AUGUST 12, 2026

Greenhouse Gas Reduction Fund: Updates and Key Issues for Legislative Consideration

PRESENTED TO:

Senate Budget Subcommittee No. 2 on Resources, Environmental Protection and Energy
Hon. Eloise Gómez Reyes, Chair

LEGISLATIVE ANALYST'S OFFICE

Updated Greenhouse Gas Reduction Fund (GGRF) Revenue Estimates for 2026-27

Department of Finance (DOF) Released Revised GGRF Revenue Estimates. In July 2026, DOF updated its 2026-27 GGRF revenue estimates to reflect the California Air Resources Board's (CARB's) recently revised cap-and-invest regulations. For 2026-27, DOF now estimates GGRF auction proceeds of $2.7 billion, down from $3.4 billion at May Revision. (The LAO has not produced its own GGRF revenue estimates.)

As Expected, DOF's Revised Revenue Estimates Reflect Lower GGRF Revenues. Lower revenues are driven by a smaller number of allowances anticipated to benefit GGRF under CARB's revised regulations. Two of the main reasons for this include:

- ***Size of the allowance "pie"*** is decreasing, as the overall cap is declining to meet state greenhouse gas reduction targets.
- ***Share of pie*** allocated to GGRF also is decreasing, as the portion provided to industry is increasing under the revised regulations.

GGRF in June Budget Agreement

June Budget Agreement Included Some GGRF Appropriations... For example, the enacted budget package approved $1.25 billion from GGRF to support operations at the California Department of Forestry and Fire Protection (achieving a like amount of General Fund savings, consistent with a prior-year budget agreement) and $115 million for a new zero-emission vehicle purchase incentive program.

...But Deferred Action on Other Decisions. The budget package did not take action on the following outstanding items:

- The administration's proposed budget trailer legislation to "clean up" Chapter 121 of 2025 (SB 840, Limón) or any other potential changes to SB 840.
- $250 million in discretionary Tier 2 funding, which could be used to support SB 840 intent items, supplement Tier 3 programs, or support other legislative priorities.
- $5 million for the administration's GGRF-funded state operations budget change proposals.
- Statutory language to establish a new Legislative Counsel Climate Bureau, consistent with intent language included in SB 840.

GGRF In June Budget Agreement

(Continued)

2026-27 Greenhouse Gas Reduction Fund Expenditure Plan

As of 2026 Budget Act, Assuming Department of Finance July 2026 Revenue Estimates (In Millions)

		Amounts
Estimated Funding From 2026-27 Auction Proceeds		**$2,731**
SB 840 Framework Expenditures		
Tier 1 Appropriations	Manufacturing tax exemption	$148
	State operations	110
	Placeholder for state operations budget change proposals[a]	5
	State Responsibility Area fee backfill	92
	Legislative Counsel Climate Bureau[b]	3
Subtotal, Tier 1		**$358**
Tier 2 Appropriations	High-Speed Rail Authority	$1,000
	CalFire General Fund backfill	750
	Placeholder for unallocated discretionary spending[a]	250
Subtotal, Tier 2		**$2,000**
Tier 3 Appropriations	Affordable housing (Up to $560M)	$105
	Transit and Intercity Rail Capital Program (Up to $400M)	75
	Community Air Protection Program (Up to $250M)[c]	47
	Sustainable Communities and Agricultural Land Conservation (Up to $240M)	45
	Low Carbon Transit Operations Program (Up to $200M)	38
	Healthy and resilient forests (Up to $200M)	38
	Safe & Affordable Drinking Water Program (Up to $130M)	24
Subtotal, Tier 3		**$372**
Total Estimated SB 840 Framework Expenditures		**$2,731**
Additional Available Funding		**$621**
	Beginning fund balance	$121
	Estimated interest earnings	500
Additional Discretionary Spending Outside of SB 840		
	Additional CalFire General Fund backfill	$500
	Zero-emission vehicle incentive funding	115
Total Additional Discretionary Spending Outside of SB 840		**$615**

[a] Not funded in the June budget agreement.

[b] Expenditures for the Legislative Counsel Climate Bureau are contingent on it being created in statute.

[c] Also received $150 million one-time General Fund in June budget package.

SB 840 = Chapter 121 of 2025 (SB 840, Limón) and CalFire = California Department of Fire and Forestry Protection.

Some Key Issues For Legislative Consideration

2026-27 GGRF Revenues and Tier 3 Funding Are Highly Uncertain. GGRF revenues are subject to considerable uncertainty. To the degree that GGRF revenues in 2026-27 are ultimately higher or lower than anticipated, the amount of funding for Tier 3 programs will differ from DOF's estimates.

GGRF Revenue Reductions Likely to be More Pronounced in Future Years. Absent a spike in allowance prices, the 2026-27 GGRF revenues may represent a "high water mark" compared to the coming years. The regulatory changes likely will put even more downward pressure on GGRF revenues in the future for reasons including:

- The new allowance budgets and allocations are anticipated to take effect in 2027 (halfway through the 2026-27 fiscal year).
- Some provisions of the regulations that could affect GGRF revenues—including putting offsets under the cap and the Manufacturing Decarbonization Incentive program—do not take effect until after 2026-27.
- The cap declines faster than allocations to industry and utilities, resulting in a smaller number of allowances left over for GGRF over time.

Given Changes Since SB 840 Adoption, Legislature May Want to Consider Revisiting Spending Plans. The Legislature may want to ensure that the framework for allocating GGRF—not just in 2026-27 but in future years as well—continues to reflect its highest priorities under different revenue scenarios, such as if revenues continue to decline.