

California State Assembly



Informational Hearing Agenda

Assembly Budget Subcommittee No. 4 on Climate Crisis, Resources, Energy, and Transportation

Assemblymember Steve Bennett, Chair

Wednesday, March 11, 2026
9:30 A.M. – State Capitol, Room 447

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Non-Presentation Items: Staff have suggested the following items do not receive a formal presentation from the Administration in order to focus time on the most substantial proposals. Members of the Subcommittee may ask questions or make comments on these proposals at the time designated by the Subchair or request a presentation by the Administration at the discretion of the Subchair. Members of the public are encouraged to provide public comment on these items at the designated time.

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Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the Subcommittee.

Votes on these proposals may be taken at a later hearing, likely April 15th.

Items To Be Heard

3900 California Air Resources Board

7600 California Department of Tax and Fee Administration

Issue 1: Sustainable Aviation Fuel Tax Credit Trailer Bill

The Governor's Budget proposes statutory authority to establish a tax credit for sustainable aviation fuel for diesel excise tax liability from November 1, 2027 through December 31, 2035.

The fuel would be produced from January 2026 through December 2035 and the tax would have a 5 year carry over period.

The per gallon tax credit would be between \$1 to \$2 per gallon depending on carbon intensity.

This language can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1365>.

Panel

- This panel will feature representatives from the California Air Resources Board, California Department of Tax and Fee Administration, the Department of Finance, Dr. Aaron Smith from the University of California, Berkeley, and the Legislative Analyst's Office.

LAO Comments

Summary

The Governor proposes budget trailer legislation to create a new tax credit against diesel excise tax liability to incentivize the use of sustainable aviation fuel (SAF) in California. The administration estimates this credit could reduce diesel excise tax liability by as much as \$165 million per year initially, then ultimately growing to \$300 million per year. In our assessment, the proposed tax credit is not a cost-effective approach to reducing greenhouse gas emissions (GHGs) and may result in lower than anticipated environmental benefits. Moreover, the implementation of the 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. In light of these concerns, we recommend the Legislature reject the Governor's proposed tax credit.

Background

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).

Governor’s Proposal

Provides Tax Credit for Producers of SAF. The Governor proposes budget trailer legislation that would create a new diesel excise tax credit for producers of SAF meeting at least a specified CI as calculated by CARB, with the goal of lowering the state’s GHG emissions by encouraging airlines to use more SAF instead of petroleum-based jet fuel. The credit would be worth \$1 to \$2 per gallon of SAF produced for use in California—higher for production that CARB determines to be less carbon intensive—and apply to production between January 2026 and December 2035 (though the credit could not be claimed by taxpayers until November 2027). Producers could only claim the credit if they also have diesel excise tax liability within the state—that is, if they also sell diesel fuel in California. However, the proposal allows for a carryover period wherein producers would be able to claim the credit on any diesel excise tax liability they incurred

over a five-year period after producing the SAF. The administration estimates the tax credit would lead to foregone diesel excise tax revenue of as much as \$165 million in 2027-28, potentially climbing to \$300 million annually in the long run.

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.

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.

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.

Academic Analysis

Professors and researchers at the Energy Institute at the Hass School of Business at the University of California Berkeley analyzed this proposal here:

<https://energyathaas.wordpress.com/2026/02/23/high-costs-and-few-benefits-from-californias-proposed-sustainable-aviation-fuel-tax-credit/>.

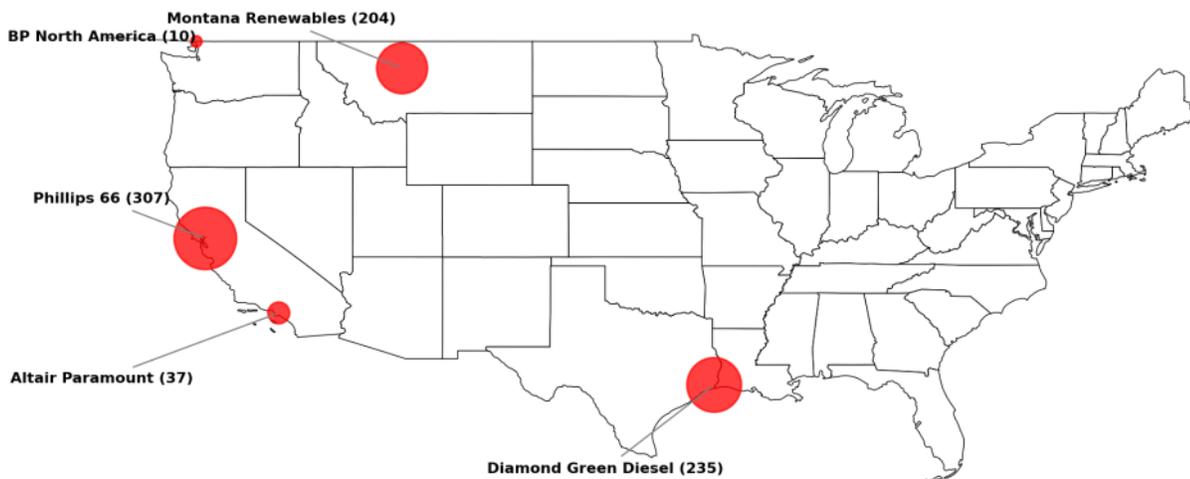
Their findings include:

