JOINT INITIATIVE HEARING

ASSEMBLY NATURAL RESOURCES, TRANSPORTATION, AND UTILITIES & ENERGY COMMITTEES

Initiative: PROVIDES FUNDING FOR PROGRAMS TO REDUCE GREENHOUSE GAS EMISSIONS BY INCREASING TAX ON PERSONAL INCOME OVER $2 MILLION

Tuesday, May 31, 2022
upon adjournment of session - 1021 O Street, room 1100

Background Paper

Purpose of Hearing

The purpose of this hearing is to comply with Elections Code Section 9034, specifically to hold a joint public hearing on the subject of a proposed initiative which has submitted 25% of the number of signatures needed to qualify the initiative for the ballot.

Historically, the Legislature's role in statewide initiative measures was limited. However, SB 1253 (Steinberg), Chapter 697, Statutes of 2014, sought to increase the Legislature's role by encouraging the negotiation of legislative solutions between the Legislature, the proposed initiative's proponents, and any other interested party, that would eliminate the need to place the measure on the ballot.

Under SB 1253, once the proponents collect 25% of the signatures needed to qualify an initiative for the ballot, each house will receive from the Secretary of State a copy of the initiative together with its circulating title and summary. Initiatives are then assigned to the appropriate committees in each house to consider whether a joint public hearing on the subject of the initiative should be held. If the committees decide to hold a hearing, they need to conduct the hearing at least 131 days before the election.

Initiative Overview

On February 16, 2022, proponents submitted to the Attorney General's Office the Proposed Initiative No 21-0037 entitled, "PROVIDES FUNDING FOR PROGRAMS TO REDUCE GREENHOUSE GAS (GHG) EMISSIONS BY INCREASING TAX ON PERSONAL INCOME OVER $2 MILLION." The proposal adds Division 47 (commencing with Section 80200) to the Public Resources Code.

This initiative:

1) Imposes an additional tax, beginning on or after January 1, 2023 and ending January 1, 2043, at the rate of 1.75% on the portion of a taxpayer's taxable income in excess of $2 million, to be deposited into the Clean Cars and Clean Air Trust Fund (Fund).

2) Establishes the Fund in the state treasury and directs money in the Fund to be allocated as follows:

    a) 45% to the Zero-Emission Vehicle (ZEV) and Clean Mobility Sub-Fund;
    b) 35% to the ZEV Infrastructure Investment Plan Sub-Fund; and,
    c) 20% to the Wildfire GHG Emissions Reduction Sub-Fund

3) Continuously appropriates money from the Sub-Funds as follows:
    a) From the ZEV and Clean Mobility Sub-Fund to CARB;
    b) From the ZEV Infrastructure Investment Plan Sub-Fund to CEC; and,
    c) From the Wildfire GHG Emissions Reduction Sub-Fund to CAL FIRE.

4) Requires money in the ZEV and Clean Mobility Sub-Fund be deposited as follows:

    a) 50% into the ZEV General Account; and,
    b) 50% into the ZEV Equity and Air Quality Account, until a maximum balance, as specified, is reached and then 100% is to be deposited into the ZEV General Account.

5) Requires CARB to establish a Factory New ZEV Incentive Program, with money from the ZEV General Account, to fund rebates, subsidies, grants, and other financial incentives for ZEVs.

6) Requires CARB to prioritize applications for the Factory New ZEV Incentive Program as follows:

    a) Applications from individual California residents;
    b) Applications from legal entities that have employees or own property in California, and individual residents, for passenger ZEVs for high-utilization purposes (>25,000 miles per year); and,
    c) Applications from a legal entity (as described above) and state or local government agency.

7) Requires money in the ZEV Equity and Air Quality Account be allocated to fund programs, as described, that primarily benefit people who live in low-income and disadvantaged communities, as defined.

8) Requires, for five years beginning July 1, 2023, at least 2/3 of the ZEV and Clean Mobility Sub-Fund money to be allocated to projects, programs, purposes, and activities that support the deployment of passenger ZEVs operated in the state.

9) Requires money in the ZEV Infrastructure Investment Plan Sub-Fund be deposited as follows:

    a) 50% into the Infrastructure Access Account until a maximum balance, as specified, is reached; and,
    b) The remainder into the General Infrastructure Account.

10) Requires money in the Infrastructure Access Account to be used for projects, activities, and to the benefit of people, in low-income and disadvantaged communities, as defined.

11) Requires the following minimum spending allocations for money from both the Infrastructure Access Account and the General Infrastructure Account, for five fiscal years beginning July 1, 2023:

    a) 20% for multifamily dwelling ZEV charging stations;
    b) 10% for single-family dwelling ZEV charging stations;
    c) 10% for passenger ZEV fast-fueling infrastructure; and,
    d) 10% for medium- and heavy-duty ZEV fueling infrastructure.

