Senate Budget and Fiscal Review—John Laird, Chair
SUBCOMMITTEE NO. 2 **Agenda**

Senator Eloise Gómez Reyes, Chair
Senator Catherine Blakespear
Senator Steven Choi
Senator Jerry McNerney

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9:30 a.m. or Upon Adjournment of Session
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ITEMS FOR DISCUSSION

3900 STATE AIR RESOURCES BOARD
7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 1: Sustainable Aviation Fuel Tax Credit Proposal

Governor's Proposal. The Governor's budget includes trailer bill language that would provide a credit against diesel excise tax liability for producers selling sustainable aviation fuel (SAF).

Background. According to the LAO:

Aircraft Produce Relatively Small Share of GHG Emissions… Aircraft are not among the largest contributors to GHG emissions. According to the California Air Resources Board's (CARB's) GHG inventory, aviation accounts for only roughly 1 percent of the state's emissions. While this estimate may be somewhat understated, as it only accounts for intrastate travel, estimates of the relative contribution of aircraft to national and global GHG emissions are still relatively modest, totaling about 3 percent.

…But Are Particularly Hard to Decarbonize. Despite the aviation sector's relatively small contribution to GHG emissions, policymakers have shown significant interest in addressing aircraft emissions as the sector is viewed as among the more difficult to decarbonize. For example, while batteries are a feasible—if sometimes relatively expensive—alternative to gasoline and diesel for cars and trucks, they are not currently viewed as viable for aircraft due to their weight, size, and potential fire hazards.

SAF Is a Non-Petroleum Alternative to Conventional Jet Fuel. One of the main existing approaches to help reduce the aviation sector's GHG impacts is reducing the carbon emissions from aviation fuel. This can be done by replacing conventional, petroleum-based jet fuel with non-petroleum-based alternatives known as SAF. SAF can be made from a variety of plant and animal-based feedstocks—such as distillers corn oil (a byproduct of the production of corn ethanol), used cooking oil, and animal tallow—as well as some alternative processes. A key advantage of SAF is that, due to its chemical similarity to conventional jet fuel, it can be used in place of traditional fuel without modifications to aircraft engines or infrastructure. Conversely, a major barrier to the use of SAF is its relatively high production cost, resulting in prices that are generally at least twice those for conventional jet fuel. In large part due to this cost differential, currently only a small share—less than 2 percent—of aviation fuel used in the United States is SAF.

SAF Production Occurs Alongside Other Renewable Fuels. Currently, a few refineries in the United States are set up to convert feedstocks into both renewable diesel (RD)—which accounts for the majority of diesel purchased in California—and SAF. These refineries can shift production between these two types of fuels with relative ease depending on market conditions, as the industrial processes for producing RD and SAF are similar, using the same feedstocks and much of the same equipment. There also are a number of other refiners in the United States that currently produce RD and could, with the purchase of some additional equipment, be converted to produce SAF in addition to, or instead of, RD. In either case, as a result of the interchangeability of the production processes for these two fuels, without significant additional investments in overall production capacity for renewables or innovation in the production process, an increase in SAF production likely would result in a roughly equivalent decrease in RD production.

State and Federal Governments Have Various Existing Policies to Incentivize SAF. In recent years, both the state and federal governments have implemented various policies that encourage the adoption of renewable fuels, including SAF. The main such policies affecting California include:

- ***California Low Carbon Fuel Standard (LCFS).*** LCFS establishes statewide "carbon intensity" (CI) standards for diesel and gasoline supplied in California. LCFS uses a system of tradeable credits to determine compliance with the program. Entities that supply regulated fuels with a CI above the standard accrue deficits, whereas those that supply fuels with a CI below the standard generate credits. Unlike diesel and gasoline, jet fuel is not regulated under LCFS. However, producers of SAF can voluntarily participate in the program and receive credits for the gallons they supply to California. These producers can then sell the credits they generate, producing revenue that serves as a subsidy for SAF production.
- ***Federal Renewable Fuel Standard (RFS).*** At the federal level, RFS is a policy that requires a designated level of renewable fuels to be sold annually in the United States. Refiners and importers must either sell their share of the required volumes themselves or buy credits (known as Renewable Identification Numbers or RINs) from other producers that generate an excess of credits. Because producers of SAF can sell the RINs they generate, this program can provide an additional production subsidy.
- ***Federal Tax Credit.*** The federal government also currently offers a tax credit of up to $1 per gallon for SAF that meets certain requirements.

The above policies work together to create a "stack" of incentives for SAF production. The total value of this stack depends on various factors such as LCFS and RFS credit prices, as well as the feedstocks used, but cumulatively could total a couple dollars per gallon for SAF producers.

State Imposes Excise Taxes on Aviation and Other Transportation Fuels. The state levies per-gallon excise taxes on various fuels sold and consumed in the state. These include a 2-cent-per-gallon excise tax on jet fuel, which is applied to both petroleum-based jet fuel and SAF. The tax generates about $4 million annually and supports airports and other aviation-related activities. The state also imposes an excise tax on diesel fuel, which is assessed on both petroleum-based diesel and RD. Diesel is primarily used by medium- and heavy-duty trucks, buses, and other large vehicles. The diesel excise tax is currently 46.6 cents per gallon and is adjusted each July for inflation. In 2026-27, the tax is projected to increase to 48.2 cents per gallon and generate about $1.5 billion. Diesel excise tax revenues support state and local transportation activities. These include (1) support for the California Department of Transportation (Caltrans) and its highway maintenance and rehabilitation programs, (2) direct suballocations to cities and counties for local streets and roads, and (3) competitive infrastructure grants on freight corridors through the Trade Corridor Enhancement Program (TCEP).

LAO Assessment.

Proposal Represents Relatively Expensive Approach to Decarbonization. According to the administration, the main purpose of the proposal is to reduce GHGs. We find that encouraging SAF is a relatively costly approach to achieving this goal. SAF is much more expensive to produce than conventional fuel, so enabling it to be cost competitive requires subsidies—in aggregate across all policies—that are quite large relative to its potential emission reduction benefits. Specifically, we estimate that the proposed tax credit alone implies a carbon price of over $170 per metric ton of carbon dioxide equivalent. (That is, if all the estimated carbon emission reductions from each gallon of SAF are attributed exclusively to the proposed policy, we estimate that the cost per metric ton for these reductions would be over $170.)

When considered along with the other existing incentives for SAF production, however, the total cost of each ton of carbon reduced would be significantly larger, perhaps several hundred dollars in aggregate per ton. These costs are well above the costs of a variety of other possible approaches to reducing GHGs. For example, the amount emitters recently have had to pay for each ton of carbon dioxide equivalent they emit through the cap-and-invest program has been below $30 per ton and LCFS credits have been between $50 and $70 per ton. (In our view, these cap-and-invest allowance and LCFS credit prices can serve as very rough proxies for the marginal costs these programs assess for near-term GHG emission reductions.)

With Limited Exceptions, Makes Sense to Focus on Most Cost-Effective Approaches to Reducing GHGs. In our view, generally the state should focus on pursuing the easiest and most cost-effective approaches to reducing GHGs prior to undertaking more difficult and costly ones. We acknowledge that reasons might exist to deviate from this general principle under certain circumstances. For example, supporting more costly approaches could make sense if they help bring new, transformative technologies into the marketplace that substantially bring down long-term costs or achieve other societal benefits (such as reducing local air pollution). However, in our assessment, the Governor's proposal is not structured to incentivize the development or implementation of novel technologies for SAF production. Instead, it appears more likely to increase in-state use of SAF made from established approaches. The administration asserts that while the proposal may not be the most cost-effective approach to reducing GHGs, encouraging SAF still is important as aviation is very difficult to decarbonize and very few, if any, viable alternatives exist. In our view, this argument might make more sense in the future, once other easier and more cost-effective approaches to reducing GHGs have been exhausted. However, given the existing ample availability of other, likely more cost-effective GHG-reduction programs and policies, such a costly focus on the aviation sector is not compelling to us at this time.

Environmental Benefits of Incentivizing SAF Are Uncertain. The environmental benefits of SAF are subject to substantial uncertainty and some research indicates they could be notably smaller than certain estimates suggest. This is in part because—due to interactions with other existing policies and the interchangeability of many production inputs and processes discussed above—any additional SAF production induced by this proposed policy could correspondingly result in lower RD production. To the extent this is the case, the policy would result in "shuffling," or replacing one lower carbon fuel with another rather than simply increasing overall use, thus limiting any net environmental benefits. Moreover, even if the policy were to increase the overall use of renewable fuels, we note that the academic literature contains significant disagreement on the environmental benefits that these fuels produce. For example, some research suggests that existing calculation methodologies used by CARB may overstate the environmental benefits of SAF and other renewable fuels, such as by underestimating indirect effects on carbon emissions of diverting resources to produce such fuels. If CARB's methodology is not adequately robust and the actual GHG benefits ultimately are less than it assumes, the cost-effectiveness of the proposed policy would also be less than projected.

Magnitude of Diesel Excise Tax Revenue Reduction Is Uncertain, but Could Be Much Smaller or Larger Than Anticipated. The complexity of renewable fuel production and distribution—as well as the overlapping state and federal policies—also create significant uncertainty in estimating the fiscal impact of the Governor's proposed credit. In discussions with our office, the Department of Finance indicated that it based its fiscal estimate on existing SAF producers' total diesel excise tax liability, which it believes represents a rough upper bound on the size of the potential revenue loss. However, actual claims and associated revenue loss could be much less or more than this estimate. If SAF production costs remain high enough to limit demand, even with the credit, revenue losses could be much smaller.

Conversely, if the credit makes SAF production more attractive than RD for some producers, it could cause a dramatic increase in SAF sales in California, both among existing SAF producers and among other producers and distributors who sell diesel in the state. The only limit on the amount of credits that eligible producers could claim under the proposed policy is the amount of their California diesel excise tax liability—currently totaling about $1.5 billion across all producers—and the amount of SAF that could be produced or imported to California. Researchers at the University of Illinois and the United States Department of Agriculture recently estimated national SAF production capacity at more than 800 million gallons per year (though the exact amount is uncertain due to the proprietary nature of refinery operations). This means that more than $1 billion in credits could be claimed if all available SAF were sold in California, even if no additional production capacity were created. While such a scenario may seem far-fetched, the most recent federal data show that California consumes more RD than is produced in the entire United States, indicating that producers have responded strongly to existing state policy incentives for renewable fuels by selling in California. Some experts we consulted indicated that the proposed tax credit may be large enough to encourage a dramatic shift toward SAF sales in California, suggesting that foregone tax revenues could be substantially higher than the administration estimates.

Reducing Diesel Excise Tax Revenues Would Negatively Impact Transportation Programs. While the size of the revenue losses from the Governor's proposed tax credit is somewhat uncertain, they have the potential for negative impacts on transportation programs. For example, based on the administration's near-term estimate of potential foregone diesel excise tax revenues—$165 million per year beginning in 2027-28—the proposal would result in the following impacts based on the existing statutory allocations of these revenues:

- ***Caltrans.*** Annual reduction of $70 million to Caltrans and its highway maintenance and rehabilitation programs. This reduction would specifically affect Caltrans' State Highway Operation and Protection Program (SHOPP), which funds rehabilitation, reconstruction, and safety projects on the state highway system. SHOPP is supported by a combination of state and federal funds and is projected to receive around $4.4 billion annually—meaning this proposal would result in a reduction of about 2 percent each year.

- ***Local Streets and Roads.*** Annual reduction of $49 million to transportation funding that the state provides to cities and counties for work on their local streets and roads. State transportation funding suballocated to cities and counties for these purposes is projected to be around $3.9 billion annually—meaning this proposal would result in a reduction of about 1 percent each year.

- ***TCEP.*** Annual reduction of $46 million to TCEP. The program is supported by state and federal funds and receives around $540 million annually—meaning this proposal would result in a reduction of about 9 percent each year.

Overall, these reductions would result in fewer state and local transportation projects being funded each year. Additionally, the administration projects the credit could grow over time, potentially reaching about $300 million annually—nearly doubling the reductions and corresponding fiscal and programmatic impacts. Moreover, should the amount of the tax credit that is claimed end up even larger than currently anticipated—as discussed above—the reductions to transportation funding would increase accordingly. We note that the state is already projected to face future transportation funding challenges due to existing trends and policies that increase zero-emission vehicle (ZEV) adoption, which in turn will reduce diesel and gasoline excise tax revenues.

These pressures are expected to grow as the state works to further increase ZEV adoption to meet its ambitious climate goals, as we discuss in our 2023 report, *Assessing California's Climate Policies—Implications for State Transportation Funding and Programs*. The Governor's SAF proposal would expedite and add to those projected fiscal and programmatic impacts.