1. “The tax credit will incentivize much more sustainable aviation fuel (SAF) than projected by the administration.
2. That increase in SAF comes at a cost: diesel excise tax receipts decrease by at least 20% and as much as 75% within a few years, and the prices of gasoline and diesel increase by 10-15 cents because of interactions with existing policies.
3. Because the SAF largely would come from diverting biofuels from surface transport to aviation, the net reductions in carbon emissions would be small and expensive.”

Where would SAF come from?

The easiest and most immediate way to scale up SAF production involves using the [hydroprocessed esters and fatty acids \(HEFA\)](#) process to convert vegetable oils and waste fats into fuel. Refiners in the United States currently produce three billion gallons of RD per year using this process. [At least six of these refineries](#) are already equipped to produce SAF alongside RD if given a sufficient financial incentive, including the [Phillips 66 refinery in Rodeo, CA](#) (see the map below).

HEFA SAF Facility Locations



Numbers represent capacity in millions of gallons per year. Not shown is the Par Pacific facility in Kapolei, HI, which has 41 million gallon capacity. Source: farmdoc daily, Jan 2025.

[As they wrote last fall](#), current policies will yield very little SAF because it costs at least three times as much to produce as petroleum jet fuel. Although SAF currently earns substantial incentives, including credits in the federal renewable fuel standard, low carbon fuel standard (LCFS) credits from California, and federal tax credits, it does not receive enough to make up for its higher production cost relative to fossil jet fuel. At the same time, RD costs somewhat less to produce than SAF, benefits from a more favorable subsidy stack, and faces a smaller price gap with petroleum diesel, while also competing with SAF for feedstocks and production capacity.

SAF produced at a carbon intensity at least 50% below that of jet fuel would be eligible for California's proposed tax credit, which is \$1 per gallon of SAF, plus 2 cents per gallon for each additional percentage point of reduction beyond this 50% threshold, up to a maximum \$2 per gallon. Based on CARB's existing carbon intensity models, the tax credit would apply to SAF produced from waste oils and fats such as used cooking oil, tallow, and distiller's corn oil. Crop-based oils such as soybean or canola oil would not qualify, which is a good thing given that increasing demand for these oils [causes substantial carbon losses through tropical deforestation](#).

The other viable way to produce SAF is [alcohol-to-jet \(ATJ\)](#), which involves refining ethanol or isobutanol made from corn or sugarcane into jet fuel. Although cost estimates vary, this production process is widely understood to be more expensive and nascent relative to HEFA SAF. [LanzaJet](#) owns the only ATJ plant currently operating in the United States. In addition, CARB's existing carbon intensity models imply that ATJ would face an additional hurdle to claiming the tax credit because it would likely need to integrate carbon capture and storage (CCS) to meet the 50% reduction threshold.

If the six current HEFA refineries that are equipped for SAF were to produce at maximum capacity, they would crank out [834 million gallons per year](#). At \$1.25 per gallon, that is \$1.04b in tax credits, or 65% of diesel excise tax receipts. Adding ATJ SAF would generate even more tax credits, as would more RD facilities retooling to produce SAF.

