FISCAL IMPACT REPORT

SPONSOR Sapien **ORIGINAL DATE** 03/02/15
LAST UPDATED **HB**

SHORT TITLE Carbon Credit Act **SB** 630

ANALYST Sanogo

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	**FY16**		
	$100.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$100.0	$100.0	$200.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files
State Land Office (SLO)
Attorney General's Office (AGO)
Office of the State Auditor (OSA)
Energy, Minerals and Natural Resources (EMNRD)

SUMMARY

SB 630, the "Carbon Credit Act," establishes a carbon credit as a contract right, and creates several related definitions. The state auditor would create a five-member board charged with reviewing and auditing the carbon credit and offset rights, and $100 thousand would be appropriated from the general fund to support these activities.

FISCAL IMPLICATIONS

The appropriation of $100 thousand contained in SB 630 is a recurring expense to the general fund. The funds are appropriated to the Office of the State Auditor (OSA) to support the provisions of the Carbon Credit Act. Any unexpended or unencumbered balance remaining at the end of fiscal year shall revert to the general fund.

SIGNIFCANT ISSUES

Typical Carbon Credit Programs

According to economic theory and observations of unattended free food in an office kitchen, any common resource without a monetary cost will be consumed faster and less efficiently than resources with an attached price. A typical carbon credit program seeks to mitigate the inefficient consumption of a common resource (namely, air quality) by assigning a monetary cost to certain emissions.

Like all other tradable assets, the exact cost of a carbon credit would be dictated by market mechanisms: through the interaction of buyers and sellers, carbon credits are given a market price and are eventually allocated to the most efficient industrial processes. Mainstream economic thought views this market-clearing outcome as "optimal."

Like all other tradable assets (e.g. stocks, bonds), carbon credits would rely on an underlying asset for fundamental value. Depending on the program, the credit could derive its value from an underlying "offset," which indicates that a certain amount of CO_2 has been actively removed from the environment.

The specification and quality of these offsets must be verified and audited; under SB 663, the state auditor and the carbon credit oversight board would be charged with this task.

Examples of Carbon Credit Programs in the United States

Between 2003 and 2011, standardized carbon credits could be privately traded on the Chicago Climate Exchange (CCX) venue. Participation in CCX was voluntary and carbon credit prices steadily increased with expectations that the United States would introduce new legislation regulating environmental emissions. By 2010, however, legislative interest in regulatory action failed to materialize. Carbon credit prices and trading volume crashed, and CCX permanently ended trading. The CCX sister venue, the European Climate Exchange (ECX) continued its operations.

Other carbon credit programs continue to operate regionally in the United States. The RGGI, for example, is a cooperative effort between nine states in New England to reduce emissions stemming from electric power generation[1], relying on carbon allowances and trading carbon offsets.

The Office of the State Auditor (OSA) notes that SB 630 does not specifically stipulate how carbon credits are to be earned, sold, traded or utilized. Similar observations were noted by the Attorney General's Office (AGO) and the Energy, Minerals and Natural Resources Department (EMNRD).

AIS/bb

[1] See, http://www.rggi.org/docs/Documents/RGGI_Fact_Sheet.pdf