12) Requires money in the Wildfire GHG Emissions Reduction Sub-Fund be deposited as follows:

    a) 75% into the General Prevention and Suppression Account; and,
    b) 25% into the State Fire Marshal Prevention and Suppression Account.

13) Requires primary priority for money in the General Prevention and Suppression Account be given to retaining, housing, training, and hiring CAL FIRE permanent and seasonal firefighters necessary to prevent and suppress wildfires.

14) Requires 25% of the General Prevention and Suppression Account, for the six fiscal years between July 1, 2024 and June 30, 2030, to be used for wildfire prevention and resilience efforts, including:

    a) Improving defensible spaces around homes and communities;
    b) Grants for home-hardening retrofits focused on low-income communities, as defined; and,
    c) Support activities and programs such as forest resilience programs, prescribed burning, watershed restoration and management, and vegetation management.

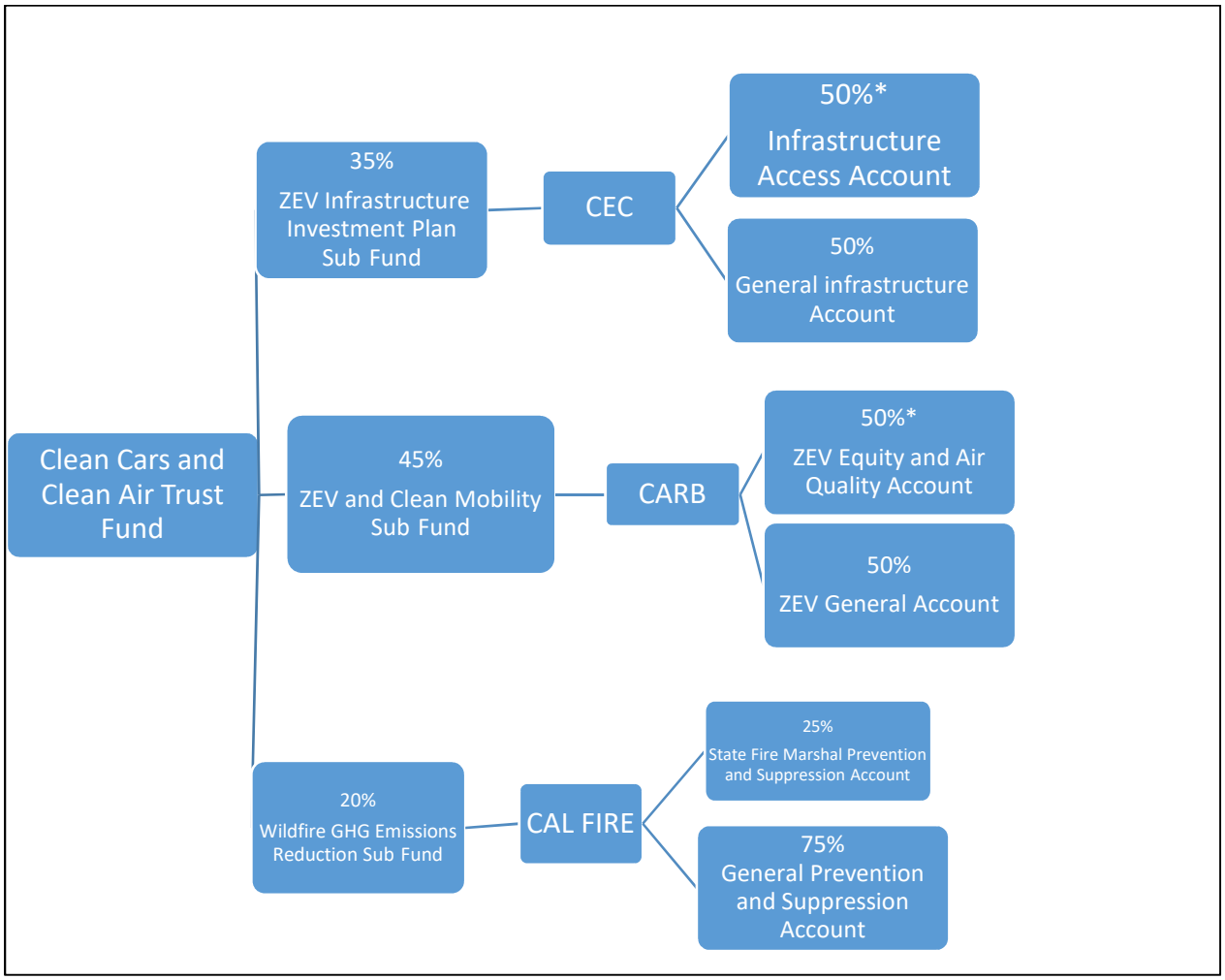
15) Requires the State Fire Marshal Prevention and Suppression Account to fund efforts selected by the Office of the State Fire Marshal in conjunction with a statewide apprenticeship committee established to improve the quality of education and training within the fire service and set professional standards for firefighters in the state.