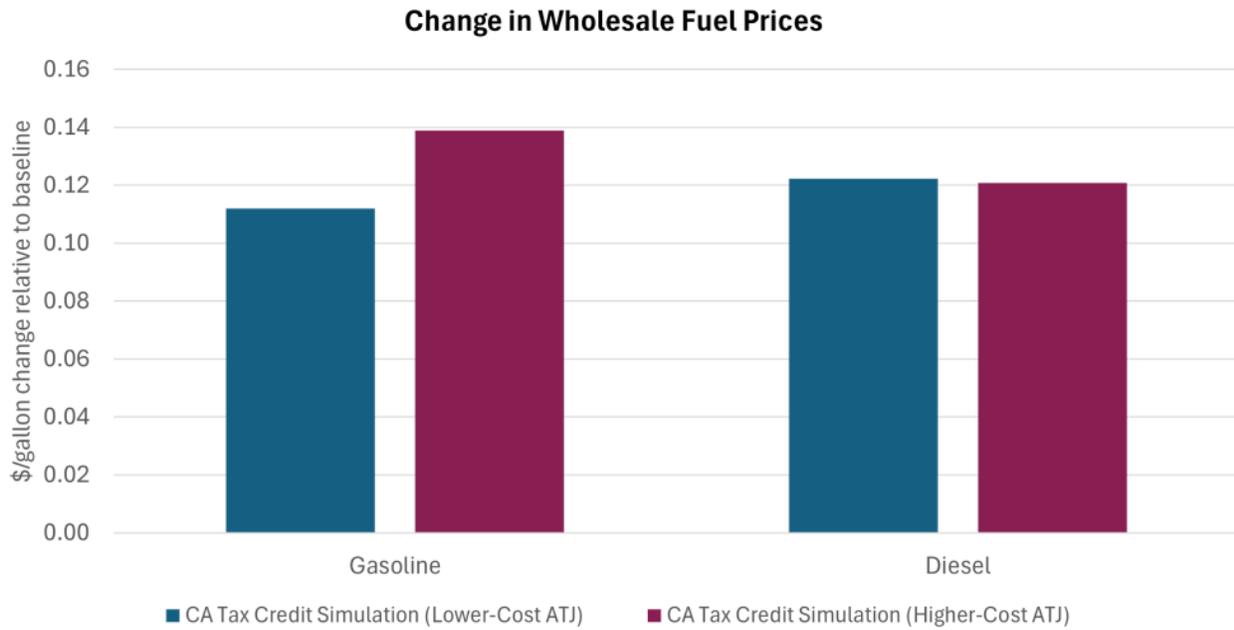
How would the SAF proposal change fuel prices?

As a result of this policy, we estimate that both gasoline and diesel prices would rise in California. Gasoline prices would increase by 11-14c and diesel prices by 12c. Californians use about 13 billion gallons of gasoline and 4 billion gallons of diesel per year, so these price increases imply that annual costs to consumers would rise by between \$1.9 and \$2.3 billion.

Fuel prices rise because of complex interactions between the tax credit and existing policies. In particular, California's low carbon fuel standard requires that every gallon of fossil gasoline and diesel be matched by some amount of cleaner (i.e., lower carbon intensity) fuel such as RD or SAF.

When California fuel suppliers reduce RD in favor of SAF, the lost RD has to be backfilled with fossil diesel to meet road transportation fuel demand. But, more fossil diesel means that more low-carbon fuel has to enter the system to meet the low carbon fuel standard goal. This is why

the tax credits cause a smaller decline in RD than the increase in SAF, as shown above. The additional required low-carbon fuels raise costs.



Staff Comments

This trailer bill was also heard in Subcommittee No.5 on March 3rd.

As the LAO notes, this tax credit will likely provide an additional subsidy to existing SAF production, and thus is unlikely to have net environmental or economic benefits to the State. This would result in a loss of transportation funding (which may reduce economic benefits to the State).

The Low Carbon Fuel Standard (LCFS) already provides per gallon subsidies of roughly \$0.30-\$0.50 per gallon. CARB estimates that this tax credit will provide an average subsidy of \$1.16 per gallon (if existing carbon intensities are maintained). This creates a duplicative subsidy worth 2.9x the existing value.

If this tax credit is successful in encouraging additional SAF production, it will have even larger reductions to transportation funding, but could have economic or environmental benefits to the State. However, there is a risk that this just moves SAF sales from other states to California, which means there are no net environmental benefits.

The estimated \$165-\$300 million per year (over 9-14 years) in transportation cuts will be to the following programs:

- 1) Caltrans’ State Highway Operation and Protection Program (SHOPP), which funds rehabilitation, reconstruction, and safety projects on the state highway system;

- 2) Cities and Counties for local streets and roads;
- 3) The Trade Corridor Enhancement Program that moves freight more efficiently. These projects increase the use of on-dock rail, improve safety by eliminating at-grade crossings, reduce impacts to surrounding communities, reduce border wait times, and increase rail capacity with double tracking.

