

PROPOSITION **70** **REQUIRES LEGISLATIVE SUPERMAJORITY VOTE APPROVING USE OF CAP-AND-TRADE RESERVE FUND. LEGISLATIVE CONSTITUTIONAL AMENDMENT.**

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

The text of this measure can be found on the Secretary of State’s website at <http://voterguide.sos.ca.gov/>.

- Beginning in 2024, cap-and-trade revenues will accumulate in a reserve fund.
- These cap-and-trade revenues cannot be used unless the Legislature authorizes such use by a two-thirds majority.
- On the effective date of any such authorization, the requirement that new revenues accumulate in this reserve fund will expire.
- Suspends certain tax exemptions, including for equipment used in manufacturing and research and development, beginning in

2024, until the effective date of any such authorization.

SUMMARY OF LEGISLATIVE ANALYST’S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT:

- Potential temporary increase in state sales tax revenue from the sale of manufacturing and certain other equipment beginning in 2024. Amount could range from no increase to a few hundred million dollars annually.
- Possible change in the mix of cap-and-trade funding provided to state and local programs.

FINAL VOTES CAST BY THE LEGISLATURE ON ACA 1 (PROPOSITION 70)
(RESOLUTION CHAPTER 105, STATUTES OF 2017)

Senate:	Ayes 27	Noes 13
Assembly:	Ayes 59	Noes 11

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

STATE’S CAP-AND-TRADE PROGRAM

Program Aimed at Limiting Greenhouse Gases.

California has several programs created to reduce the amount of greenhouse gases (GHGs) that are emitted. GHGs—such as carbon dioxide—contribute to global climate change and come from various sources, including gasoline-powered cars and industrial activities. One California program to reduce GHGs is referred to as “cap-and-trade.” Under this program, which began in 2012, the state issues a limited number of permits to emit GHGs. Certain companies responsible for large amounts of GHG emissions must obtain a permit for each ton of GHG they emit. The state gives about half of the permits away to certain industries for free and sells the other half at auctions. A recent state law allows cap-and-trade to operate in California through 2030.

Revenue Collected Used for a Variety of Programs.
Revenue collected from cap-and-trade auctions

is deposited into a state fund called the Greenhouse Gas Reduction Fund (GGRF). The state determines how to spend money in the GGRF, usually through the annual budget process. The money in the fund is generally used for state and local programs to reduce GHGs. As shown in Figure 1, we estimate the state will spend about \$3 billion from the GGRF on various programs in 2017–18. The state can spend money from the GGRF with a bill passed with majority votes in both houses of the Legislature.

SOME BUSINESS EQUIPMENT EXEMPT FROM STATE SALES TAX

California’s state and local governments charge a sales tax on retail sales of most goods. Revenue from part of the sales tax goes to the state’s main operating account. This part of the tax is not charged when some businesses buy certain equipment used for such things as manufacturing and research and development. We estimate that this “manufacturing

ANALYSIS BY THE LEGISLATIVE ANALYST

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exemption” currently reduces state sales tax revenue by about \$250 million annually. The exemption is authorized until July 1, 2030.

PROPOSAL

Creates Temporary Higher Legislative Vote Requirement for Spending Cap-and-Trade Revenue. This measure requires that beginning on January 1, 2024, cap-and-trade revenue be deposited in a new state fund called the Greenhouse Gas Reduction Reserve Fund (Reserve Fund), rather than

in the GGRF. These deposits would continue until the effective date of a bill that: (1) spends money from the Reserve Fund and (2) is passed by each house of the Legislature with a *two-thirds vote* (as opposed to the majority vote currently required). The measure also requires that money in the Reserve Fund be used to fund the same general types of programs that could be funded by the GGRF on January 1, 2024. After the effective date of the bill, future revenue would go back to being deposited in the GGRF and could be spent by a majority vote of the Legislature.

Suspends Manufacturing Exemption Until Cap-and-Trade Revenue Is Spent. This measure suspends the manufacturing exemption beginning on January 1, 2024. While the exemption is suspended, the full sales tax would be charged when businesses buy certain equipment for such things as manufacturing and research and development. The suspension would continue until the effective date of a bill that: (1) spends money from the Reserve Fund and (2) is passed with a two-thirds legislative vote.

FISCAL EFFECTS

Potential Temporary Increase in Sales Tax Revenue Beginning in 2024. The measure could suspend the manufacturing exemption beginning in 2024. The state would generate additional sales

Figure 1

Estimated 2017–18 Cap-and-Trade Spending^a
(In Millions)

Program	Amount
Incentives for low-emission vehicles and equipment	\$810
High-Speed Rail	730
Affordable housing near transit	584
Public transit	438
Forestry and fire prevention	325
Agricultural emission reductions	250
Other	187
Total	\$3,324

^a Assumes \$3 billion in revenues in 2017–18. Amount could be higher or lower depending on actual auction results.

tax revenue while the manufacturing exemption is suspended. The amount of additional revenue would depend on when the Legislature approves spending money from the Reserve Fund with a two-thirds vote. If the Legislature approves spending the money by early 2024, there would be little or no additional revenue. However, if there was a lengthy delay, the additional state revenue would be up to a few hundred million dollars annually.

Possible Change in Mix of Programs Funded. Beginning in 2024, the two-thirds vote requirement could, at least temporarily, change the mix of state and local programs funded by auction revenues compared to what would otherwise occur. Any change would depend on the future composition and spending priorities of the Legislature, which are unknown. As a result, it is unclear which state and local government programs might receive more or less money.

Visit <http://www.sos.ca.gov/campaign-lobbying/cal-access-resources/measure-contributions/2018-ballot-measure-contribution-totals/> for a list of committees primarily formed to support or oppose this measure. Visit <http://www.fppc.ca.gov/transparency/top-contributors/jun-18-primary.html> to access the committee’s top 10 contributors.

If you desire a copy of the full text of the state measure, please call the Secretary of State at (800) 345-VOTE (8683) or you can email vigfeedback@sos.ca.gov and a copy will be mailed at no cost to you.