Deviates From Spirit of Transportation Funding Approach Embraced By Voters. Historically, the state has used the revenues from the taxes that road users pay to support activities that benefit those users, such as for the operation, maintenance, and improvement of the state's surface transportation system. California voters have signaled their support for this general approach by amending the State Constitution to restrict the use of gasoline and diesel fuel tax revenues for streets, highways, and certain mass transit activities. In our view, the administration's proposal deviates from the spirit of these voter-approved restrictions, as a portion of the diesel tax revenues that historically have been used to support the streets and highways that benefit drivers would instead be used to subsidize the decarbonization of the aviation sector. In our view, the administration has not articulated a sufficiently strong rationale for deviating from the state's longstanding approach.

LAO Recommendation.

Reject Proposed Tax Credit. We recommend the Legislature reject the proposed budget trailer legislation establishing a credit against diesel excise tax revenue for sale of SAF in California. The proposal appears to be a relatively expensive approach to reducing GHGs and may not result in the full anticipated environmental benefits. Moreover, the implementation of the proposed tax credit could have negative implications for transportation funding—potentially even larger than those estimated by the administration—and would not be consistent with the spirit of voter-approved restrictions on the use of diesel tax revenues.

Staff Comments. According to the administration, the policy rationale for the proposed sustainable aviation tax (SAF) tax credit is to reduce greenhouse gas emissions in California's aviation sector. The concept is simple—the state would provide a diesel excise tax credit to further incentivize SAF production in the state, as SAF is purported to have up to 80 percent lower lifecycle emissions than conventional fuel. However, the proposed tax credit would not exist in a vacuum. Though the proposal will likely increase SAF production, it could also have unintended consequences for renewable diesel (RD) production, gasoline and diesel prices, and transportation programs.

As the LAO notes, the proposed tax credit could incentivize SAF so much so that producers would shift from producing RD to SAF. This is possible, because SAF, renewable diesel, and other biofuels are produced through the same refining process and compete for the same finite materials. Because these materials are limited in nature, several stakeholders have reported that this tax credit would not result in significant new production of SAF, but rather, shift production away from RD to SAF. If the proposed tax credit indeed results in a decline in RD production, it can have a cascading effect in several areas.

For example, researchers estimate that both gasoline and diesel prices would rise in the state as a result of this policy—gasoline would increase by 11 to 14 cents and diesel by 12 cents. Given that Californians use about 13 billion gallons of gasoline and 4 billion gallons of diesel per year, these price increases could increase consumer costs by between $1.9 to $2.3 billion annually. This potential price increase is related to potential interactions with LCFS. Specifically, LCFS requires every gallon of fossil gasoline and diesel must be matched by some amount of cleaner fuel, such as RD or SAF. When California fuel suppliers reduce RD in favor of SAF, the resulting shortfall must be replaced with petroleum diesel to meet surface transportation demand.

However, more fossil diesel fuel would mean either (1) more costly low-carbon fuel has to enter the system or (2) parties must purchase additional credits, both leading to increased LCFS compliance costs and higher gasoline and diesel prices.

A shift from RD to SAF production could also result in the proposed tax credit having unclear environmental benefits. As the LAO notes, if increased SAF production comes at the expense of RD production, emissions on net would not necessarily decrease—it would simply "shuffle" from one area to another. Further, because this proposal would provide tax credits to all SAF that is sold in the state, not just produced in the state, it is possible that any emission reductions would just be shifted from another state that have less favorable subsidies—this could result in no new emission reductions. In addition, stakeholders report that such a shift could even increase overall carbon emissions, because alternative jet fuel production process is less efficient than the renewable diesel production process. Under this logic, for every unit of feedstock used to produce clean fuel, fewer gallons of alternative jet fuel can be produced relative to gallons of renewable diesel. That would create fewer petroleum gallons displaced and greater aggregate emissions.

A more certain impact of the proposed tax credit is decreased funding available for transportation programs. However, the extent of the impact can vary significantly, depending on the uptake of the tax credit. Although the proposed tax credit would decrease funding available for the state highway system, local streets and roads, and trade corridor improvements, for the administration, the benefits of increased SAF production outweigh the costs that transportation programs would have to bear. It is important to note that the administration estimates the proposed tax credit would decrease diesel excise tax revenues by $165 million—however, both LAO and academic researchers estimate this could be far higher, at $300 million to $1.2 billion annually.

If the Legislature would like to encourage SAF production, but limit the impact on transportation programs, it may want to consider amending the proposal by adding a cap on the tax credit and/or scope the proposal down further so that less production and/or sales could qualify for the tax credit. One potential way to narrow the tax credit would be to exclude SAF produced from fuels made from lipids and all food/feed crops from eligibility in order to minimize pulling fuels from the renewable diesel market and thus increasing diesel costs. This would focus the tax credit on eFuels and fuels made from agricultural and forestry residues, at a much earlier stage of development.

Although the administration claims the overarching policy goal of this proposal is to reduce greenhouse gas emissions in the aviation sector, there could be alternative policy rationales for this proposal. One possible rationale is to keep refineries open. As of this writing, Phillips 66's Rodeo Renewable Energy Complex is the only in-state refinery that staff are aware of that could benefit from this proposal, as Phillips 66 produces both SAF and have sufficient diesel excise tax liability to benefit. (According to stakeholders, other companies with in-state refineries do not have the diesel excise tax liability. As such, since the tax credit is not transferrable, they would not be able to use the proposed tax credit.) The facility has reported hundreds of millions in losses in recent years, and this proposed tax credit could help keep this refinery open. Alternatively, closure of the facility would result in a loss of hundreds of jobs and would have the potential of further destabilizing the oil and gas supply and production in the state. However, there is no statutory guarantee the refinery remains open under this proposal, even if the Legislature approves the proposed tax credit—several other economic and political factors could influence the company's ultimate decision to either maintain or close the facility.

Staff Recommendation. Hold open.

VARIOUS DEPARTMENTS

Issue 2: Greenhouse Gas Reduction Fund Expenditure Plan and Trailer Bill Language

Governor's Proposal. According to the LAO:

Proposes SB 840-Related Budget Trailer Legislation. The administration proposes budget trailer legislation to make various changes to SB 840. Some of the main proposed changes would memorialize its interpretation of the intent of SB 840 by clarifying that: (1) the SB 840 allocation methodology applies to auction revenues, not interest earnings or the entering fund balance, and (2) state operations costs should be considered as part of Tier 1. Other notable proposed changes include (1) dividing the Affordable Housing and Sustainable Communities (AHSC) Program into two allocations, (2) enhancing flexibility across two portions of wildfire resilience funding, and (3) expanding the eligible uses for the High-Speed Rail Authority's GGRF allocation to include its administrative and state operations costs. (We plan to discuss the AHSC portion of the budget trailer legislation in greater detail in a forthcoming publication, *The 2026-27 Budget: Streamlining California's Affordable Housing Funding System*.)

Allocates $3.8 Billion in Projected GGRF Auction Revenues Through SB 840 Methodology. The Department of Finance (DOF) forecasts cap-and-invest auction proceeds of $3.8 billion in 2026-27. As shown in Figure 2, DOF applies its interpretation of the new SB 840 methodology to these auction proceeds. Notably, the Governor proposes to allocate the $1 billion discretionary set aside within Tier 2 for two purposes: (1) $250 million for the legislative intent items identified in SB 840 and (2) $750 million to partially support the planned CalFire General Fund backfill.

Figure 2

Governor's Cap-and-Invest Expenditure Plan for 2026-27

(In Millions)

SB 840 Formula	
Estimated Auction Proceeds	**$3,770**
Tier 1	
Manufacturing tax exemption	$159
State operations	120
State Responsibility Area fee backfill	88
Legislative Counsel Climate Bureau	3
Subtotal Tier 1	($370)
Tier 2	
High-speed rail project	$1,000
CalFire General Fund backfill	750
SB 840 intent language items	250
Subtotal Tier 2	($2,000)
Tier 3[a]	
Affordable housing[b]	$396
Transit and Intercity Rail Capital Program	283
Community Air Protection Program—AB 617	177
Sustainable communities and agricultural land conservation[b]	170
Low Carbon Transit Operations Program	141
Wildfire and forest resilience—SB 901	141
Safe and Affordable Drinking Water Program	92
Subtotal Tier 3	($1,401)
Remaining Balance Available for Priority 4 Discretionary Activities	**—**
Total Projected Expenditures	**$3,770**
Outside of SB 840 Formula	
Estimated Non-SB 840 Funding	**$750**
Entering fund balance[c]	$250
Interest earnings	500
Proposed Non-SB 840 Expenditures	**$615**
CalFire General Fund backfill	$500
Zero-emission vehicle incentive program	115
Projected Remaining Fund Balance and End of 2026-27	**$135**

[a] Tier 3 amounts reflect proportional reductions to statutorily-defined amounts based on projected revenues, pursuant to the SB 840 methodology.

[b] The Governor proposes budget trailer legislation to divide the Affordable Housing and Sustainable Communities funding into two separate programs.

[c] A portion of the anticipated entering fund balance results from the administration's proposal to undo the $81 million transfer to the Motor Vehicle Account that was approved in the 2025-26 budget.

CalFire = California Department of Forestry and Fire Protection; SB 840 = Chapter 121 of 2025 (SB 840, Limón); AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia); and SB 901 = Chapter 626 of 2018 (SB 901, Dodd).

Funds New State Operations Expenditures Within Tier 1. The Governor proposes to support a few new activities from the state operations portion of GGRF, which it would fund in Tier 1, as mentioned above. These consist of:

- ***Climate Change Assessment.*** Proposes $9.9 million over five years (including $355,000 in 2026-27) for various departments to support the development of the state's Sixth California Climate Change Assessment and associated research.

- ***AB 1207 and SB 840 Implementation.*** Proposes $2.1 million ongoing and seven positions for the California Public Utilities Commission (CPUC) and $871,000 ongoing (as well as additional funding from the Cost of Implementation Account) and ten positions for CARB to undertake new activities associated with implementing AB 1207 and SB 840 requirements. Such activities include implementing changes to the "California Climate Credit" rebates funded by free allowances provided to utilities and updating the rules governing the eligibility and quantification of offsets under the program.

- ***AB 617 Implementation.*** Proposes $1.6 million ongoing and 5.2 positions for CARB to implement Chapter 118 of 2025 (SB 352, Reyes) related to the Community Air Protection Program established by Chapter 136 of 2017 (AB 617, C. Garcia).

- ***CARB Consolidated Administration.*** Proposes $82,000 ongoing (as well as additional funding from other sources) and six positions to support various human resources and information technology-related functions at CARB.

Under DOF's Projections, Revenues Would Not be Sufficient to Fully Fund Tier 3 Programs in 2026-27 and Out-Years. Based on its auction projections and interpretation of SB 840, DOF does not anticipate GGRF will have adequate revenues in 2026-27 to support the full amounts identified for the Tier 3 programs in SB 840. Instead, DOF projects that the Tier 3 programs will be subject to proportional reductions in 2026-27 pursuant to the statutory methodology, receiving roughly 70 percent of the amounts specified in statute. The projected allocations are displayed in Figure 2. Notably, DOF also projects that Tier 3 programs may be subject to proportional reductions in the out-years as well, as shown in Figure 3.

Figure 3

Administration's Greenhouse Gas Reduction Fund Revenue and SB 840 Expenditure Projections

(In Millions)

	2026-27	2027-28	2028-29	2029-30
DOF GGRF Revenue Estimates[a]	**$3,770**	**$3,915**	**$4,066**	**$4,221**
Tier 1				
Manufacturing tax exemption	$159	$163	$168	$174
State operations	120	124	127	131
State Responsibility Area fee backfill	88	88	88	88
Legislative Counsel Climate Bureau	3	3	3	3
Subtotal Tier 1	($370)	($378)	($386)	($396)
Tier 2				
High-speed rail project	$1,000	$1,000	$1,000	$1,000
CalFire General Fund backfill	750	500	500	—
SB 840 intent items	250	—	—	—
Remaining discretionary set aside	—	500	500	1,000
Subtotal Tier 2	($2,000)	($2,000)	($2,000)	($2,000)
Tier 3[b]				
Affordable housing[c]	$396	$435	475	$516
Transit and Intercity Rail Capital Program	283	311	339	369
Community Air Protection Program—AB 617	177	194	212	231
Sustainable communities and agricultural land conservation[c]	170	186	204	221
Low Carbon Transit Operations Program	141	155	170	184
Wildfire and forest resilience—SB 901	141	155	170	184
Safe and Affordable Drinking Water Program	92	101	110	120
Subtotal Tier 3	($1,401)	($1,537)	($1,680)	($1,825)
Projected SB 840 Expenditures	**$3,770**	**$3,915**	**$4,066**	**$4,221**

[a] Revenue estimates assume allowances will sell at the same average premium above the price floor as has been the case for the last four quarters with fully subscribed auctions. DOF notes that this scenario is presented as an example and should not be considered as a market price forecast.

[b] Tier 3 amounts reflect proportional reductions to statutorily-defined amounts based on projected revenues, pursuant to the SB 840 methodology.

[c] The Governor proposes budget trailer legislation to divide the Affordable Housing and Sustainable Communities funding into two separate programs.