Members of this subcommittee may wish to ask:

- **Is this fuel required to be refined in California or can it be imported from other jurisdictions?**
- **How will we ensure this will not result in leakage of emissions reductions from other states to California?**
- **How many companies will be eligible for SAF tax credit? How many companies currently would be eligible for this tax credit in California?**
- **What is the rationale for paying for this from the diesel excise tax? Were other funds considered?**
- **How will we ensure that this will not raise prices for gasoline or diesel?**
- **How will we ensure California refineries will not shift away from gasoline and diesel (or renewable diesel) to SAF, causing further reduction in refining capacity that could spike gasoline prices in the event of a refinery outage or turnaround when supply is constrained?**

If members of this subcommittee are interested in adopting this tax credit, they may want to establish a cap on the amount of funds per year or gallons produced (to limit reductions to transportation funding).

Additionally, stakeholders have suggested (as supported by the Haas analysis) that SAF produced from fuels made from lipids and all food/feed crops be excluded 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.

As of 3/5/26, staff have received the following support and opposition letters:

Support:

Air Liquide
Bayfront Chamber of Commerce
Boys and Girls Empowerment Group Inc
California Airports Council

Contra Costa and Construction Trades Council
Council of Business and Industries
East Bay Leadership Council
International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers, & Helpers
Rebuilding Together Solano County
Rodeo Youth Mentoring Program
State Building and Construction Trades Council of California
Superheat Advancing Heat Treatment
United Steelworkers Local 326

Opposition:

Americans for Affordable Clean Energy
Asian Pacific Environmental Network
Biofuel Watch
Boyett Petroleum
California Fuels and Convenience Alliance
California State Association of Counties
California Trucking Association
Earthjustice
League of California Cities
Love's
National Association of Convenience Stores
NATSO: Representing America's Travel Centers and Truck Stops
Pilot
Robinson Oil
SIGMA: America's Leading Fuel Marketers
Transportation California
Union of Concerned Scientists
Urban Counties of California
World Resources Institute

Staff Recommendation: Hold open.

**3900 California Air Resources Board
3360 California Energy Commission****Issue 2: Zero-Emission Vehicle Incentives Trailer Bill**

The Governor's Budget requests statutory language and \$200 million one-time in 2026-27 for a new light-duty passenger zero-emission vehicle (ZEV) incentive program to provide point-of-sale incentives for the purchase or lease of new and used light-duty passenger ZEVs.

This request proposes to reallocate \$166 million (\$81 million Greenhouse Gas Reduction Fund and \$85 million Air Pollution Control Fund) that was included in the 2025 Budget as a transfer to the Motor Vehicle Account (MVA) to offset CARB expenditures and support the MVA's solvency. The MVA is projected to be solvent in 2025-26 and 2026-27 without this transfer.

The trailer bill delegates most details of the new program up to the California Air Resources Board (CARB), except copying the Manufacturers Suggested Retail Price (MSRP) caps from the federal Inflation Reduction Act of 2022: \$55,000 for new passenger vehicles, \$80,000 for vans, SUVs, and pickup trucks, and \$25,000 for used vehicles.

The trailer bill will allow CARB to set up grant agreements directly with vehicle manufacturers and provides an exemption from the Administrative Procedure Act.

This proposal seeks to limit funds to first time ZEV buyers.

The trailer bill can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1367>

Background***Federal ZEV Tax Credit***

For ZEVs starting with model year 2010, the federal tax credit allowed credits of \$2,500 to \$7,500, depending on the size of the battery. Each automaker had a 200,000 vehicle cap, but once the cap was reached the rebate was halved quarterly until it was phased out. Multiple manufacturers phased out before the program was reformed in 2022.

The Inflation Reduction Act of 2022 renewed the federal income tax credit of up to \$7,500 for the lease or purchase of new clean vehicles. It repealed automaker caps. The new credit was split into two halves: \$3,750 for meeting critical mineral sourcing requirements and another \$3,750 for meeting battery component manufacturing standards. Some vehicles didn't qualify. It also had income caps and MSRP caps.

H.R. 1 repealed this tax credit effective October 1, 2025.

Additionally, federal law revoked California's Clean Air Act Waiver and federal regulations will likely weaken federal new vehicle emissions and fuel efficiency standards.

New Vehicles

For single filers, the limit was \$150,000. Head of household filers faced a \$225,000 cap, and married couples filing jointly capped at or below \$300,000. The MSRP could not exceed \$80,000 for SUVs, vans, and pickup trucks, or \$55,000 for sedans and other passenger cars. Final assembly had to occur in North America, and the battery had to have at least 7 kilowatt-hours of capacity. Starting in 2024, vehicles with battery components manufactured by a foreign entity of concern were disqualified, and starting in 2025, vehicles with critical minerals extracted or processed by such entities also lost eligibility. Those restrictions knocked a significant number of models off the eligible list in the credit's final year.