16) Provides that money in the Fund are intended to increase and enhance the purposes and objectives and not to replace any other existing revenues (non-supplantation), with the exception of eliminating the Clean Vehicle Rebate Project, which is allowable.

17) Provides for biennial financial audit of the programs receiving moneys from the Fund.

18) Authorizes amendments to this division, by the Legislature, only by a three-fourths vote.

Allocation of funds proposed under this initiative



*The 50% deposit occurs until a maximum balance is achieved, and then 100% will be deposited into the General Accounts.

Summary of estimate of fiscal impact on state and local governments

According to the Legislative Analyst's Office (LAO) and the Director of Finance, passage of this initiative would result in increased annual state tax revenue ranging from $3 billion to $4.5 billion, with the additional revenue used to support ZEV programs and wildfire-related activities. Potential increased state administrative costs paid from other funding sources that could reach tens of millions to the low hundreds of millions of dollars annually. Net decrease in state and local transportation revenue of up to several tens of millions of dollars annually in the initial years, and growing to up to a few hundreds of millions of dollars annually after several years.

Background

California's Climate Goals

The Legislature has set a number of goals to reduce GHG emissions and address climate change. The Global Warming Solutions Act of 2006 [AB 32 (Nuñez), Chapter 488, Statutes of 2006] and subsequent companion legislation SB 32 (Pavley), Chapter 249, Statutes of 2016, requires California to reduce statewide GHG emissions to 40% below the 1990 level by 2030. The 1990 level is an aggregated statewide limit, and is not sector- or facility-specific. CARB is responsible for developing a Scoping Plan to detail how the state will achieve its GHG emissions reduction targets mandated by law. Governor Executive Orders (EO) also call for GHG emissions of 80% below 1990 levels by 2050, and longer-term targets for economy-wide carbon neutrality by 2045.

Transportation's impact on climate

The transportation sector generates nearly 40% of California's GHG emissions, including both the light-duty (passenger) and medium- and heavy-duty fleets. Heavy-duty diesel trucks also contribute to unhealthy levels of ozone, inhalable particulate matter, carbon monoxide, nitrogen oxides, and sulfur dioxide, affecting local air quality. Transportation sources account for roughly 80% of smog-forming emissions and 90% of diesel particulate emissions in California.

Within the transportation sector, measures to reduce GHG emissions include requiring the use of low carbon fuels, cleaner vehicles, and strategies to promote sustainable communities and improved transportation choices that reduce growth in the number of vehicle miles traveled (VMT).

ZEV goals

To further these efforts, at the end of 2020, Governor Newsom issued EO N-79-20 which requires 100% of medium- and heavy-duty vehicles in the state be zero-emission by 2045 for all operations where feasible and by 2035 for drayage trucks. EO N-79-20 charges CARB with developing and proposing medium- and heavy-duty vehicle regulations requiring increasing volumes of new zero-emission trucks and buses sold and operated in the state towards that goal.

California's cumulative ZEV sales reached 1,054,095 in the fourth quarter of 2021.[1] In early May 2022, the Governor announced that ZEVs are 16% of total new vehicle sales.

SB 1275 (de Leon), Chapter 530, Statutes of 2014 requires CARB to assess when a self-sustaining ZEV market is expected and how existing incentives may be modified to recognize expected changes in future market conditions. CARB expects once the California new ZEV market share reaches 16-20%, the market has reached the early majority segment, and there will be enough demand to help market mechanisms take over and drive the market.[2] Therefore, it is possible that in the next couple of years, state-funded incentive programs will no longer be necessary, or should be significantly modified at that time to target very specific circumstances.

ZEV charging infrastructure goals, gaps, and funding

To meet the state's ZEV goals will require a significant increase in the number of light-, medium-, and heavy-duty ZEVs on the road and a drastic increase in the infrastructure necessary to support these vehicles.

California has set specific goals for charging and fueling stations, including installing 200 hydrogen-fueling stations and 250,000 battery-electric vehicle chargers, including 10,000 direct-current fast chargers (DCFCs), by 2025.

As of January 4, 2021, California has installed more than 70,000 public and shared chargers, including over 6,000 DCFCs, and 44 hydrogen stations. The EV Charging Infrastructure Assessment states that an additional 123,000 chargers are planned, of which about 3,600 are fast chargers, leaving a gap of about 57,000, including 430 DCFCs, from the 250,000 chargers by 2025 goal.[3]

For passenger vehicle charging in 2030, the EV Charging Infrastructure Assessment projects over 700,000 public and shared private chargers are needed to support 5 million ZEVs, and nearly 1.2 million to support about 8 million ZEVs anticipated under EO N-79-20. An additional 157,000 chargers are needed to support 180,000 medium- and heavy-duty vehicles anticipated for 2030.