GGRF = Greenhouse Gas Reduction Fund; DOF = Department of Finance; CalFire = California Department of Forestry and Fire Protection; SB 840 = Chapter 121 of 2025 (SB 840, Limón); AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia); and SB 901 = Chapter 626 of 2018 (SB 901, Dodd).

Allocates $615 Million Outside SB 840 Spending Framework for Rest of CalFire Backfill and ZEV Incentive Program. The administration assumes about $750 million in GGRF monies will be available in 2026-27 that are not from budget-year auction revenues and thus not subject to the SB 840 allocation process under its statutory interpretation. This includes an expected entering fund balance ($250 million), as well as projected GGRF interest income ($500 million). The estimated GGRF entering fund balance is higher than previously anticipated for a couple of reasons, including (1) a new proposal to undo the $81 million MVA transfer that was approved in the 2025-26 budget agreement, as the administration projects that account will not need it to remain solvent through 2026-27, and (2) lower-than-budgeted expenditures on some activities. As displayed in Figure 2, the administration proposes to use $615 million of the $750 million in additional revenues to support the following activities, thus leaving a projected GGRF fund balance of $135 million at the end of 2026-27:

- ***CalFire Backfill.*** Proposes $500 million to support the remainder of the planned $1.25 billion CalFire backfill.

- ***ZEV Incentive Program.*** Proposes $115 million to create a new light-duty ZEV incentive program. (The Governor also proposes providing $85 million from the Air Pollution Control Fund—similarly freed up from undoing the previously-approved MVA fund transfer—to support this new ZEV program, for a total of $200 million.)

Background. According to the LAO:

Cap-and-Invest Is a Key Program Aimed at Limiting Greenhouse Gas Emissions (GHGs). Since the cap-and-invest program was created through the passage of Chapter 488 of 2006 (AB 32, Núñez), it has served as one of the state's core policies intended to help it achieve its ambitious GHG reduction goals. In 2017, Chapter 135 (AB 398, Garcia) extended the statutory authorization for the program from 2020 to 2030. In September 2025, the Legislature adopted AB 1207 and SB 840, which authorized a second extension of the program (from 2030 to 2045) and made some important changes to it. (We discuss these changes in our December 2025 publication, *Overview of New Updates to the Cap-and-Invest Program*.)

Cap-and-Invest Revenues Are Deposited Into GGRF. Under the cap-and-invest program, the California Air Resources Board (CARB) issues a limited number of allowances each year. (An allowance is essentially a permit to emit one ton of carbon dioxide equivalent.) Under current regulations, the state gives away about half of these allowances for free to industrial facilities, electric utilities, and natural gas suppliers. CARB sells the remaining half of allowances at quarterly auctions and the revenues are deposited into GGRF. Historically, GGRF revenues have been used to support a wide range of programs, many of which are aimed at reducing GHG emissions. However, from a legal perspective, GGRF funds are considered akin to tax revenues, so they can be used for any purpose.

GGRF Monies Typically Allocated by Statute and Annual Budget Process. The Legislature has approached appropriating GGRF revenues through two main methods. First, the Legislature has set aside a portion of ongoing GGRF funding each year for certain programs or projects articulated in legislation (often referred to as "statutory allocations"). Second, the Legislature has allocated other available revenues through the annual budget act, typically for one year at a time (often referred to as "discretionary" allocations). In addition to these two main allocation methods, the state has also funded some ongoing state administrative costs—such as related to implementing GGRF-funded programs—from the fund. Once approved, GGRF funding for state administrative costs generally has been included in departments' base budgets in annual budget acts. (The administration sometimes refers to these as GGRF "state operations" costs.)

The 2024-25 Budget Agreement Included Out-Year Funding for Various Programs. The 2024-25 budget agreement took an atypical approach to allocating discretionary revenues, as it not only appropriated GGRF to discretionary programs for that budget year but also included plans to dedicate a large share of out-year discretionary GGRF revenues for specific purposes. The bulk of the agreed-upon planned GGRF spending was slated to backfill reductions to expenditures that were previously planned to be made from the General Fund for a wide variety of activities. Some of the planned spending was also related to fulfilling statutory agreements. For example, the 2024-25 GGRF expenditure plan included funding to support: (1) public transit, consistent with Chapter 54 of 2023 (SB 125, Committee on Budget and Fiscal Review) and (2) the Clean Energy Reliability Investment Plan (CERIP), consistent with Chapter 239 of 2022 (SB 846, Dodd). (For more details on the 2024-25 budget agreement's multiyear spending plan, please see our September 2024 publication, *The 2024-25 California Spending Plan: Natural Resources and Environmental Protection*.)

The 2025-26 Budget Package Directed Most Discretionary GGRF Spending to Support General Fund and Motor Vehicle Account (MVA). The 2025-26 budget agreement allocated all the GGRF that the administration projected to be available as of the budget act, thus leaving no projected fund balance. The agreement included funding for the statutorily required expenditures, as well as $1.7 billion in discretionary spending. Most of the latter allocation—$1 billion—was provided for a CalFire fund shift, replacing a like amount of General Fund support for the department to help address a budget shortfall. Additionally, to help make up for a projected deficit in the MVA in 2025-26, the budget included $81 million from GGRF to pay for costs that otherwise would have to be paid by that account. Other discretionary allocations represented some, but not all, of the funding that was originally planned for 2025-26 as part of the 2024-25 multiyear GGRF expenditure plan discussed above. (Please see our October 2025 publication, *The 2025-26 California Spending Plan: Natural Resources and Environmental Protection*, for a summary of which programs received GGRF in 2025-26.)

Starting in 2026-27, Allocation of Revenues Is Guided by New Legislation. Senate Bill 840 not only made changes to the cap-and-invest program itself, but also made various modifications to the allocation of GGRF revenues starting in 2026-27. For example, SB 840 changed some statutory allocations from being set percentages of annual GGRF revenues to fixed dollar amounts. Senate Bill 840 also modified the order in which certain allocations are made, including setting aside $1 billion for discretionary allocations earlier in the prioritization process. (We discuss SB 840's changes to the statutory allocations of GGRF in greater detail in our recent report, *Overview of New Updates to the Cap-and-Invest Program*.) In Figure 1, we summarize the GGRF allocations under SB 840.

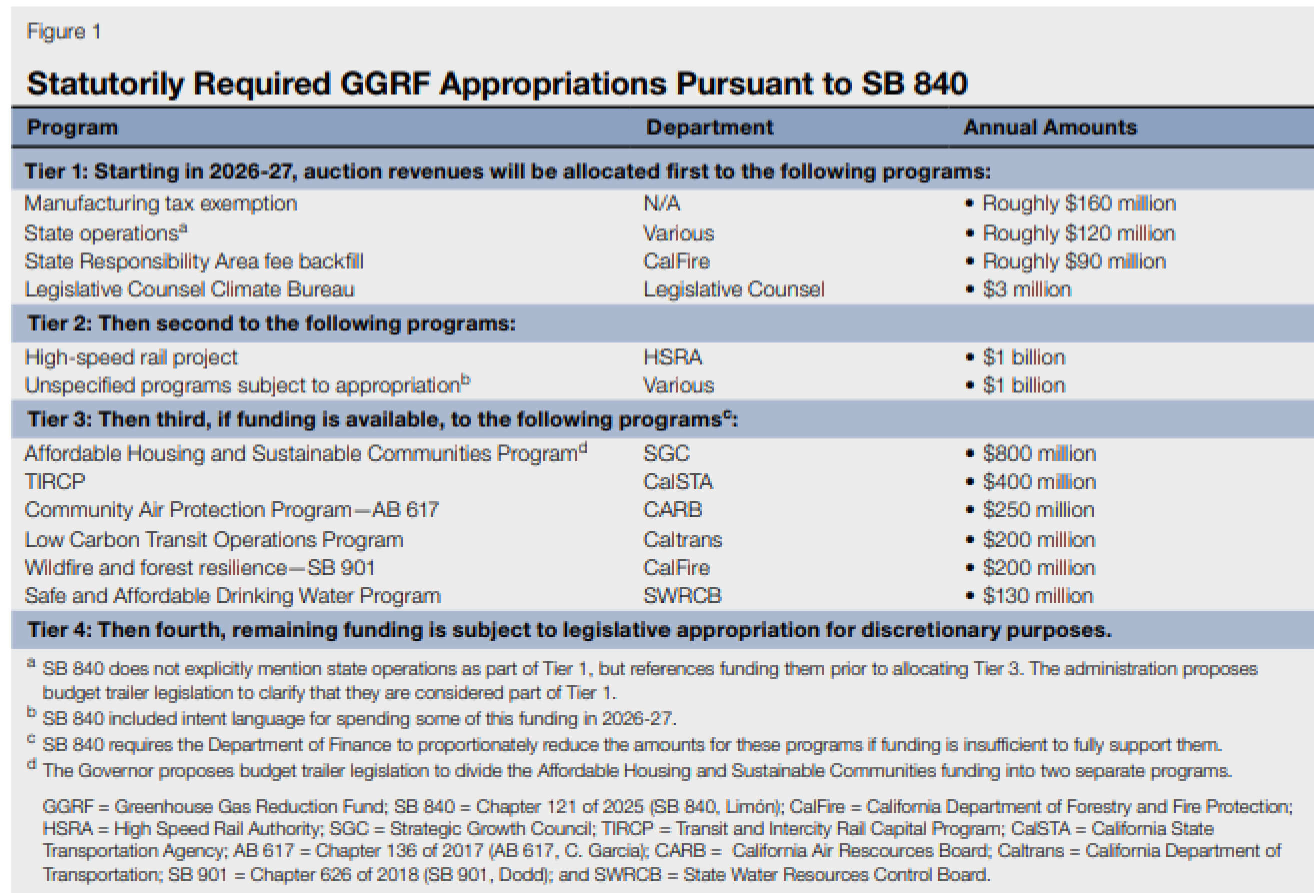
Figure 1

Statutorily Required GGRF Appropriations Pursuant to SB 840

Program	Department	Annual Amounts
Tier 1: Starting in 2026-27, auction revenues will be allocated first to the following programs:		
Manufacturing tax exemption	N/A	• Roughly $160 million
State operations[a]	Various	• Roughly $120 million
State Responsibility Area fee backfill	CalFire	• Roughly $90 million
Legislative Counsel Climate Bureau	Legislative Counsel	• $3 million
Tier 2: Then second to the following programs:		
High-speed rail project	HSRA	• $1 billion
Unspecified programs subject to appropriation[b]	Various	• $1 billion
Tier 3: Then third, if funding is available, to the following programs[c]:		
Affordable Housing and Sustainable Communities Program[d]	SGC	• $800 million
TIRCP	CalSTA	• $400 million
Community Air Protection Program—AB 617	CARB	• $250 million
Low Carbon Transit Operations Program	Caltrans	• $200 million
Wildfire and forest resilience—SB 901	CalFire	• $200 million
Safe and Affordable Drinking Water Program	SWRCB	• $130 million
Tier 4: Then fourth, remaining funding is subject to legislative appropriation for discretionary purposes.		

[a] SB 840 does not explicitly mention state operations as part of Tier 1, but references funding them prior to allocating Tier 3. The administration proposes budget trailer legislation to clarify that they are considered part of Tier 1.
[b] SB 840 included intent language for spending some of this funding in 2026-27.
[c] SB 840 requires the Department of Finance to proportionately reduce the amounts for these programs if funding is insufficient to fully support them.
[d] The Governor proposes budget trailer legislation to divide the Affordable Housing and Sustainable Communities funding into two separate programs.

GGRF = Greenhouse Gas Reduction Fund; SB 840 = Chapter 121 of 2025 (SB 840, Limón); CalFire = California Department of Forestry and Fire Protection; HSRA = High Speed Rail Authority; SGC = Strategic Growth Council; TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; AB 617 = Chapter 136 of 2017 (AB 617, C. Garcia); CARB = California Air Rescources Board; Caltrans = California Department of Transportation; SB 901 = Chapter 626 of 2018 (SB 901, Dodd); and SWRCB = State Water Resources Control Board.

Recent Legislation Expressed Intent for Use of Funds in 2026-27. In addition to the statutory allocations shown in the figure, the Legislature enacted statutory language expressing its intent to use discretionary GGRF monies to support certain other activities in 2026-27 and future years. Specifically, SB 840 expressed the Legislature's intent to provide a total of $250 million to fund the following specific activities from the $1 billion discretionary GGRF set aside in 2026-27:

- $125 million for transit passes.
- $85 million for climate-focused technological innovation.
- $25 million for seed funding for a University of California Climate Research Center.
- $15 million to rebuild Topanga Park (which sustained damage in the Palisades fire).

Additionally, Chapter 5 of 2025 (AB 102, Gabriel) expressed the Legislature's intent to provide GGRF in 2026-27 and potentially future years to support some CalFire activities that otherwise would be funded from the General Fund. Specifically, if the General Fund continued to experience deficits in 2026-27, AB 102 expressed the Legislature's intent that GGRF cover $1.25 billion of CalFire's costs in 2026-27, $500 million in 2027-28, and $500 million in 2028-29. (If the General Fund was not projected to be in a deficit in 2026-27, GGRF would only cover $500 million for CalFire in that year.)