Many auto dealers claimed the credit allowing it to apply "on the hood" and ensuring the full value regardless of individual tax liability. Additionally, federal regulations encouraged leases since they have reduced requirements.

Used Vehicles

The used tax credit equaled 30% of the sale price, up to a maximum of \$4,000. The vehicle's sale price could not exceed \$25,000, and the model year had to be at least two years older than the calendar year of purchase. The sale had to go through a licensed dealer.

Income limits for the used credit were tighter. Single filers were capped at \$75,000, head of household filers at \$112,500, and joint filers at \$150,000

Source: <https://legalclarity.org/is-there-still-a-tax-credit-for-electric-cars-what-changed/>

California Vehicle Incentives

California previously incentivized purchases of new ZEVs via the Clean Vehicle Rebate Project (CVRP) and briefly with the Clean Fuel Rewards program.

Clean Vehicle Rebate Project (CVRP)

This program was started on December 1, 2009 and ended on November 8, 2023 with a total of \$1.6 billion invested on 586,000 vehicles; \$54 million of this was allocated to administrative costs.

The eligible vehicles and incentive amounts changed over time, but generally targeted new light duty ZEV vehicles, with occasional funding for motorcycles and commercial vehicles. CARB's definition of ZEV typically includes plug in hybrids, hydrogen vehicles, and electric vehicles.

42% of funding benefited priority populations and resulted in the following estimated emissions reductions: 8 million metric tons carbon dioxide equivalent (CO₂e) greenhouse gas (GHG) reductions, 6,800 tons of oxides of nitrogen (NO_x) reductions, 380 tons of particulate matter (PM) reductions, and 2,500 tons of hydrocarbon (HC) and reactive organic gases (ROG) reductions.

Over the program’s history, income caps, MSRP caps, and higher rebates for lower income customers were implemented and rebate values changed as certain market segments advanced.

At the conclusion of the program, the following limitations existed:

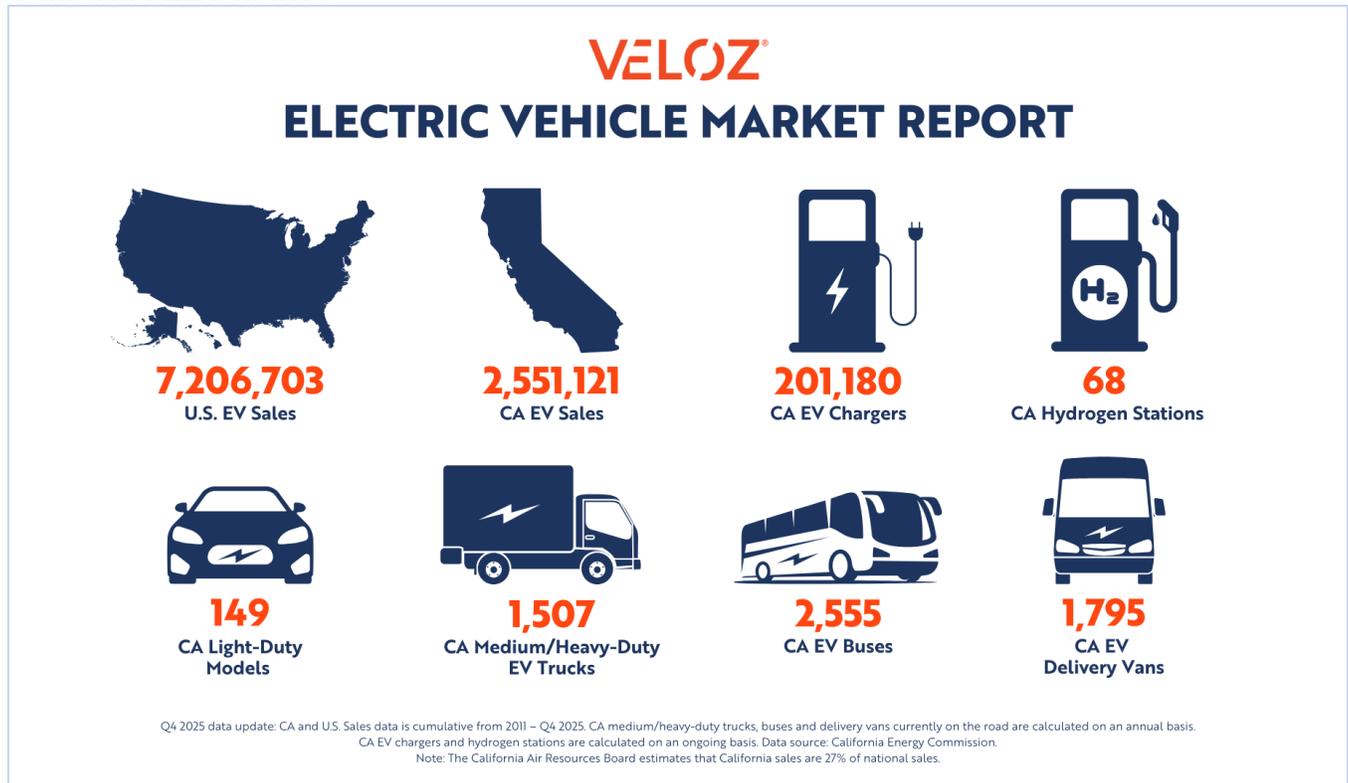
- 1) Rebate levels:
 - a. Standard Rebates- Electric Vehicles \$2,000, Hydrogen \$4,500, and Plug-In Hybrids \$1,000.
 - b. Low Income Rebates- Electric Vehicles \$7,500, Hydrogen \$7,500, and Plug-In Hybrids \$6,500.
- 2) Income: \$135,000 for single filers, \$175,000 for head of household, and \$200,000 for joint filers.
- 3) Base MSRP:
 - a. \$60,000 for vehicles for minivans, pickups, and SUVs.
 - b. \$45,000 for sedans, wagons, hatchbacks, and two-seaters.