Typically, the Clean Transportation Program (CTP), the main funding source for ZEV infrastructure, receives $100 million per year through revenue from various fees. Due to recent surpluses, the Legislature has appropriated additional General Fund money to ZEV infrastructure. Last year's 2021-22 Budget approved $500 million for the CTP to fund charging and hydrogen refueling infrastructure for light-duty and medium- and heavy-duty ZEVs vehicles. This year's 2022-23 Proposed Governor's Budget includes $390 million General Fund investments to deploy infrastructure to support 1,000 drayage trucks and 1,600 transit buses and $500 million General Fund for ZEV infrastructure across a range of vehicle classes.

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[1] Governor's Office of Business and Economic Development. Zero-Emission Vehicles website. Accessed April 28, 2022.

[2] Fiscal Year 2020-21 Funding Plan on Clean Transportation Incentives – Appendix C: Light Duty ZEV Market Update

[3] AB 2127 Electric Vehicle Charging Infrastructure Assessment. California Energy Commission. July 14, 2021.

The $5 billion National Electric Vehicle Infrastructure (NEVI) Formula Program is part of $7.5 billion in electric vehicle (EV) infrastructure funding made available by the federal bipartisan Infrastructure Investment and Jobs Act (IIJA). This funding aims to provide a network of 500,000 ultra-fast EV charging stations along the nation's travel corridors to help make cross-country electric travel accessible to all Americans. The remaining $2.5 billion, awarded on a competitive basis, will be announced later this year.

Through NEVI formula funds, California will receive $57 million in Fiscal Year 2022, pending approval of a state plan, which must be submitted by August 1, 2022. Five-year NEVI formula funding for California totals $384 million.

Wildfire impacts on climate

Five of California's 10 largest wildfires on record happened in 2020, and the state set a new record for acres burned. According to CAL FIRE, more than 9,600 wildfires burned nearly 4.2 million acres through mid-December, causing more than 30 fatalities and damaging or destroying nearly 10,500 structures.[4]

To put the carbon dioxide (CO_2) emissions from wildfires into perspective, September 2020 data from the Global Fire Emissions Database show that California wildfires in 2020 generated more than 91 million metric tons of carbon dioxide. That's roughly 30 million metric tons more CO_2 emissions than the state emits annually from power production.

Related legislation/regulations

SB 1014 (Skinner), Chapter 369, Statutes of 2018 requires, by January 1, 2020, that CARB establish a baseline for emissions of GHGs for vehicles used by transportation network companies on a per-passenger-mile basis. The bill requires, by January 1, 2021, that CARB establish, and the California Public Utilities Commission (CPUC) implement, annual targets and goals starting in 2023 for the reduction under that baseline for emissions of GHGs per passenger-mile driven on behalf of a transportation network company.

The Clean Miles Standard regulation, as implemented by SB 1014, requires that rideshare companies achieve a level of zero GHG emissions and ensure 90% of their vehicle miles are fully electric by 2030.

Arguments in support

California Environmental Voters states, "The Clean Cars, Clean Air Act cuts right to the heart of the climate crisis in our state. And so far, the biggest threats of this crisis have been shouldered by the most underserved populations. We heartily support this historic approach — one that embraces science and builds equity — and look forward to our partnership within this coalition."

Arguments in opposition

[4] The Climate Connections of a Record Fire Year in the U.S. West. NASA's Jet Propulsion Laboratory 'Ask NASA Climate' News. February 22, 2021.

The Howard Jarvis Taxpayers Association states, "We already have some of the highest taxes in the country. A lot of the air pollution in Southern California could be eliminated by spending transportation dollars on freeway improvements to reduce traffic jams. If these proposals are really priorities, they should be paid for out of the existing general fund."

Conclusion

According to the U.S. Federal Highway Administration December 2021 Traffic Volume Trends data, after a sharp drop in 2020, total VMT and per capita VMT surged back to pre-pandemic levels in 2021. Specifically, total VMT rose 11.2% – to 3.229 trillion miles – and per capita VMT rose 10.39% – to 9,728.5 miles per person – from 2020 to 2021.

While transportation is the biggest contributor to climate change, transitioning to single occupancy ZEVs is not the only, nor even the best, solution. Investing in public transit, infill development, and active transportation will contribute to mode shift, reduce GHG emissions, improve congestion, and increase quality of life for many Californians.

The state of California will not likely get many opportunities to implement a millionaire's tax, and the people should consider what the best and highest use of any new tax funds would be.