Allowance Prices Have Been Relatively Stable Since Passage of New Legislation. The passage of AB 1207 and SB 840 provided additional clarity regarding the future of the cap-and-invest program. As such, some expected that their passage could put upward pressure on allowance prices and potentially result in higher GGRF auction revenues compared to recent trends. As of the preparation of this report, only one auction—in November 2025—has been conducted since the passage of the two bills. However, the resulting revenues were roughly equivalent to the amount the state received from the August 2025 auction, as both allowance prices and the number of allowances sold were similar across the two auctions. In both August and November, allowances sold for roughly $28 each, which is much closer to the program's price floor ($26) than its price ceiling ($95). (We discuss the recent auction results in greater detail in our December 2025 publication, *Cap-and-Invest: November 2025 Auction Update and 2026-27 Budget Context*.)

LAO Assessment.

Administration's Revenue Estimates Appear Reasonable, but GGRF Revenues Remain Difficult to Predict. Based on currently available information, DOF's 2026-27 GGRF revenue forecast appears reasonable. However, GGRF revenues are inherently somewhat unpredictable. Moreover, while one key near-term source of program uncertainty was resolved with its statutory extension, some remaining factors could potentially still create a heightened level of revenue unpredictability in the next couple of years. For example, CARB recently released draft regulations that propose to make various changes to the program—including to the total number of allowances issued and the allocation of those allowances across various purposes (such as GGRF and free allowances to utilities and industry)—that could affect GGRF revenues. Additionally, CARB still is considering linking California's cap-and-invest program with the program in Washington state. Such a linkage could affect allowance prices in both states as they come into alignment. Moreover, the current federal administration has been critical of California's cap-and-invest program, including in a April 2025 executive order. Should the federal government threaten action against the state's program, allowance prices could be affected.

Proposal Generally Reflects Recent Agreements, with Addition of New ZEV Program. The administration's proposal to provide $1.25 billion for a CalFire backfill and $250 million for SB 840 intent items is consistent with the guidance included in recent legislation. Notably, however, the administration does not propose to fund any of the programs that were anticipated to receive out-year monies in the 2024-25 GGRF expenditure plan, such as CERIP or transit, in either 2026-27 or future years. Instead of funding the programs envisioned in the 2024-25 GGRF plan, the Governor prioritizes providing GGRF to support the creation of an entirely new ZEV incentive program.

Neglecting to Provide Planned Transit Funding Could Lead to Disruptions for Local Capital Projects. The amounts planned in the 2024-25 GGRF package that are no longer included in the administration's multiyear spending plan (or in SB 840 intent language) include a total of $710 million that would have supported local transit agencies across the state. This includes $20 million for the Transit and Intercity Rail Capital Program planned for 2026-27, and $230 million in 2026-27 and $460 million in 2027-28 for the Zero Emission Transit Capital Program. In part because some of these funds had originally been scheduled to be provided in previous years but then were delayed due to the state budget condition, some local transit agencies already have committed portions of this funding to specific local projects. For example, the Metropolitan Transportation Commission in the Bay Area indicates that, consistent with the SB 125 plan it submitted to the Legislature, it programmed about $250 million of the anticipated funds which the Legislature has not yet appropriated for two Bay Area Rapid Transit expansion capital projects in order to help leverage billions of dollars in forthcoming federal support from the Capital Investment Grant Program. It states that failure to receive the anticipated funds could jeopardize local transit agencies' ability to draw down significant federal funding, and that agencies have entered into construction contracts based on state commitments. Accordingly, not providing this funding could be disruptive to affected local agencies. Additionally, some transit agencies planned to use some of this funding to offset operational funding shortfalls. The Legislature may want to learn more about potential consequences that could ensue from the administration's proposal to not fund these planned amounts and consider them as it develops its final GGRF spending package.

Given General Fund Condition, Directing GGRF to Support Core State Priorities Is an Important Budget Tool. In our view, it typically makes sense to try to maintain existing funding commitments. However, as we discuss in our January 2026 publication, *The 2026-27 Budget: Overview of the Governor's Budget*, the state faces alarming multiyear budget deficits, ranging from $20 billion to $35 billion annually. We expect that the Legislature will need to make very difficult decisions to address these deficits. Within this context, we think the Legislature should use GGRF as an important tool to help it fund its highest funding priorities across the entire state budget. This could include helping to support existing core services currently paid for by the General Fund. We note that, given the legal flexibility of GGRF, its funds could be used not only to support existing core environmental-related activities—such as parks and fire protection—but also other activities, such as in the areas of health and human services.

Since Much of GGRF Is Committed, This Approach Would Involve Revisiting Existing Commitments. As discussed above, the Legislature has already committed large portions of GGRF for specific activities in 2026-27 and out-years. Thus, using GGRF as a budget tool will necessitate reexamining existing commitments—both discretionary and statutory—to make sure they continue to reflect the Legislature's highest priorities. If any of these commitments represent lower-priority activities than programs at risk of being defunded, reallocating funding so it is instead directed to the highest-priority activities across the budget would make sense. (This could also include allocating funding consistent with earlier GGRF plans, such as to public transit.)

Very High Bar for Approving New Proposals Under Current Budget Conditions. We also believe the Legislature should apply a very high bar to its review of new spending proposals, whether from the General Fund or GGRF. This is because, in the context of a budget deficit, funding any new proposals will necessitate making commensurate reductions elsewhere within the budget. As we discuss in our companion report, *The 2026-27 Budget: Framework for Approaching the Natural Resources, Environmental Protection, and Agriculture Budget*, we do not think the Governor's proposal to provide GGRF to establish a new ZEV incentive program meets this threshold. (We also plan to discuss the ZEV proposal in more depth in a forthcoming publication, *The 2026-27 Budget: Proposed Zero-Emission Vehicle Incentive Program*.)

Does Administration's Interpretation of SB 840 Methodology Align With Legislative Intent? DOF indicates that its proposed budget trailer legislation clarifies its interpretation of the intent of SB 840 related to (1) the funds subject to the SB 840 methodology and (2) the treatment of state operations costs. A key question for the Legislature is whether it is comfortable that the proposed statutory modifications do indeed reflect its intent, as they have important implications for which programs receive funding under this new structure. Specifically:

- ***Considering Interest Income and Entering Fund Balance Discretionary and Outside of SB 840.*** The practical implication of the administration considering revenues from interest income and the entering fund balance outside of the SB 840 allocation process is that more than $1 billion annually will be set aside as available for discretionary purposes prior to computing allotments for Tier 3 programs. The precise amount of such available discretionary funding will vary by year depending on the entering fund balance and interest income. In 2026-27, for example, under this approach roughly $1.75 billion is available for discretionary purposes prior to funding Tier 3 programs, of which the administration proposes to spend about $1.6 billion. We note that the language of SB 840 indicates that the methodology applies to "moneys in the fund" and thus does not clearly limit it exclusively to auction revenues. However, the administration indicates that the intent of SB 840 was to apply the methodology only to auction revenues, consistent with historical practice.

- ***Providing State Operations Costs First Priority.*** By including funding for state operations in Tier 1, they are taken "off the top" before allocations are computed for nearly all other activities. The main implication of this approach is that any activities that are added to this category essentially result in less funding available to support programs in other tiers and a greater likelihood that Tier 3 programs may not receive their full statutory allotments. We note that SB 840 is not explicit about the allocation tier within which these activities should be covered. Instead, the statute references setting aside funding for them prior to computing allotments for Tier 3 funding.

Funding Proposals From State Operations Has Implications for Money Left Available for Other Tiers. Under the administration's interpretation of the SB 840 methodology (which would be codified in the proposed budget trailer legislation), activities that are funded as part of GGRF state operations are prioritized above nearly all other programs and activities. The administration indicates that because these funds typically support ongoing state staff, ensuring more certainty that they will be available is important so as not to risk staff layoffs if GGRF revenues come in below expectations. While this rationale is reasonable, this approach is not without trade-offs. Most notably, because including state operations expenditures as part of Tier 1 means they receive first priority for available GGRF, adding new activities to this category can have the effect of gradually "crowding out" other GGRF-funded programs and activities.

In light of this, we think the Legislature should carefully consider what types of activities it would like to include in this category—and potentially provide this guidance to the administration in statute, as appropriate—recognizing that this year's decisions could serve as a precedent going forward. For example, the administration's proposal to support the Sixth California Climate Change Assessment serves as a somewhat nontraditional example of a GGRF state operations category activity, in that it is not directly linked to implementing cap-and-invest or GGRF-funded programs and would support *one-time* activities rather than *ongoing* state staff. (We provide additional analysis of this proposal in our companion report, *The 2026-27 Budget: Framework for Approaching the Natural Resources, Environmental Protection, and Agriculture Budget*. We also plan to discuss CPUC's AB 1207 implementation proposal—also funded from the GGRF state operations category—in a forthcoming publication, *The 2026-27 Budget: California Public Utilities Commission's Implementation of AB 1207*.)

LAO Recommendations.

Direct GGRF to Highest Legislative Priorities, Including for Supporting Core Activities Traditionally Funded With General Fund. We recommend the Legislature dedicate GGRF to its highest budget priorities across the entire state budget, not just within climate- or environment-related programs. To effectuate this, we recommend the Legislature review prior plans and commitments for spending GGRF—including discretionary and statutory allocations, as well as state operations expenditures—to make sure they continue to reflect the Legislature's highest priorities across the broader budget, and then make modifications accordingly. This could include consideration of whether to fund at least some portion of previous transit commitments, given the potential implications of not providing that funding. Additionally, we recommend the Legislature reject new discretionary GGRF proposals unless they meet an exceptionally high bar, as they both come at the expense of previous unmet GGRF planned commitments and mean forgoing the ability to use that amount of GGRF to help address the General Fund shortfall. Consistent with this guidance, we recommend rejecting the Governor's proposal to fund a new ZEV incentive program.

Review Proposed SB 840 Implementation Approach and Statutory Changes to Ensure Consistency With Legislative Intent. We recommend the Legislature carefully review the administration's proposed approach to implementing SB 840 to ensure that it is consistent with legislative intent and preferences, and make any associated statutory modifications, as relevant. This could include adopting the administration's proposed budget trailer legislation clarifying the funds subject to SB 840 and the prioritization of state operations costs, if those changes accurately reflect legislative intent. It could also include memorializing in statute the Legislature's preferred guiding principles for which types of activities the administration should include as GGRF state operations proposals going forward, as those activities would receive first priority for funding and thus can crowd out other GGRF-funded programs and activities.

Monitor Auctions and Adopt Spending Levels That Reflect Evolving Revenue Trends. Given the continued uncertainty around cap-and-invest revenues, we recommend the Legislature closely monitor upcoming quarterly auctions—in February and May 2026—to assess how revenues are materializing. We recommend the Legislature be prepared to modify its GGRF expenditure plan accordingly, should revenues from these auctions come in at higher or lower levels than currently anticipated.

Staff Comments. The proposed trailer bill language makes several changes to the allocation of the Greenhouse Gas Reduction Fund (GGRF), two of the major ones being (1) prioritizing state operations costs prior to allocating funds for second or third tier programs and (2) excluding interest earnings from calculations when determining the allocation of auction proceeds to programs.

As the LAO notes, the first change would mean that any funding provided for state operations would result in less funding for the rest of the programs receiving GGRF allocations. Currently, eleven departments receive funding from this category, with California Air Resources Board (CARB) receiving the largest portion:

Greenhouse Gas Reduction Fund (3228) State Operations at 2026 Governor's Budget			
Dept. Name	**BU**	**2025-26**	**2026-27**
Land Use and Climate Innovation (LCI)	BU 0650	$ -	$ 355,000
2026-27 Governor's Budget: LCI - California's Sixth Climate Change Assessment	*BU 0650*	*$ -*	*(355,000)*
Office of Emergency Services	BU 0690	$ 1,285,000	$ 1,287,000
California Conservation Corps (CCC)	BU 3340	$ 8,382,000	$ 8,477,000
Cal FIRE	BU 3540	$ 9,646,000	$ 9,900,000
California Coastal Commission	BU 3720	$ 690,000	$ 690,000
San Francisco Bay Conservation and Development Commission	BU 3820	$ 2,080,000	$ 2,086,000
California Air Resources Board (CARB)	BU 3900	$ 50,080,000	$ 53,652,000
2026-27 Governor's Budget: CARB AB 617 Community Air Monitoring Updates (SB 352)	*BU 3900*	*$ -*	*(1,602,000)*
2026-27 Governor's Budget: CARB Cap-and-Invest Implementation (SB 840 and AB 1207)	*BU 3900*	*$ -*	*(871,000)*
CalRecycle	BU 3970	$ 1,185,000	$ 685,000
Office of Environmental Health Hazard Assessment	BU 3980	$ 1,594,000	$ 1,563,000
California Workforce Development Board	BU 7120	$ 261,000	$ 261,000
California Public Utilities Commission	BU 8660	$ -	$ 2,149,000
2026-27 Governor's Budget: CPUC Cap-and-Invest Implementation (AB 1207)	*BU 8660*	*$ -*	*(2,149,000)*
Pro Rata	BU 9900	$ 39,699,000	$ 33,597,000
Total		**$ 114,902,000**	**$ 114,702,000**

Note: BCP Proposals are included within the totals for the BU

Pro rata includes statewide general administrative costs, which are generally indirect costs incurred by central service agencies, such as the State Controller's Office. In recent years, various departments received funding from this GGRF state operations category on an ongoing basis, including $13.9 million for CARB ongoing to implement SB 253 (Wiener, Chapter 382, Statutes of 2023) and SB 261 (Stern, Chapter 383, Statutes of 2023), $948,000 ongoing for Department of Forestry and Fire Protection's (CalFIRE) direct mission support, and $750,000 ongoing for the California Coastal Commission for sea level rise team support. This year, the Governor's budget includes additional proposals to be funded out of this category, including the implementation of Cap-and-Invest legislation from last year at CARB and the California Public Utilities Commission (CPUC), AB 617 program implementation, and California's Sixth Climate Change Assessment. Under the Governor's proposed trailer bill language, every dollar spent here results in less funding for third tier programs.

