, which was approved by the LGSEC’s Board.

² The panelists were: Dallas Burtraw, Senior Fellow, Resources for the Future; Ellen Hanak, Senior Policy Fellow, Public Policy Institute of California; Grant Davis, General Manager, Sonoma County Water Agency; Lester A. Snow, Executive Director, California Water Foundation; Mike Mielke, Senior Director, Environment, Silicon Valley Leadership Group; Frances Keeler, President of the Board of Directors, FuturePorts and Jim Earp, Executive Director, California Alliance for Jobs.

policies at the grass-roots level. They also are at “ground zero” when their communities and infrastructure are impacted by natural disasters and man-made environmental threats, and resultant public health effects. Consequently, local governments must be viewed as California’s major allies in effecting long-term progress toward sustainable energy and climate protection solutions, and helping to combat the public health impacts from environmental changes.

Local governments are legally responsible for implementing a number of local, regional, and state mandates related to land use and transportation, integrated resource management, air quality, energy efficiency codes and standards and green building practices. For example, cities and counties:

- Organize and administer access to public health care and treatment, and provision of emergency services, in response to natural disasters, climatic and extreme weather events, and man-made environmental threats
- Own buildings, facilities and infrastructure such as street lighting, auditoriums, vehicle fleets, water distribution systems and wastewater treatment plants, all of which consume large quantities of stationary and mobile source energy
- Manage solid waste collections, landfills, and waste reprocessing facilities which are major potential sources of GHG emissions
- Have significant purchasing power and are able to exert market influence on the availability of environmentally preferable options for vehicles, equipment, building materials, mechanical systems and other technologies
- Set local land use and transportation policies, determine where development will be located and regulate the mix of property uses allowed
- Operate public transit systems and transit/transportation infrastructures

- Adopt and enforce building codes which impact the energy efficiency and renewable energy profile of residential and commercial buildings
- Regulate vehicle parking, traffic circulation and the design and condition of streets and roadways

ARB should direct that local governments be allocated revenue from the sale of allowances to allow local governments to create, implement and/or continue programs that foster the overarching goal of the state's Strategic Plan, namely, successful market transformation that does not depend on publically-funded incentives. Further, *all* residents benefit from local public programs. Grant Davis, General Manager of the Sonoma County Water Agency, an active LGSEC member, mentioned several local government programs that have numerous co-benefits that are fully in line with AB 32 goals. One example was regional water reuse programs that have multiple benefits including reduced CO₂ emissions, reduced source water extractions and wastewater discharges, energy reduction, economic stimulus and increased water supply reliability. This is just one example of a program, uniquely within the domain of local government, that results in numerous benefits for an entire community and helps reach statewide goals. Local governments must be part of the solution to continue to employ innovative programs, ordinances and investments that will reduce GHG emissions and provide resources for addressing the consequences of climate change.

Ensuring that revenues from cap-and-trade are used to build on existing local government success is sound public policy, consistent with previous guidance from ARB. Indeed, the Economic and Allocation Advisory Committee's ("EAAC") recommendations to ARB and the CA EPA, in their March 2010 report "Allocating Emissions Allowances Under a California Cap-and-Trade Program" makes clear:

“Allowance value can also be channeled to local and regional government entities including cities, counties, regional planning agencies, school districts and other special districts including water and sanitation districts. These entities are well positioned to advance locally focused efforts on land use plans that facilitate carbon sequestration and avoided emissions from forests and grasslands, public transit agency investments, supporting individual and local business investments in more efficient appliances and weatherization, improved structures, and distributed renewable energy projects. Local entities are a natural focus of efforts to direct investment to disadvantaged communities.” (EAAC Report, pp 54-55.)

The investment plan should prioritize programs that are consistent with the policy of AB 32. Specifically, AB 32 directs that public and private investments be devoted “where applicable and when feasible ... toward the most disadvantaged communities in CA.”³ Programs funded with allowance revenues should therefore attempt to address the needs of disadvantaged communities. Allowance value can be used to help communities reduce greenhouse gas emissions, minimize health impacts through improved efficiency, and improve environmental quality. Programmatic efforts should focus on planning and intervention in poor and minority neighborhoods. Such intervention should prioritize communities at risk of heat island effects, poor housing quality, and lack of access to transportation. Investments should also be directed to communities in close proximity to highways, ports, power plants, and other geographic locales where air quality is the worst in the state, and to local government programs that benefit these communities.

Finally, a portion of the allowance revenue should be directed toward local government regional energy networks, which have the capacity to include those smaller jurisdictions that do not have the resources to design and implement programs that result in reduced GHG and energy use. By working together, local governments, particularly at the regional level, can create long

³ Cal Health & Safety Code § 38565.

term strategies that will help the state reach energy and climate action goals. Regional governments, working with partner agencies and institutions such as business, universities and non-profit organizations, can harness the power of their diversity of expertise and experience to develop system-wide strategies to address climate change and help meet the goals of AB32. Revenue generated from the sale of cap-and-trade allowances is appropriately directed towards regional government networks for objectives such as the establishment of pilot projects, investment in emerging technologies and the ability to engage in joint policy making.

Indeed, the potential effectiveness of this approach has been acknowledged by the California Public Utilities Commission's recent decision in the energy efficiency proceeding (D.12-05-015). There, the Commission invited interested local governments to submit applications for regional energy networks that would complement the work of existing local government partnerships and provide services that are not provided currently, some of which benefit from the economies of scale that can be realized when working regionally.

LGSEC further advocates that the funding for regional networks be directed to an earmarked fund and administered by a state agency (such as CARB) to ensure that the objectives of the expenditures are aligned with the goals of AB32.

CARB has an enormous opportunity to realize the AB 32 goals by allocating a portion of the allowance revenue as detailed herein.

Respectfully submitted,
LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION



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