TN1010-1: Proposition 23, the Impact on Nevada County

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Abstract - The total cost of implementing Assembly Bill 32, the California Global Warming Solutions Act of 2006, has been the subject of controversy since the California Air Resources Board (ARB) released its first economic analysis in September 2008. Each subsequent economic analysis, including those commissioned by CARB indicated AB32 implementation would be a net cost to consumers. Thus, industry groups, legislators, business owners, independent consultants, and the Legislative Analyst's Office (LAO) have all been critical of ARB's cost estimates. With the current state of the economy, the public is becoming increasingly concerned about the negative impact of AB32's implementation on California's economic future. After examining the economic issues SESF concludes that passing Proposition 23 will have a positive economic impact on Nevada County.

Background - Several industry groups launched a campaign in January 2010 to place a measure on the ballot, which would suspend AB 32. The necessary signatures were gathered, certified and the measure became Proposition 23. Once passed by California voters Proposition 23 would suspend the implementation of all measures developed directly under AB 32 until the unemployment rate in California is at or below 5.5% for four consecutive quarters. This is an event that has only happened three times in recent history.

While Proposition 23 would suspend many regulations contained in the AB 32 Scoping Plan, not all would be affected. Many of the legislative regulations that will affect local governments and consumers would continue to be implemented as scheduled, including SB 375 and AB 1493, as these were implemented under separate statutes.

When passed by voters, Proposition 23 would suspend the development and/or implementation of the following AB32 provisions, including:

- The proposed cap-and-trade program currently under development by ARB.
- The low carbon fuel standard already adopted by ARB.
- The already-adopted ARB regulation that enables the state to collect fees from high greenhouse gas (GHG) emitters.
- The 33 percent renewable electricity standard currently under development by ARB and the California Energy Commission (CEC).
- The landfill methane control measure regulation already adopted by ARB.
- The heavy-duty GHG emission reduction measure (aerodynamic efficiency) already adopted by ARB.
- The green building standards already adopted by the Building Standards Commission.
- The mandatory commercial recycling requirements currently under development by ARB.

Proposition 23 would NOT suspend the following measures and policies because they are not implemented under AB 32:

- Land use policies to promote reductions on vehicle miles traveled were enacted under SB 375.
- Emission standards on new vehicles, enacted by AB 1493.
- Requirements to address GHG emissions in environmental documents and general plans as a result of a federal ruling labeling GHGs as air pollutants.
- Energy efficiency standards on buildings and appliances, now in 2008 Building Standards, which went in to effect 1 January 2010.
- Diesel retrofit regulations adopted as part of ARB's Diesel Risk Reduction Plan.

Analysis - Supporters of Proposition 23 estimate that if AB 32 is fully implemented as planned, it will mean the loss of 1.1 million wealth-producing jobs and could influence as many as 3 million jobs.

Proponents also estimate up to a 60% increase in electricity rates and up to $50,000 added to the cost of a new home. Since the state unemployment rate was at 4.8% when AB 32 was adopted, proponents feel it is reasonable to suspend implementation until unemployment again reaches 5.5% or less for an entire year.

Supporters further assert that suspending AB 32 will not affect global warming because California's GHG emissions comprise only 1.4% of the world's total emissions, and that businesses will simply relocate to other states and countries in order to avoid complying with AB 32 measures. The state's non-partisan LAO estimated that 10,000 jobs would be lost to "leakage," businesses leaving the state for more business friendly locations. CARB has admitted that California acting alone will not have any impact on global warming.

Opponents of Proposition 23 counter supporters' economic claims with the argument that the economy would be negatively impacted due to the potential for drastic job loss among the 500,000 California citizens already employed in newly CARB-categorized “green jobs”. CARB has given no reason why Proposition 23’s lower regulatory environment would affect these existing jobs at for-profit companies. Also claimed is the loss of approximately $9 billion of venture capital investment in green technologies. However, most of this venture capital simply targets subsidized clean energy ventures to reduce the development risk. A wider view shows that a change in political administration could reduce, or eliminate these subsidies, thus making the investment risk unacceptable to future green investors. Many green companies are now holding IPO plans until after the November election.

Critics of Proposition 23 also contend that while California’s unemployment rate was 4.8% when AB 32 was adopted, it was only at that low level for one quarter. The requirement that the unemployment rate remain at or below 5.5% for a year would likely cause AB 32 to be suspended for several years. These opponents maintain that Proposition 23 has been proposed specifically to help large businesses with high GHG emissions avoid additional regulation because of the cost of compliance, characterizing it as a “dirty energy proposition” that would be detrimental to public health. Yet CARB can cite no health emergency or pollution problem that would be materially affected if the remainder of AB32 were suspended.

Fiscal Effects - In a July 15, 2010 report, the Legislative Analyst’s Office declared that there would likely be both positive and negative effects on the state’s economy due to Proposition 23. The LAO estimates that if voters pass Proposition 23, energy prices will be lower in the long run, but investments in energy-efficient technologies could stall, delaying the development of clean technologies that could save businesses and individual’s money in the future. SESF has concluded the value of these future saving are offset by the rising level of subsidies and stimulus spending required to sustain green energy.

The LAO also factors in the costs to businesses to comply with AB 32. PG&E is asking for rate increases to cover the cost of administrating AB32. Other utilities are asking for rate increase up to 30% to cover the cost of converting to alternative energy sources.

Overall, the LAO estimates that the net effect of passing Proposition 23 would be a modest increase in economic activity in the state in the short term, with more long term effects still unknown. These unknowns include the economic impact of billions of dollars of carbon fees to be levied by CARB and passed on to consumers.

Disappointed with the LAO findings, CARB hired the prestigious consulting firm of Charles River Associates of Boston to re-analyze the fiscal impact of its AB32 Scoping Plan. CRA analysis concluded that CARB’s inflexible “command and control” approach (aka “complimentary measures”) would add 60% to the cost of achieving AB32 goals with a more flexible approach. According to the CRA, maintaining such “complimentary measures” under the anticipated federal clean energy plan has a “minimal effect on emissions but raises cost to California by more than 50%.”

Conclusion: Passing Proposition 23 to suspend the remainder of AB32 will have a positive economic impact on Nevada County, reducing the risk of escalating state mandated carbon taxes and fees.