The second major change included in the Governor's proposed trailer bill language effectively removes roughly $500 million a year—historically, the interest generated from the Greenhouse Gas Reduction Fund—from the allocation scheme agreed upon under SB 840 (Limón, Chapter 121, Statutes of 2025). The Governor's budget proposes to redirect this amount to backfill the General Fund. However, the Legislature may want to consider whether this level of discretion regarding the interest income is consistent with the agreement reached last year.

Every dollar of GGRF is particularly significant this year, as auction revenues have not returned to their peak levels from several years ago. This has especially impacted the third-tier programs, which all are expected to receive less than the capped amounts under the Governor's budget. One of the programs is the Safe and Affordable Drinking Water program (SAFER), which funds water infrastructure. Under the previous Cap-and-Trade allocation scheme, SAFER received $130 million in continuous appropriations, and additionally had a General Fund backfill, in case of a shortfall in auction revenues. However, this backfill does not currently continue in the new Cap-and-Trade allocation statutes, meaning SAFER is expected to receive $92 million, instead of $130 million. Stakeholders have requested to reinstate this backfill, which will require roughly $38 million.

The trailer bill makes several other changes to statute, including striking the percentage requirements for the allocations to CalFIRE, providing flexibility to ensure those costs are covered appropriately within each category after the final allocation amount is calculated each year. The two categories include "healthy forest and fire prevention programs and projects that improve forest health and reduce emissions of greenhouse gases caused by uncontrolled wildfires" and "prescribed fire and other fuel reduction projects through proven forestry practices." The Governor's budget estimates $142 million to be allocated to CalFIRE, and of that amount, $30 million will be to support ten fuel crews that conduct prescribed fire and other fuels reduction projects (156 positions); $5 million will be to fund the Forest Health Research Program, which awards grants for forestry and wildfire research; $39.6 million will be to administer the Forest Health and Wildfire Prevention Grants programs (41.5 positions); and $67.4 million will be for local assistance grants through the Forest Health and Wildfire Prevention Grants programs to fund activities such as tree thinning, prescribed fire, fuel break implementation, reforestation, forest insect and disease mitigation, forest landowner assistance, working forest conservation, biomass utilization, community wildfire education, and wildfire planning. According to Department of Finance, the administration anticipates communicating to the Legislature each year during budget hearings on GGRF how much of the current fiscal year's total allocation amount is allocated to each authorized category, which will be based on the final allocation amounts calculated from the final auction results. However, this is not included in the proposed trailer bill language, and neither is a minimum spending level for either of the categories. The Legislature may want to consider whether these measures are necessary for transparency and align with Legislature's intent in supporting both categories of forest health and fire prevention activities.

Overall, the Governor's proposed GGRF expenditure plan prioritizes the General Fund backfill and the new zero-emission vehicle incentive program more so than any additional legislative discretionary spending. Though the GGRF is a critical tool to potentially balance the budget this year without impacting critical safety net programs, it reduces the Legislature's capacity to fund critical climate, natural resources, and environmental protection programs, such as funds for zero-emission vehicles, building decarbonization, and transit.

In addition, the total amount of funds to be available in GGRF is largely dependent on the CARB regulatory process, which the department is currently undertaking. As the cap on allowances declines, there are concerns from stakeholders on all sides on how it will impact their sectors. For example, electric publicly owned utilities have raised affordability concerns about CARB's proposed regulations—a reduction in allowances is expected to raise costs for ratepayers. As another example, the oil and gas industry have raised concerns about leakage protection, particularly for refineries, claiming that the proposed regulations could further close the remaining refineries in the state. It is possible that as CARB finalizes these regulations, the auction revenues could increase if stakeholder confidence in the program grows. However, it is clear that much remains uncertain, and the Legislature will need to continue monitoring auctions and CARB's regulatory process prior to taking any action on the GGRF expenditure plan in the 2026 Budget Act.

Staff Recommendation. Hold open.

3900 STATE AIR RESOURCES BOARD

Issue 3: Zero-Emission Vehicle Incentives Proposal

Governor's Proposal. According to the LAO:

Proposes $200 Million and Budget Trailer Legislation to Create New ZEV Incentive Program. The Governor proposes $200 million on a one-time basis ($115 million from GGRF and $85 million from APCF), along with associated budget trailer legislation to create a new incentive program for light-duty ZEVs. The new program would provide point-of-sale incentives for new and used vehicles, and the incentives would be administered by vehicle manufacturers. According to the administration, the incentives would be provided on a first-come, first-serve basis and would not be restricted based on household income. The program is proposed to include various limitations, however. For example, to participate in the program, manufacturers would be required to match the incentive amount that is provided by the state. Additionally, the incentives would only apply to first-time purchasers of ZEVs and to vehicles that do not exceed certain manufacturer's suggested retail prices, such as $55,000 for new sedans and $80,000 for new sport utility vehicles and light-duty trucks. Under the proposal, other program details—such as incentive amounts, the number of incentives to be provided, and the duration of the incentive program—would be determined by CARB through an expedited rulemaking process that would not be subject to the requirements of the Administrative Procedures Act.

Background. According to the LAO:

State Trying to Meet Ambitious Climate Goals and Strict Air Pollution Requirements. California has adopted a variety of goals related to reducing GHGs. Additionally, the state must meet requirements related to regional and local air pollution. These include:

- ***State GHG Reduction Targets.*** California has established statutory goals for reducing statewide GHG emissions—down to at least 40 percent below the 1990 level by 2030, and to at least 85 percent below the 1990 level by 2045.

- ***Federal Air Quality Standards.*** California has two regions with the most critical air quality challenges in the nation—the South Coast Air Basin and the San Joaquin Valley. The regions need to make substantial reductions in criteria pollutants from all sources—specifically, nitrous oxides (NOx) and fine particulate matter—to meet federal air quality standards.

Administration Set Ambitious ZEV Goals, Which Federal Actions Have Called Into Question. Mobile sources—including light-, medium-, and heavy-duty vehicles—contribute to California's GHG emissions and air pollution. For example, light-duty vehicles represent about 28 percent of statewide GHG emissions and 7 percent of statewide NOx emissions. To help the state meet its climate goals and air quality requirements, the Governor signed an Executive Order in 2020 establishing various ZEV goals, including that 100 percent of in-state sales of new passenger cars and trucks be zero emission by 2035. The California Air Resources Board (CARB) subsequently adopted a regulation, Advanced Clean Cars II (ACC II), which required manufacturers to sell a growing share of their vehicles as ZEVs in alignment with state goals. In May 2025, the U.S. Congress passed a resolution rescinding the federal waiver under which California had been allowed to adopt ACC II. While State Attorney General Bonta subsequently filed a lawsuit challenging the legality of the congressional revocation of this federal waiver, the state's ability to pursue its ZEV adoption goals through ACC II requirements remains limited, at least until the lawsuit is resolved or federal policies change.

State Has Made Significant Progress Encouraging Light-Duty ZEV Adoption. The state has made notable progress in pursuing its ZEV adoption goals in recent years, with the share of new passenger vehicles sold in California that are ZEVs climbing from 8 percent in 2020 to over 20 percent in 2025. California significantly outpaces the nation in ZEV adoption. Nearly 30 percent of all ZEV passenger vehicles sold nationwide are in California, while the state is only home to about 12 percent of the U.S. population.

Federal Light-Duty Incentive Program Expired in Late September 2025. In recent years, the federal government has offered financial incentives to encourage ZEV purchases. Most recently, the federal Inflation Reduction Act included a tax credit of up to $7,500 per vehicle for the purchase of new light-duty ZEVs and up to $4,000 per vehicle for the purchase of used light-duty ZEVs. In July 2025, the President signed H.R. 1—also known as the One Big Beautiful Bill Act—which eliminated these ZEV purchase incentives as of the end of September 2025. Since the passage of H.R. 1, some vehicle manufacturers have signaled that they expect to scale back their previously planned production of ZEVs.

State Still Has Various Existing Programs to Encourage ZEV Adoption. Despite the loss of federal funds, the state still supports various programs to subsidize the purchase of ZEVs. For example, in recent years, the state has supported the Driving Clean Assistance and regional Clean Cars 4 All (CC4All) programs through periodic budget appropriations. These programs provide income-qualified households with rebates toward the purchase of ZEVs. Additionally, the state's Low Carbon Fuel Standard (LCFS) program provides funding to support various ZEV-incentive programs offered to customers through utilities. In addition to the state programs that subsidize ZEV purchases, other programs subsidize the installation of charging infrastructure to further encourage ZEV adoption.

State's Multiyear Fiscal Condition is Alarming. The Governor's 2026-27 budget proposal is only precariously balanced—and we believe the risk of a stock market downturn is elevated. If a downturn were to occur, it would substantially worsen the state's near-term budget picture. Moreover, even without a stock market downturn, both our office and the administration expect the state to face multiyear deficits, with estimates ranging from $20 billion to $35 billion annually. Given this fiscal reality, we expect that the Legislature will need to make very difficult budget decisions in the years to come.

LAO Assessment.

Proposals Funded by GGRF and APCF Should Meet High Bar for Approval. In light of the state's budget condition—and as we discuss in greater detail in our recent publication, *The 2026-27 Budget: Framework for Approaching the Natural Resources, Environmental Protection, and Agriculture Budget*—we recommend the Legislature apply a high bar to its review of new proposals, including those supported by the General Fund or special funds, and limit new spending to urgent or critical needs. We think applying this principle broadly across all fund types is important because special funds can serve as tools to help address the budget deficit, such as by taking on expenditures previously funded by the General Fund or providing loans to the General Fund. For example, the Legislature has the option of using monies from GGRF flexibly to support any purpose. As such, GGRF could be thought of akin to the General Fund and therefore should similarly be targeted for the state's highest priorities (whether within the environmental sector or other policy areas). Additionally, APCF potentially could be used to support some activities currently being funded with GGRF, thereby freeing up those dollars to help fund other priorities.

ZEV Proposal Does Not Meet High Bar for New Expenditures. Addressing climate change and air quality are longstanding state goals. However, the state already has overarching programs—such as cap-and-invest and LCFS—that are aimed at helping ensure that the state continues to make progress decarbonizing and shifting to cleaner transportation fuels. While ZEV-specific programs can play a role in augmenting the state's broader programs—such as by making ZEVs more accessible to low-income households and helping to encourage the market to produce a greater number and variety of vehicles—they are less critical than they otherwise would be without the "backstop" of those broader GHG-reducing programs. Moreover, given the time horizon over which the public likely will phase in purchases of new ZEVs, providing financial incentives for their adoption does not constitute an urgent need that must be funded this year.

State Does Not Have Fiscal Capacity to Backfill Federal Commitments. The administration indicates that the impetus for this proposal is to partially backfill the recent loss of federal incentive funding. However, the state is facing the loss of federal funds across a variety of areas and does not have the fiscal capacity to backfill them across the board. For example, given the state's fiscal limitations, the administration is not proposing to backfill the loss of federal funds in many other areas of the budget, such as health and human services. The rationale for treating this ZEV program as a higher priority for backfill relative to those other areas is not clear.

Key Program Details Are Lacking, Making a Thorough Assessment Impossible… The administration has not yet determined key details on the proposed program's structure, such as the duration of the program, the number of incentives to be provided, or the amount of each incentive. The proposal anticipates that CARB will decide upon these specifics through an expedited rulemaking process over the coming months. The absence of specific information on the program structure makes it impossible for the Legislature to understand how the program will work or evaluate its costs and benefits. For example, without information on the proposed incentive amounts, the Legislature cannot determine whether the incentives would be sufficient to meaningfully affect behavior. Additionally, without understanding the number of incentives that will be provided, the Legislature does not know the number of purchases that could potentially be encouraged—at least to some degree—by the proposal.

