The Governor's overall proposal has many positive elements and has served as starting point for discussions on how to begin a cap and trade program. However, in hearings, several weaknesses to the Governor's proposal emerged:

1. **Plan Locks in Multi-year Funding Too Early.** There is considerable uncertainty regarding how much Cap and Trade revenue will accrue each year, as the expansion of the fees to fuels will not occur until 2015. Given that figures vary wildly on the amount of revenue collected when that occurs, it seems like dedicating a percentage of this revenue stream to High Speed Rail is premature.
2. **Not enough funding for Local Projects.** Only $100 million is provided for local projects in a vast range of activities, from housing to transit, to urban forestry, and other local projects identified in local SB 375 plans.
2. **State Projects Receive Less Vetting than Local Projects.** While local projects must compete against other projects at the Strategic Growth Council (SGC) for funding, State departments are not required to demonstrate their benefits as vigorously.
3. **Funding for Transit and Metropolitan Planning Organizations (MPOs) Needed.** When the fuels portion of Cap and Trade becomes operative next year, most of the Cap and Trade revenues are expected to be derived from transportation-related fuel sources. At that time, it will be necessary to recognize this in the State's overall Cap and Trade approach. However, until there is more certainty in the overall revenues, it is too early to develop such a plan. The plan adopted this year should allow for adjustments in 2015-16, so that transit and direct MPO funding can be included moving forward.
4. **The California Environmental Screen is Flawed.** The California Environmental Protection tool to identify disadvantaged communities fails to account for difference in cost of living. As a result, potentially only three census tracts are identified as disadvantaged in the entire Bay Area. This tool must be fixed before it is used to allocate funding.

In response, the Assembly has crafted the following plan to continue the discussion on Cap and Trade:

Assume a total of $1,040 million in Cap and Trade revenues next year.

Provide $1,040 million of Cap and Trade for 2014-15, for a one-year set of programs.

Activity	**Department**	**Amount**
State GHG Reductions Activities Program	Strategic Growth Council (SGC)	$400
Sustainable Communities Grants	SGC	400
Low–Emission Vehicle Rebates	CARB	200
Water Use Efficiency	Department of Water Resources (DWR)	40
Total		**$1,040 M**

State Greenhouse Gas Reduction Program. Provides $400 million for allocation to State departments that are undertaking Greenhouse Gas Reduction Activities though a competitive process administered by the Strategic Growth Council. These funds can be used to fund energy efficiency upgrades to State and public buildings through a revolving fund loans for public buildings, High Speed Rail construction, intercity rail, fire prevention and urban forestry, waste diversion, reducing agricultural waste, wetland restoration, and other activities by State departments that reduce Greenhouse Gas emissions. Departments must meet the same performance criteria as the Sustainable Community Grants and be subject to the same reporting requirements. Overall, these funds must allocate at least 25 percent of total funding to disadvantaged communities, as defined by the Strategic Growth Council. Reject the Administration's BCPs for programmatic funding but allow the Administration to establish positions proposed in the budget, so departments have staff to compete for these funds and expand the Strategic Growth Council staff by three positions, to accommodate the additional workload.

Sustainable Communities Grants. Provides $400 million for allocation to competitive local programs that reduce greenhouse gases through a variety of approaches, as inspired by local SB 375 plans. These proposals will expand upon the Administration's proposal to include additional strategies to reduce greenhouse gas emissions, including affordable housing, urban forestry, forest conservation, carbon farming, transit passes, transit-oriented design, active transportation, and environmental mitigation funding. In addition, the Strategic Growth Council will be able to target a portion of these funds for expansion of Low–Income Home Energy Assistance Program funding. Overall, these funds must allocate at least 50 percent of total funding to disadvantaged communities, as defined regionally by MPOs.

Low–Emission Vehicle Rebates and Water Use Efficiency. $240 million total. Same as the Administration's proposal.

High Speed Rail Financing. Authorize the High Speed Rail Authority to borrow up to $20 billion in federal Railroad Rehabilitation and Improvement Financing (RRIF) loans to construct the High Speed Rail operations segment. In addition, authorize up to $20 billion in lease-revenue bond authority for the same purpose. Allow the use of Cap and Trade revenue for repayment of either of these mechanisms, assuming it has met the criteria for funding designated by the Strategic Growth Council.