Additionally, the Budget Act of 2021 appropriated \$515 million for CARB to implement a sustainable phase down of the program by lowering incentives. CARB never implemented the changes.

Clean Fuel Rewards

Under the Low Carbon Fuel Standard (LCFS), charging can earn credits. The Clean Fuel Rewards program funded by LCFS revenue from electric distribution utility companies statewide provided an “on the hood” rebate for EVs at participating dealerships without income and MSRP caps. The program launched in 2021 with a \$1,500 incentive. This was quickly reduced to \$750 in late 2021, and in September 2022 was eliminated. In December 2023, the program was changed to focus on medium and heavy-duty vehicles. The light duty program provided an average rebate of \$1,080 for a total of \$417.5 million and 387,108 vehicles subsidized.

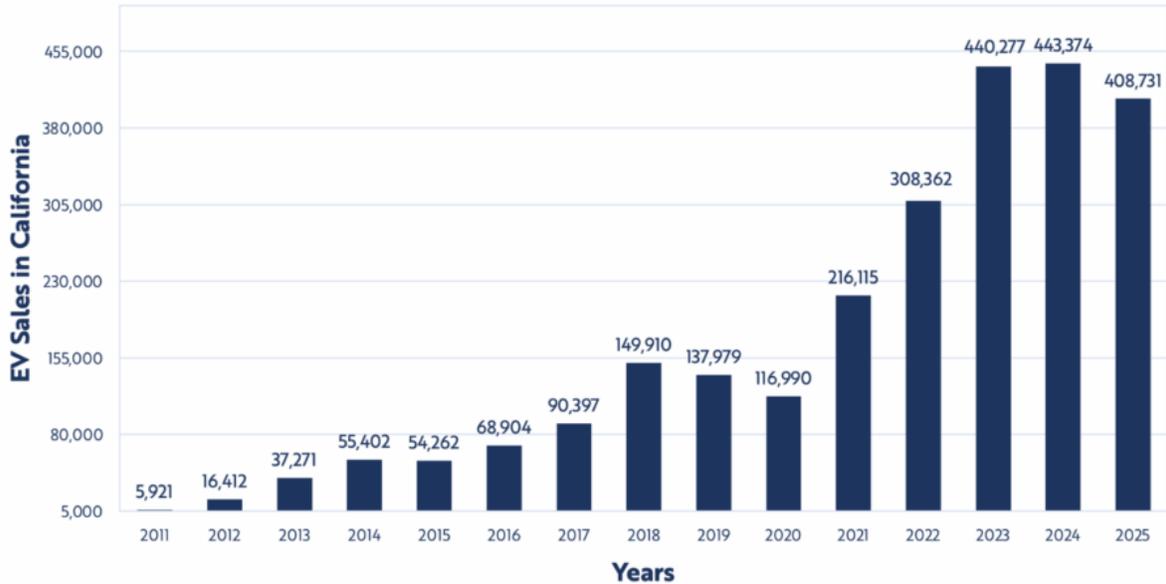
California ZEV Market



CEC’s AB 2127 report shows EV charging infrastructure needs of 1.01 million chargers (including 39,000 direct-current fast chargers) to support 7.1 million light-duty plug-in electric vehicles in 2030. Source: <https://www.energy.ca.gov/publications/2024/assembly-bill-2127-second-electric-vehicle-charging-infrastructure-assessment>.