…But Indications Suggest Proposal May Not Have Large Effect on ZEV Sales. Even without key program design information such as the incentive amounts or number of incentives that will be provided, the total amount of funding proposed makes it clear that the scope of the program is likely to be relatively modest and short term. For example, for illustrative purposes, even if we assume that only half of last year's ZEV purchases would qualify to receive rebates due to the program's restrictions, we estimate that the proposed funding would support incentives of just $1,000 per vehicle for one year. This incentive amount is quite modest given current vehicle costs, which average about $50,000 for new vehicles and $25,000 for used vehicles. (ZEVs typically cost several thousand dollars more to purchase than conventional vehicles). While the proposal attempts to magnify the potential effect of incentives by requiring manufacturers to provide a dollar-for-dollar match, the incentive amount likely still would be relatively small. Moreover, given the opaque nature of vehicle pricing, we expect that ensuring that incentives are passed on to consumers, rather than retained (at least to some degree) by manufacturers or vehicle dealers, will be difficult. In theory, one potentially helpful effect of vehicle incentive programs broadly could be to induce vehicle manufacturers to produce a greater number and selection of ZEVs. However, doing so likely would require a much larger and/or longer-term investment than what the Governor is proposing (or what the state realistically could provide, given its budget limitations).

Proposal Could Result in Program Duplication. As noted above, even with the loss of the federal incentive program, the state supports various other ZEV incentive programs. We note that some of these programs currently are running low on funding. For example, the administration estimates that the majority of the $72 million left in the regional CC4A program as of January 2026 will be exhausted before the end of 2026-27. The administration has not yet determined the extent to which this new proposed program could be used in combination with other existing programs (sometimes referred to as "stacking"). However, given the number of existing programs and policies aimed at incentivizing ZEVs, a potential for duplication exists, which would create challenges. As we discuss in our December 2018 report, *Assessing California's Climate Policies—Transportation*, such challenges can include (1) program interactions that can affect cost-effectiveness, (2) difficulty evaluating programs, (3) potential lack of program coordination, and (4) increased administrative costs.

LAO Recommendation.

Reject Proposal. We recommend the Legislature reject the Governor's proposal to create a new light-duty ZEV incentive program, as it does not meet the high bar we recommend applying to new proposals. Particularly in light of other existing state programs aimed at reducing GHGs and transitioning the state to cleaner transportation fuels, we find that the proposed incentive program does not address an urgent and critical need. Moreover, while fully evaluating the merits of the proposal is not possible given the lack of details on its structure, the limited, one-time nature of the proposed funding makes it unlikely to have large effects on the marketplace or on the state's progress in meeting its ZEV adoption goals. Finally, we have concerns that the creation of a new program adds complexity and potential duplication.

Staff Comments. In recent years, the Legislature has placed a great emphasis on the medium- and heavy-duty ZEV transition in the budget, rather than light-duty. This focus is largely due to the maturation of the light-duty ZEV market, in comparison to its medium- and heavy-duty counterparts as well as the outsized impacts medium- and heavy-duty vehicles have on air quality, particularly in disadvantaged communities. As a result, the 2025 Budget Act included $132.2 million for the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP), a state incentive program for medium- and heavy-duty ZEVs, as well as $40 million for medium- and heavy-duty ZEV charging and refueling infrastructure. Though the Legislature also included $25 million for Clean Cars 4 All, a light-duty ZEV program, the intention was to support equity in the ZEV transition, rather than a broad incentive program.

The proposed new zero-emission vehicle program would be a departure from the last couple of years' budgets. The last program that provided a broad incentive for light-duty ZEVs—the Clean Vehicle Rebate Project—ended in 2023, having invested $1.49 billion and funded more than 586,000 vehicles. According to the administration, this renewed focus on light-duty ZEVs is necessary because of the expiration of the federal tax credit, which was repealed by H.R.1 effective October 1, 2025. However, it is important to note that this program cannot fully backfill the federal tax credit. In addition, it is unclear what kind of impact it would have on ZEV purchases, if any, given the limited scope of funding and lack of details provided on how exactly the incentive program would work—specifically, which manufacturers would be included, how much in incentives will be provided (as well as how many vehicles will receive the incentives), and other specific program parameters, among other details. CARB intends to determine these specifics through a public workshop process in the coming months.

As such, the proposed trailer bill is sparse on a lot of details, and if approved as proposed, the Legislature would be deferring many key policy decisions to CARB to shape the program. If the Legislature approves this proposal, it may want to consider providing more specific guidance in statute, to ensure CARB implements the program according to legislative priorities. Stakeholders have suggested including amendments to require income qualifications, allow or prohibit stacking with other state incentives, provide funding for outreach and technical assistance to disadvantaged communities, include a cap on incentive, as well as specify stronger consumer protection against price gouging, to ensure that manufacturers are accountable for applying the rebate and reducing the price of vehicles as intended. In particular, the Legislature may want to consider how to target this proposed program to reach Californians who are currently left out of the ZEV market and are unable to convert to a ZEV without support.

The proposal attempts to do so by (1) limiting the program to first-time ZEV buyers and (2) including used cars in the program. On the first point, studies have shown that once consumers switch to ZEVs, they typically do not revert back to using gasoline fueled vehicles. However, the proposed trailer bill language does not specify how CARB, manufacturers, and/or dealerships must verify recipients are first-time ZEV buyers—depending on how it is implemented, buyers could self-attest even if another member of the household already owns a ZEV, meaning subsidies could go towards households that were already going to buy ZEVs without this incentive or already have one. On the second point, the inclusion of used cars could help ensure the incentive goes towards those who need the incentive to make the switch to ZEVs. However, the proposed incentive program is largely structured around working with manufacturers to provide the incentive at point-of-sale. Not only do some manufacturers not sell used cars (or dealerships often have ownership over the sale of certified pre-owned vehicles), but also lots of used vehicles are sold through used car dealerships. Under the proposed structure, it would not be possible to use the incentive at these types of dealerships, meaning the scope of used vehicles that could be eligible for this incentive would be fairly narrow. These two components are yet more pieces of program design that the Legislature may want to provide statutory guidance on. Without it, CARB will determine these sorts of details through a public workshop process.

Given these uncertainties, the Legislature may want to consider whether funding a brand new program should be prioritized above existing programs. As the LAO notes, the Clean Cars 4 All program that is implemented through the air districts are expected to run out of funds by the end of the year. In addition, HVIP is expected to exhaust funds well before 2026-27. Stakeholders have supported prioritizing funding for these types of existing programs, as they are established, high in demand, and ready to get the funding out the door.

Staff Recommendation. Hold open.

Issue 4: Bi-directional Electric Vehicle Charging Proposal and Trailer Bill Language

Governor's Proposal. The Governor's budget includes $1.1 million from the Air Pollution Control Fund (APCF) in 2026-27 and 2027-28 to implement SB 59 (Skinner, Chapter 765, Statutes of 2024). In addition, the budget includes trailer bill language that shifts the authority to implement the legislation from the California Energy Commission (CEC) to the California Air Resources Board (CARB).

Background. SB 59 directs the CEC, in consultation with CARB and the California Public Utilities Commission (CPUC), to require any weight class of battery electric vehicle (BEV) to be bidirectional-capable if it determines there is a sufficiently compelling beneficial bidirectional-capable use case to the BEV operator and electrical grid.

The administration proposes trailer bill language to make CARB the lead department instead of CEC because of CARB's prior experience in regulating vehicle manufacturers and evaluating electric vehicle technology feasibility as a means of reducing harmful emissions. In addition, the department argues that one state agency regulating the industry is less burdensome to vehicle manufacturers and ensures regulations are more aligned with one another.

Under the proposed statutory language, CARB, in consultation with CEC and CPUC, would assess use cases for bidirectional charging on medium- and heavy-duty vehicles. If those assessments find compelling use-cases for these classes of vehicles, CARB may also adopt requirements on medium- and heavy-duty vehicles with implications for battery durability on BEV trucks. In each truck classification, bi-directional power flow, without standards in place, could potentially create unique battery challenges, more frequent battery replacement costs and/or larger batteries being installed in trucks by manufacturers.

CARB requests $1.1 million from APCF to support four positions to implement SB 59—specifically, to evaluate beneficial use cases to ensure California's efforts to meet its zero-emission technology deployment goals and achieve air quality and climate targets, in both passenger vehicles and medium/heavy duty vehicles. In addition, CARB requires resources to evaluate bi-directional power impacts on battery durability and costs that would inform potential future regulatory efforts; analyze data to better understand vehicle duty cycles, charging behavior, and other factors that must be considered as part of the beneficial use case determinations; and review vehicle bi-directional charging standards that are currently under development to draft necessary definitions, and coordinate with CEC, CPUC, and utilities to assess potential grid impacts of the utilization of bi-directional charging for a variety of medium- and heavy-duty vehicle weight classes.

Staff Comments. In the last couple of years, the federal government has continued to legally challenge CARB's authority to regulate vehicles. Most recently, the U.S. Department of Justice filed a lawsuit against CARB over its limits on greenhouse gas emissions from vehicles, claiming the federal government has authority over fuel economy regulations and preempts any state authority over this area, including mandates regarding greenhouse gas emissions and zero-emission vehicles. This is in addition to the congressional reversal of federal waivers that allowed California to phase out new gas-powered vehicles. (However, there is pending litigation on the latter.) In part due to these hostile dynamics between CARB and the federal government, some stakeholders have voiced concern that by shifting the implementation of SB 59 from CEC to CARB, it may unnecessarily expose the regulation to a potential legal challenge. In addition, some speculate that there may be greater legal authority for the state to regulate bi-directional charging as a grid services issue, rather than a vehicle one.

According to stakeholders, the Tenth Amendment of the United States Constitution reserves general police power to the states, which includes oversight of the in-state electric grid. In general, states regulate their grids in the first instance, except to the extent preempted by specific federal law or constitutional provisions, such as interstate transmission pricing and siting transmission facilities on federal land. By establishing regulatory standards for in-state vehicle battery sales based on the reliability and affordability needs of the in-state electric grid, SB 59 would be an exercise of traditional state police power authority, rather than state regulations over vehicle emissions or fuel economy standards. Stakeholders argue that if the implementation of SB 59 was on this basis, CEC would have greater expertise on the broader implications to the grid, particularly with regards to grid energy supply, reliability, and affordability.

Further, the Legislature is currently considering SB 1282 (Becker), which as of this writing, requires the CEC to study electric grid needs associated with meeting SB 100 goals, a target level of grid-integrated vehicle and charging technology use to achieve those goals, and provides CEC authority to set standards based on that assessment. As the Legislature considers this proposal, it may want to ensure it aligns with actions taken on SB 1282.

Staff Recommendation. Hold open.

Issue 5: AB 617 Community Air Monitoring Updates (SB 352)

Governor's Proposal. The Governor's budget includes $1.6 million Greenhouse Gas Reduction Fund (GGRF) in 2026-27 and ongoing for 5.2 permanent positions and equipment and contract costs to implement SB 352 (Reyes, Chapter 118, Statutes of 2025).

Background. AB 617 (C. Garcia, Chapter 136, Statutes of 2017) established the Community Air Protection Program, which has implemented community-scale air monitoring, strengthened enforcement, and accelerated emissions reductions in overburdened neighborhoods. Of the selected communities, 17 out of 19 have adopted Community Air Monitoring Plans (CAMPs) and deployed air monitoring networks to measure criteria pollutants, diesel particulate matter, and other air toxins. These monitoring networks inform Community Emissions Reduction Programs (CERPs) and community-focused enforcement efforts. The CERPs include emission-reduction actions with defined metrics, timelines, and progress tracking.

AB 617 required CARB to prepare—in consultation with local air districts, community groups, environmental organizations, and regulated industries—a monitoring plan regarding the availability and effectiveness of toxic air contaminants and criteria air pollutant advanced sensing monitoring technologies by October 1, 2018. This monitoring plan included information on existing community air monitoring systems, and the findings and recommendations of that plan were leveraged to select, in consultation with the air pollution control districts and air quality management districts, the highest priority locations around the state to deploy community air monitoring systems.

SB 352 further strengthens the Community Air Protection Program by requiring CARB to update the statewide monitoring plan by July 1, 2026, and every five years thereafter. Additionally, SB 352 requires CARB, by March 1, 2027, and annually thereafter, in consultation with the air districts, to report to the Legislature on the implementation of these and other provisions.

Lastly, monitoring commitments in communities selected by CARB are to remain active for no fewer than 5 years, with an option for the air district and CARB to agree to extend active monitoring for additional 5-year periods, as necessary. This extended monitoring period will result in expanded program oversight, which may include air monitoring support, training, data management, and data assessment.

