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ICYMI: Questions Continue to Be Raised About State's Cap-and-Trade Auction Revenue

(SACRAMENTO)—*Sacramento Bee* columnist Dan Walters today writes that the cap-and-trade auction revenue has become a feeding frenzy for pet projects while still surrounded by legal uncertainty. Also this weekend, Assemblymember Tom Lackey opined in the *Los Angeles Daily News* that the cap-and-trade program is known more for its uncertainty than reductions in greenhouse gas emissions.

***Sacramento Bee:* Could California's 'cap-and-trade' auction meltdown happen again?**

The Capitol's politicians were shocked last month when the state's quarterly auction of "cap-and-trade" carbon emission allowances generated just 2 percent of anticipated revenues.

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As more sources of emissions came under its provisions – particularly automotive fuel – auction revenues increased sharply to more than \$500 million per quarter.

By law, the revenues were to be spent on meeting the 2020 emissions goal, but politicians were pressured to underwrite a wide variety of purposes, some only tangentially attached to carbon reduction.

Assemblyman Adam Gray, D-Merced, in seeking a state audit of how cap-and-trade money is spent, supported by a coalition of business groups, termed it – accurately – “a feeding frenzy for a multitude of pet projects.”

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Brown has proposed \$3.1 billion in cap-and-trade spending, both money from previous years and an anticipated \$2.4 billion in 2016-17.

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Ross Brown, one of Taylor's analysts, cited “the legal uncertainty of the program” as a major factor in what Sen. Mark Leno called “such a precipitous drop” at the June 2 budget hearing.

Outside analysts agree. They point to two major uncertainties that encouraged speculators to dump their emission allowance holdings into the secondary market and emitters to reduce auction purchases.

One is a lawsuit filed by the California Chamber of Commerce and other business groups, contending that cap-and-trade is a multibillion-dollar tax that requires a two-thirds legislative vote. The Air Resources Board denies the allegation, portraying the auction proceeds as an incidental effect of emission regulation, not a purposeful revenue generator.

However, the fact that much of the money has been spent for purposes with little or no connection to carbon emissions, such as a \$500 million shift into the state's general fund, undercuts the ARB position

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At a minimum, the future of cap-and-trade beyond 2020 is in legal doubt and could wind up in court.

Still another reason for the market's decline is that while it was being created, the Legislature, the ARB and other agencies were also imposing direct controls on carbon emissions, particularly those involved in power generation, and they reduced the need for utilities to buy and spend emission allowances.

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A big piece of cap-and-trade's complex legal-financial-political thicket is whether it could be reauthorized past 2020 if that's deemed legally necessary.

It depends largely on whether it would require a simple majority legislative vote, such as the one that enacted AB 32, or the two-thirds vote required of a tax.

When AB 32 was passed, legal definitions of taxes and fees were somewhat vague, and taxlike fees were being imposed on business without two-thirds votes, thanks to a controversial state Supreme Court decision.

In reaction, business groups sponsored a 2010 ballot measure, Proposition 26, that tightened definitions. Under Proposition 26's provisions, were legislative authorization needed to extend cap-and-trade beyond 2020, rather than simply action by the ARB, it could require a two-thirds legislative vote.

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All in all, therefore, the future of cap-and-trade – and the pork barrel money it generates – is very murky.

Los Angeles Daily News: Hiding the cost of cap-and-trade program fuels public cynicism: Guest commentary

Here in California, there is no program that better underscores this cynicism than the state's cap-and-trade program.

The program was originally pitched as a way to help our state combat climate change by charging polluters for the emissions they create. However, it has morphed away from its original mission and turned into a slush fund for politicians and programs that often have little impact on reducing pollution. Instead of investing in cost-effective strategies to clean up our air, much of the money is spent on pet projects like high-speed rail, without any metrics to show actual pollution reduction.

Estimates show that cap and trade is adding about 11 cents per gallon to gas prices — an amount that is sure to increase over time as the state continues to push for a decline in petroleum use. Californians would be surprised to know that they are paying \$2 billion per year in higher gas prices to pay for this slush fund — something that is conspicuously not disclosed to drivers.

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This year, I tried to bring some basic transparency to Californians by authoring a bill to disclose the extra per-gallon fuel costs they are paying into the cap-and-trade fund. My bill would have required that these government-imposed costs be posted prominently at gas stations, next to the current signs that show state and federal fuel taxes.

Unfortunately, transparency is not a priority for the state Legislature, and my bill was quietly killed without a vote. This is just another regrettable example of how government avoids accountability.

It's simply wrong for California to refuse to disclose to drivers the \$2 billion in higher gas prices that they are paying — particularly when there is little to no oversight on how their money is being spent.

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To read the full Sacramento Bee article, please [click here](#).

To read the full Los Angeles Daily News article, please [click here](#).