Annual Electric Vehicle Sales in California



Data source: California Energy Commission Light-Duty ZEV Sales Data (January 2026). Quarterly data is subject to updates.

Q4 2025 data update.



Quarterly Electric Vehicle Sales in California



Data source: California Energy Commission Light-Duty ZEV Sales Data (January 2026). Quarterly data is subject to updates.

Q4 2025 data update.

Panel

This panel will feature representatives from the California Air Resources Board, the California Energy Commission, the Department of Finance, and the Legislative Analyst's Office.

LAO Comments**Summary**

The Governor proposes a cumulative total of \$200 million from the Greenhouse Gas Reduction Fund (GGRF) and the Air Pollution Control Fund (APCF), and associated budget trailer legislation, to create a new point-of-sale incentive program for light-duty zero-emission vehicles (ZEVs). The proposed new program aims to incentivize ZEV adoption by lowering the vehicles' purchase price. Given other existing state programs aimed at reducing greenhouse gases (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 proposal is impossible given the lack of details on the program's structure, the limited and one-time nature of the proposed funding makes it unlikely to have large effects on the marketplace or 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. In light of these factors and the constrained state budget condition, we recommend the Legislature reject the proposal.

Background

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 (NO_x) 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 NO_x 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.

Governor's Proposal

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.

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.

Recommendation

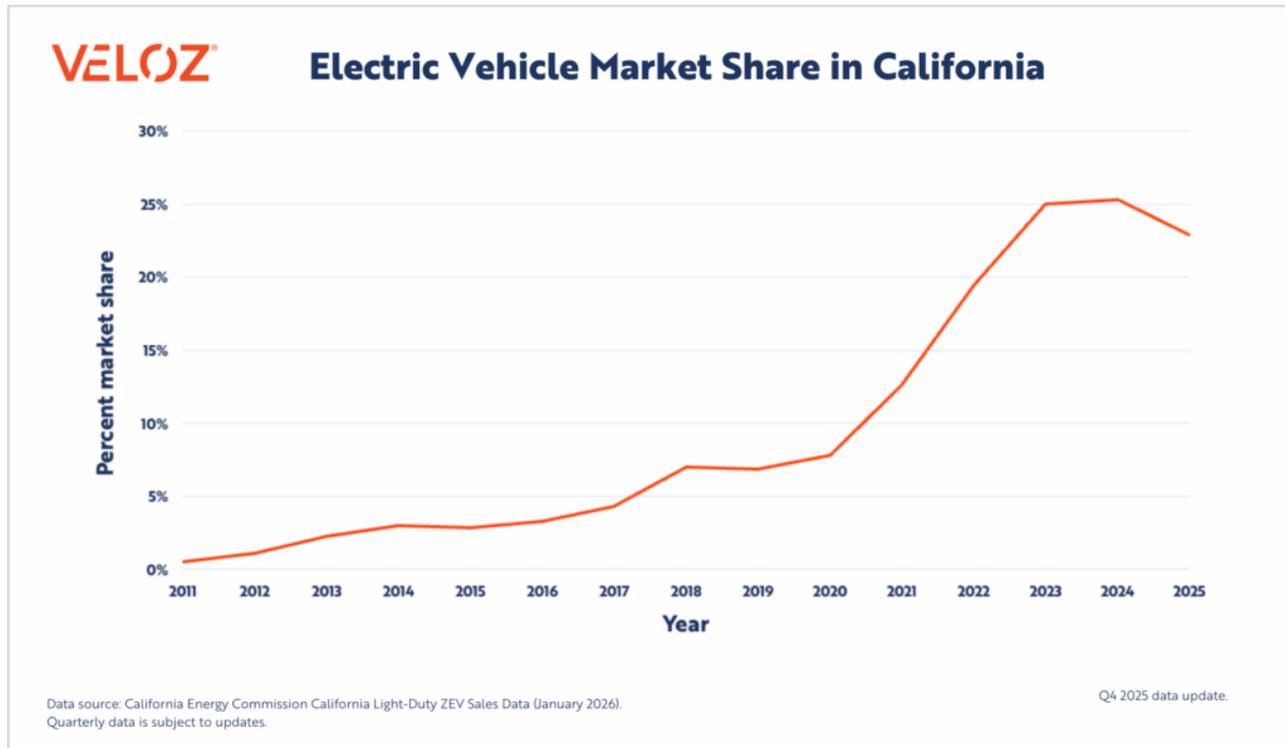
Reject Proposal. We recommend the Legislature reject the Governor’s proposal to create a new light-duty ZEV incentive program, as it does not meet the high bar we recommend applying to new proposals. Particularly in light of other existing state programs aimed at reducing GHGs and transitioning the state 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

Staff notes that California funded incentives for new zero-emission vehicle purchases for roughly 14 years and sunset the programs after incentivizing roughly 973,000 vehicles (some of these may be vehicles that collected two incentives) with \$2 billion. The programs were criticized as subsidizing high-income Californians who would likely purchase the vehicles without the incentives, resulting in the Legislature submitting an audit by the California State Auditor. Which can be found here: <https://information.auditor.ca.gov/reports/2020-114/index.html>.