CARB requests 5.2 positions and $350,000 in ongoing equipment and contract funds to implement SB 352. More specifically, the department requests three positions in the Monitoring and Laboratory Division to develop the monitoring plans and fulfill annual reporting requirements; one position in the Office of Community Air Protection to engage with the recipients of Community Air Grant technical monitoring grants as well as community and environmental justice organizations; and 1.2 positions across support staff divisions (Administrative Services, Financial Services, and Information Services) to support the addition of new program staff requested as part of this proposal. In addition, CARB proposes to allocate $250,000 for the procurement and evaluation of emerging air monitoring technologies and $100,000 for a contract with a communications and design consultant to develop outreach materials.

For the current fiscal year, CARB received $18 million for AB 617 implementation which supports 75 permanent staff positions. The program has grown from supporting 10 communities in 2018 to the current 19 with relatively constant staffing levels. CARB also received $5 million for Community Air Grants, $45 million for air district implementation, and $50 million for air district incentives.

In 2017-18, six CARB staff developed and released the original statewide monitoring plan before October 1, 2018, pursuant to HSC 42705.5(b). This was a one-time assessment regarding the availability and effectiveness of advanced sensing technologies and existing community air monitoring systems to identify areas where more monitoring may be needed. After developing the statewide monitoring plan, the six staff transitioned to other monitoring related tasks such as reviewing community air monitoring plans (CAMPs), tracking implementation of CAMPs, providing technical assistance to recipients of community air grants with monitoring projects, and supplemental monitoring and laboratory support.

Staff Recommendation. Hold open.

Issue 6: Cap-and-Invest Implementation (AB 1207 and SB 840)

Governor's Proposal. The Governor's budget includes $3.6 million and ten permanent positions in 2026-27 and ongoing, including $2,771,000 Cost of Implementation Account (COIA) and $871,000 Greenhouse Gas Reduction Fund (GGRF), to implement the updated regulations and program requirements for the reauthorized Cap-and-Invest program.

Background. AB 1207 (Irwin, Chapter 117, Statutes of 2025) and SB 840 (Limón, Chapter 121, Statutes of 2025) extend the duration of the Cap-and-Invest program through 2045; direct CARB to update, develop, implement, evaluate, and report on compliance offset protocols for the program; and appropriates Cap-and-Invest auction proceeds for specified purposes, among other things.

CARB requests $3.6 million and ten permanent positions to implement this extension—specifically, five positions to develop and implement new compliance offset protocols and $1.2 million in contract funds for technical analysis and support for offset protocols; funding to convert three limited-term positions to permanent ones to support implementation of GGGRF appropriations; and two positions—one legal and another accounting—to address potential litigation and provide administrative accounting support.

- **Compliance Offset Program Modifications and Ongoing Implementation.** CARB requests five positions to develop the offsets report required by SB 840; develop and implement the new offset protocols required by AB 1207; and update each of the six existing compliance offset protocols by January 1, 2029, and every five years after, as required by SB 840. In addition, AB 1207 and SB 840 will require ongoing protocol implementation, to process projects, issue offset credits, conduct verification audits, develop guidelines, support the Offset Project Registries, Verification Bodies, Verifiers, and Offset Project Developers and public and stakeholder engagement. In addition, AB 1207 extends the Compliance Offsets Protocol Taskforce to January 1, 2046. Contract funding is needed to support the Taskforce, including meeting facilitation and per diem support for members.

- **Carrying out Mandated Administrative Functions for GGRF Appropriations.** CARB also requests to convert three limited-term positions to permanent ones to assist agencies administering programs with Greenhouse Gas Reduction Funds. Specifically, CARB assists administering agencies with developing these materials and performs reviews to ensure statutory and programmatic requirements are met. CARB reports that the number of programs receiving GGRF has significantly grown from 48 programs administered by 17 agencies in 2018 to 117 programs administered by 27 agencies. To ensure programs have sufficient support from CARB, the department requests to maintain the limited-term positions as the program is extended by AB 1207 and SB 840.

- **Additional Legal and Accounting Support.** CARB requests a legal position to provide legal advice on any potential litigation related to the Cap-and-Invest rulemaking. In addition, the department also requests an accounting position to help maintain the ledgers for the GGRF, prepare financial documents to the State Controller's Office and Department of Finance, analyze GGRF fiscal reports, and track and reconcile data on appropriation, encumbrances, and expenditures related to CARB's incentive programs, including CARB's Clean Transportation Incentives, CAP, and Carl Moyer Programs.

Staff Comments. Under the Cap-and-Invest program, covered entities can meet compliance obligations through a combination of the following actions—reducing their GHG emissions, obtaining allowances (essentially a permit to emit one ton of carbon dioxide equivalent) to cover their emissions, and purchasing "offsets" (paying to support a GHG reduction project outside of the capped sectors) to cover their emissions. SB 840 requires CARB to update all existing compliance offset protocols to ensure it reflects the "best available science, including, but not limited to, consideration of compliance offset protocols in other carbon markets, crediting mechanisms established under Article 6.4 of the Paris Agreement adopted by the United Nations Climate Change Conference (COP21) in Paris, France, on December 12, 2015, also known as the Paris Agreement Crediting Mechanism, academic research, and industry best practices, that prioritize offset quality." This reflects a continuation of legislative priority in improving offset quality, and ensuring offset projects result in permanent emission reductions that would not otherwise have occurred. In reviewing this proposal, the Legislature may want to request how CARB is approaching the updates to compliance offset protocols, particularly how the department expects to define "best available science" and incorporate best practices on an ongoing basis to improve offset quality under the Cap-and-Invest program.

Staff Recommendation. Hold open.

0540 Secretary of the Natural Resources Agency
0650 Governor's Office of Land Use and Climate Innovation
3360 Energy Resources Conservation and Development Commission

Issue 7: California's Sixth Climate Change Assessment

Governor's Proposal. The Governor's budget includes $9.9 million Greenhouse Gas Reduction Fund (GGRF) over five years to develop California's Sixth Climate Change Assessment (CCCA6), required by SB 1320 (Stern, Chapter 136, Statutes of 2020).

Background. SB 1320 requires the Governor's Office of Land Use and Climate Innovation (LCI), the Strategic Growth Council (SGC) within LCI, the California Natural Resources Agency (CNRA), and the California Energy Commission (CEC) to jointly deliver a California Climate Change Assessment (Assessment or CCCA throughout) every five years. The Assessment must report the impacts and risks of climate change, based on best available science, and identify potential solutions to inform legislative policy. It should also include downscaled climate projections that assess climate change impacts throughout the state, including at regional and local levels, for near-term, medium-term, and long-term timescales, and under varied emissions scenarios. SB 1320 further requires LCI, SGC, CNRA, and CEC to engage with regional and local governments, tribes, vulnerable communities, businesses, and members of the public in determining the scope of the assessment.

This proposal is comprised of both funding for staff positions as well as grants and contracted services. Specifically, the administration proposes to fund six existing staff positions—five at LCI and one at CEC—for the next five years. The five positions at LCI will administer the regional and tribal research portfolio, engagement and publication processes, and provide climate services to ensure climate data is accessible and more actionable for communities, local governments, and decisionmakers while supporting broader resilience and equity goals. The one position at CEC will be dedicated to the Tribal Research Program, administering contracts with climate researchers, ensuring the research is focused on the state's most critical gaps in climate science, and partnering with other agencies to improve integration of CCCA6 climate science into relevant policies and investments.

In addition, an existing staff position at CNRA will be reclassified to allow hiring of a Research Data Specialist I to coordinate and administer a robust interagency research needs assessment and ensure efficient and effective integration of research results into state operations, policies, and programs.

CCCA6 Total Budget by Department
($ in millions)

Department	Category	Description	Total Amount
LCI	Regional and Statewide Reports	Regional and Statewide Reports	$2.4
	Tribal	Tribal Advisory Group (TAG) and Tribal Engagement	$0.5
	Climate Services	Data Resources, Tools, and Technical Assistance	$0.9
	Engagement and Public Outreach	Community Engagement and Public Outreach	$0.5
	Editing, Review, and Publication	External Editorial Board and Recruited Reviewers	$0.5
	General Administration	Program Implementation	$1.3
		LCI Total	**$6.1**
CEC	Tribal	Tribal Research Grant Program (TRGP)	$2.3
		CEC Total	**$2.3**
CNRA	Original Research	Original Research - Integrate Assessment Research and Data	$1.5
		CNRA Total	**$1.5**
		Total	**$9.9**

The proposal also includes funding for research grants, data resources, tools, and technical assistance, public outreach, as well as editing, review, and publication of the reports. Specifically, the administration proposes the $9.9 million to be spent on the following:

- **Regional and Statewide Reports (LCI) - $2.3 million.** This funding will be used to update the current CCCA5 regional framework to address outstanding research questions that are critical to informing local and statewide policy decisions. In lieu of funding multiple topically specific statewide reports in CCCA6, statewide issues of significance discussed across all regional reports and across the original research and data portfolio of CCCA6 will be synthesized and highlighted in a single Statewide Summary Report. The funds will support both research contracts and personnel support.

- **Tribal Advisory Group and Tribal Engagement (LCI) - $514,000.** Proposed funding provides baseline essential services to improve relations with sovereign Tribal Nations in California. This budget would maintain essential administrative staff support to coordinate Tribal engagement and continue Tribally led research, and ensure that the Assessment scoping and development processes are informed by Tribal advisors who will be contracted to uplift Tribal expertise, values and cultural protocols throughout CCCA6.

- **Climate Services, Data & Tools (LCI) - $901,000.** This funding request supports a continued climate services portfolio at LCI that meets the statutory requirement in SB 1320 to fund and develop decision-support tools that enable the application of research findings by planners, decision-makers, and other users, including organizations serving vulnerable communities. By formally connecting Climate Services to CCCA6, climate data and analytical tools developed through the Assessments can be more effectively shared, coordinated, and applied across agencies, regions, and sectors. The funds will go towards both a service-credit program that provides access to technical assistance and training resources on geospatial analysis, data management, application development, interactive mapping, and more as well as a geospatial platform used to host spatial datasets, maps, and web applications.

- **Engagement & Communications (LCI) - $514,000.** This funding will be used to implement core engagement processes that help the state determine CCCA6 research questions and priorities about climate change and ensure that CCCA6 resources are made available to a public audience.

- **Editing, Review & Publication (LCI) - $500,000.** To ensure the factual integrity and cohesive content and framing of the CCCA's broad portfolio of reports, recent CCCAs established Editorial Boards and recruited third-party reviewers in a review process analogous to a scientific journal. For CCCA5, this process supported editing for over 30 CCCA5 reports, including two Editorial Board Leadership roles as well as dozens of Associate Editors and Reviewers. For the first time, all these roles were compensated. CCCA6 will follow a similar model to support an external editorial board and provide other critical services such as document layout, design, translation, and Americans with Disabilities Act (ADA) compliance for all CCCA5 products and associated administrative staff support. This will maintain the factual integrity of CCCA6, continue the practice of reimbursing contributors for their work, and ensure accessibility of CCCA6 products.

- **General Administration (LCI) - $1.3 million.** CCCAs require significant matrixed coordination across state agencies, local governments, community organizations, research institutions, Tribal entities, contractors, and other expert groups. Ensuring a robust and coordinated CCCA6 approach also requires a deep review of literature, data analysis, and services to track, document and compile all relevant information in shared platforms. This request reflects staffing costs needed to manage the interagency coordination of the broader portfolio and includes costs to employ external expert consultants at critical steps in the portfolio development process.

- **Tribal Research Grant Program (TRGP) (CEC) - $2.3 million.** The CCCA6 TRGP will be jointly managed by LCI and CEC, with CEC administering $1.5 million in grant funding starting in 2027-28 and LCI advising the award structure and design. This interagency partnership builds upon the successful implementation of two rounds of Tribal research grant funding through the CCCA5 TRGP. The funds will support both tribal research grants and personnel support.

- **Original Climate Research (CNRA) - $1.5 million.** The funds requested will support original research contracts through CNRA that are foundational to the Assessment portfolio and address critical knowledge gaps across a wide array of sectors, climate impacts, and topics, as outlined in SB 1320. This request reduces the $6 million CCCA5 Core Climate Research Program budget administered by CNRA to a total request of $1.5 million. This request will allow the state to maintain a baseline portfolio of climate research focused on the most pertinent research gaps – which will be determined through interagency and external engagement and consultations.

LAO Comments. The budget proposes $9.9 million over five years from GGRF for the Governor's Office of Land Use and Climate Innovation, CNRA, and CEC to jointly produce CCCA6. This climate research is required by law to be completed every five years pursuant to SB 1320 and provides data and information that state agencies and local governments use to inform their planning and programmatic decisions. In light of policy changes at the federal level, CCCA6 could help fill in key climate knowledge gaps and relieve other state and local agencies of the task of producing their own data. The absence of such information could lead to inconsistent climate assumptions, plans, and policies across agencies. However, the Legislature could scale down some of the proposed elements, such as the amount dedicated to research grants. This approach would ease pressure on GGRF and, because of the flexibility around how that fund can be used, therefore free up more resources to potentially help the General Fund. A key trade-off of providing less funding is that the topical and geographic scope of the assessment would also be narrowed as a result. (The Legislature could also explore whether other resources, such as climate research funding that was previously provided to the University of California system, could help support this assessment.)

Staff Recommendation. Hold open.

ITEMS FOR PUBLIC COMMENT

3900 State Air Resources Board

Issue 8: Consolidated Administrative Operations

Governor's Proposal. The Governor's budget includes $995,000 ongoing from various special funds and six positions to support baseline operations of Personnel Transactions Section, the Workplace Investigations Unit, and the Vulnerability Management Program.

Background. In recent years, CARB has grown substantially—in 2020-21, the department was authorized for 1,483.7 positions and in 2026-27, the department is proposed to have authority for 2,092.9 positions. As a result, CARB requests additional resources for administrative operations commiserate with the program staff growth. Specifically, the department requires additional positions in the Personnel Transactions Section, the Workplace Investigations Unit, and the Vulnerability Management Program.

- CARB's Transactions Section is responsible for ensuring accurate and timely processing of payroll, benefits, and leave transactions for over 2,000 CARB employees. According to CARB, the increase in programmatic staff over the last several years has outpaced the administrative staff, resulting in persistent workload pressure, reliance on overtime, and limited capacity for proactive process improvement. CARB requests three positions to reduce process backlogs, eliminate the need for sustained overtime, and improve capacity to reduce risk of process errors, delayed employee pay, and compliance findings.

- CARB is seeking to establish an Internal Investigations Unit to carry out the following types of investigations: Workplace Violence Prevention Program (WVPP), work site inspections, standards of conduct, whistleblower, and other miscellaneous investigations that CARB is required to address. Currently, CARB has a piecemeal approach to workplace investigations, and no dedicated staff to investigate Standards of Conduct, Whistleblower, and other miscellaneous investigations. As the total number of CARB staff has grown, and staff are returning to office, the number of workplace complaints have increased in recent years. CARB requests two analyst positions to ensure complaints are investigated in a timely manner.

- CARB requests one position to address a growing backlog of software security patches across its enterprise and specialized scientific systems. Currently, many of CARB's systems are vulnerable to cybersecurity risks, such as ransomware, data breaches, and unauthorized access to sensitive regulatory, financial, and scientific data. CARB has one existing full-time staff to client patching, while another existing staff to dedicate a portion of their time to server patching. Despite these assignments, many systems remain unpatched due to the volume and diversity of applications and operating systems. As such, CARB requests one senior-level position to design and manage a scalable patching system to improve the department's vulnerabilities to cybersecurity risks.

Staff Recommendation. Hold open.

Issue 9: Remaining Settlement Funds from the Hino Motors, Ltd. Consent Decree

Governor's Proposal. The Governor's budget includes $72.4 million in 2026-27 and $11.6 million in 2027-28 and 2028-29 for one-time implementation costs related to certification, testing, enforcement, and other air pollution efforts and for reimbursement of costs CARB spent to enforce the underlying violations of the Hino Motors, Ltd. court-ordered Consent Decree (Hino settlement).

Background. In January 2025, the California Attorney General and CARB announced a $236.5 million settlement with Hino Motors, to address claims that Hino fraudulently obtained low emission vehicle subsidies from the State and allegedly violated California laws including the False Claims Act and Unfair Competition Law. Of the settlement amount, $111.8 million is required to be spent to mitigate harmful emissions of NOx in California and $20 million is required to reimburse the Clean Truck and Bus Voucher Incentive Project (HVIP). As a result, last year, the Legislature appropriated $132.2 million for HVIP from the Hino settlement monies. In addition, $10 million of the settlement funds went to reimburse the Attorney General's Office.

CARB is now requesting to appropriate the remainder of the funds: $95.6 million--$83.8 million for department operations, such as certification, testing, and futures enforcement and $11.8 million to reimburse CARB for costs already incurred and future costs to implement, monitor, and enforce the consent decree.

Specifically, CARB proposes to use the $83.8 million to continue existing compliance testing and analysis of engine manufacturers, create an enforcement unit that focuses on manufacturers' certifications of vehicles and engines, use of auxiliary emission control devices, and installation of potential defeat devices; support the work of additional laboratory and vehicle certification staff who support such investigations, obtain third-party contracts, training, procure equipment and vehicles that are necessary for additional investigations and settlements of complex enforcement cases; conduct roadside enforcement inspections of vehicles; extensive laboratory costs used to identify violations of CARB's emissions standards, research, and monitoring; and other CARB activities related to the control of air pollution.

As for the $11.8 million, CARB proposes to fund internal operations and costs of investigation, enforcement, and implementation, such as $4 million to reimburse CARB for costs in investigating and pursuing this case, as well as implementation of the Consent Decree until it is terminated (for 5 years); $1.9 million for the procurement of laboratory gases essential for calibrating emissions testing equipment; and $1.5 million for test fuels costs to operate test vehicles and equipment during emissions and compliance testing.

Staff Recommendation. Hold open.

Issue 10: Western Climate Initiative Contracting

Governor's Proposal. The Governor's budget includes a trailer bill language proposal to clarify that a contract with the Western Climate Initiative (WCI), Inc. is considered a membership contract, and not an information technology services contract.

Background. WCI is specified in statute as the contracted administrator of the Cap-and-Invest auctions. Historically, CARB's agreement with WCI, Inc. has been treated as a membership and governed by the state's Non-IT Terms and Conditions. More recently, these agreements have been classified as information technology services. According to the department, this IT procurement framework does not accurately reflect CARB's relationship with WCI, Inc., which focuses on program administration and intergovernmental collaboration rather than IT systems. As such, the department requests statutory language to clarify that for procurement purposes, contracts that support California's participation in WCI, Inc. are to be considered membership contracts and not information technology services contracts.

Staff Recommendation. Hold open.

Issue 11: Advanced Clean Fleets Implementation

Governor's Proposal. The Governor's budget includes $1.7 million from the APCF to implement the state and local government requirements of the Advanced Clean Fleets (ACF) regulation.

Background. Adopted in 2023, the ACF regulation set a pathway to phasing-in zero-emission medium- and heavy-duty vehicles into fleets to improve air quality and public health. In January 2025, CARB withdrew its request to the U.S. Environmental Protection Agency (U.S. EPA) for a waiver for the addition of the ACF regulation to its emissions control program. The state and local government fleets portion of the ACF regulation remain unaffected. In response to litigation, and to provide clarity to regulated entities, CARB staff agreed to present a proposal to repeal the high-priority fleet and drayage elements of ACF to the Board no later than October 31, 2025. CARB staff proposed and the Board approved this repeal in September 2025.

The ACF regulation accelerates the adoption of medium- and heavy-duty ZEVs with a gross vehicle weight rating greater than 8,500 lbs. in state and local government fleets. Reporting and recordkeeping requirements of state and local government elements of ACF began in December 2023 with ZEV purchase requirements for state and local government fleets starting in January 2024.

AB 1594 (Garcia, Chapter 585, Statutes of 2023) directed CARB to amend the ACF regulation to provide additional flexibility for public agency utilities when purchasing their traditional utility specialized vehicles necessary to maintain reliable service and respond to major foreseeable events. CARB made amendments to the ACF regulation in response to AB 1594 in two phases. First, under Section 100 of the Administrative Procedures Act, which allows for non-discretionary changes to be made through an expedited process, which defined a "public agency utility" and allowed the entire public agency utility fleet to get broader access to the Daily Usage Exemption.

The second phase of amendments were approved by CARB in September of 2025. During the second phase, CARB expanded access to several exemptions allowing the purchase of combustion engine vehicles when ZEVs are not available or do not meet the fleet's needs. CARB approved modifications that ease the entry to ZEVs for public fleets. This included extending the 50 percent ZEV purchase requirement by three years and delaying the 100 percent ZEV purchase requirement to 2030; extending the exemption for small fleets and designated low population counties until 2030; and ensuring all proposed compliance flexibilities apply to all government agencies, not only public agency utilities. These amendments will become effective before January 2027, and provide state and local government fleets additional compliance flexibility and streamlined processes for applying for exemptions.

ACF provides flexibility for SLG fleets to comply using one of two options: ZEV Purchase Schedule or the ZEV Milestones option. However, when a fleet owner cannot comply due to circumstances beyond their control, the regulation provides several provisions that grants fleets additional flexibility. These include exemptions to purchase an internal combustion vehicle if an available ZEV will not meet the fleet's needs, a daily usage exemption, backup vehicle exemption, emergency response exemption, mutual aid exemption, intermittent snow removal exemption, and non-repairable vehicle exemption. Additionally, ACF allows for SLG fleets to continue operating existing vehicles if there is a delay in delivery of the ZEV or if there is a delay in installing infrastructure. In September 2025, CARB adopted amendments to ACF that streamlined and eased use of several of these flexibilities in response to AB 1594.

CARB requests ten positions to implement the ACF regulation for SLG fleets—specifically, for reporting and compliance assistance, outreach, and processing exemption/extension applications. The 10 positions detailed above will generally work collaboratively across all three tasks, with some positions having more focus in one area or another. For example, the Air Resources Engineer's role will be focused on the tasks of reporting and compliance assistance and processing exemption/extension applications but will not have a significant role in outreach. The Air Pollution Specialist roles will have a significant focus in reporting and compliance assistance, though they will be involved in all three key lines of work. The Air Resources Technician I and II roles will similarly work across all three key lines of work but will have a focus in outreach. In addition, the Air Resources Supervisor I role includes tasks for management and supervision of the staff, while the Office Technician role includes many supporting administrative tasks.

- **Reporting and Compliance Assistance.** Reporting is mandatory for all state and local government fleets. Reported data is used to determine fleet compliance, target outreach efforts, inform future policy recommendations, assist with infrastructure deployment, and will be used to support enforcement. It is critical that state and local government fleets have assistance to report their fleet data accurately. The regulation is designed with compliance flexibility that accommodates the heterogeneous and fragmented nature of the typical truck manufacturing process. Staff supporting state and local government fleets must be trained to know how to support fleets that are complying using the default ZEV purchase schedule, as well as fleets choosing to comply using the optional ZEV milestone schedule. Staff also perform cross-checks to improve the accuracy of self-reported data, create and maintain online resources, and assist with enforcement cases.

- **Processing Extension and Exemption Applications.** ACF is designed with flexibilities to provide adequate lead time for planning, that allow for different purchasing scenarios and allow for SLG fleets to make purchasing decisions that meet the needs of the fleets while still deploying ZEVs where feasible. Additionally, ACF acknowledges the heterogeneous and fragmented nature of the typical truck manufacturing process that can create a complex and prolonged engagement with manufacturers. The exemptions and extensions are a critical element of ACF implementation. CARB currently has staff dedicated to processing applications for these safeguards, an entirely new and complex workload involving cross-agency collaboration and interaction with a broad range of stakeholders. Staff have 45 calendar days to process complete applications, or they are automatically approved. If CARB is unable to process the extensions and exemptions within the allotted timeframe, automatic approval of unwarranted extensions and exemptions will occur, ultimately reducing the effectiveness of the regulation. CARB expects that applications for these exemptions and extensions will increase as implementation is phased in.

- **Outreach.** Staff host in-person, virtual, and hybrid outreach events; conduct staff and fleet training; work closely with other program staff to address challenges and barriers; and create and maintain online resources. State and local governments fleets need extensive outreach during these initial compliance years and CARB is providing additional fleet assistance to handhold fleets through any issues they may face as they begin to buy and use heavy-duty ZEVs and combat misinformation. The existing outreach staff also provides education and awareness to fleets that explain the entire ZEV ecosystem, e.g., route planning, charging, incentive programs, etc. This work does not just support compliance with state and local government elements of ACF, but efforts by fleets that voluntarily choose to deploy ZEVs.

Staff Recommendation. Hold open.

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Issue 12: Public Advocates Office – Energy Modernization and Affordability (SB 254)

Governor's Proposal. The Governor's budget includes $400,000 from the Public Utilities Commission Public Advocates Office Account and two positions to implement SB 254 (Becker, Chapter 119, Statutes of 2025). SB 254 requires the California Public Utilities Commission (CPUC) to mandate each electrical corporation to retain a third-party review of the corporation's practices and procedures for energizing new customers and how the electrical corporation is planning for demand growth. This review is ongoing, and CPUC is required to establish an enforcement policy for meeting energization timelines that include penalties for failing to implement any remedial actions. In addition, SB 254 amends requirements regarding wildfire mitigation plans (WMPs) submitted to the Office of Energy Infrastructure Safety (Energy Safety) and Risk Assessment Mitigation Phase (RAMP) filings to the CPUC. As such, the Public Advocate's Office (PAO) requests two positions: one Public Utilities Regulatory Analyst (PURA) V position to address increased energization-related work and to focus on the new third-party auditing requirements as well as one PURA III position to support the alignment of WMP, RAMP, and General Rate Case proceedings at the CPUC and Energy Safety and to support the PAO role in cost recovery and securitization proceedings.

Staff Recommendation. Hold open.