As ZEV adoption grew, the programs grew more costly and took a larger share of environmental dollars. The programs would frequently pause due to lack of funds, program criteria would be narrowed, and the Legislature would fund rebates for cars that were already purchased. Towards the tail end of CVRP, roughly half the cars sold in California were receiving a CVRP rebate. Research before the programs were wound down estimated that once the market reached 17% ZEV adoption it would be considered self-sustaining and market rate incentives would no longer be needed. California reached the 17% target before the programs ramped down in 2023, but the Advanced Clean Cars regulations were in effect then. However, staff notes that California adopted the mandate for 100% new ZEV sales by 2035 before the federal tax credit was revamped and after the State knew it would wind down new vehicle incentives.

The following chart shows market share over time, peaking at 25.5% in 2023-2024 and declining in 2025 to 24.4%.



The federal government has attacked California's ability to mandate ZEVs and encourage sales via carpool stickers. While the federal government repealed federal tax incentives for these vehicles, demand still exists. Automakers will not close all their factories overnight. ZEVs will still be made. Previously CVRP was unable to change manufactures decisions, as evidenced by a large manufacturer raising their MSRP above the limit and losing out on the rebate. The value of California incentivizing these vehicles comes down to a few important questions that members may want to opine on:

- Will a one-time \$200 million incentive increase the manufacture of ZEVs, or will it just shift sales from other states to California?
- Is demand for light duty ZEVs self-sustaining?
- Was the demand drop in the 4th quarter of 2025 permanent or was there just a surge of purchases to capture the federal tax credit in Q3 and sales will eventually even out and rebound?
- Will this \$200 million divided among manufacturers help keep ZEV only manufacturers that may have opened as a result of our mandates from closing? Will these dollars be targeted at California companies that did what our State encouraged them to?
- Is \$200 million for light duty ZEVs the best value of limited dollars? Would these funds be better spent on medium and heavy-duty ZEVs whose market demand is more nascent and replaces more polluting diesel? Would these funds be better spent on ZEV

infrastructure or helping low-income Californians replace older, more polluting cars with ZEVs?

Staff notes that MSRP is not the price that consumers pay. For example, in searching electric vehicle prices, manufacturers are currently offering discounts despite the lack of California or federal incentives: Toyota bZ offers \$5,000 for purchase and \$7,000 lease, Hyundai Ionic 5 and 9 up to \$10,000 for purchase, Kia EV6 up to \$11,500 and Ford up to \$3,000.

Additionally, the federal government recently created an annual tax credit of up to a \$10,000 on the interest of loans for new vehicles as long as they're less than 14,000 pounds and assembled in the United States. It covers purchases made in 2025 through 2028.

Staff appreciates the focus on new ZEV buyers as research shows that once someone purchases a zero-emission vehicle they are unlikely to go back to fossil fuel vehicles. However, staff notes that auto manufacturers will not have access to confidential Department of Motor Vehicles ownership data and will likely have buyer's self-attest. Buyers might have another ZEV in the household but self-attest to take advantage of this incentive.

Additionally, while a used incentive helps address equity concerns, the State may be double paying for incentives on the same vehicle. The vehicle may have already received CVRP, Clean Fuel Rewards, Clean Cars for All, etc. Additionally, some manufacturers do not sell used cars so they may be excluded. However, used rebates may help keep vehicles in California.

Members of this subcommittee may wish to eliminate the used incentivize entirely, prohibit stacking with other State incentives, add income caps, add disadvantaged community residency requirements, or require used vehicle incentives be for air districts with Severe non-attainment with federal standards to maximize public health benefits.

Staff believes that the proposal is premature as CARB is unable to provide specifics on how the program will operate. CARB states that they would like to hold a public process to hammer out these details.

Staff believes, and members of this subcommittee may want to opine, that CARB should expeditiously hold the public workshop to shape the proposal before the Legislature approves funding. Staff encourages members to state their desired program design in this subcommittee.

Staff notes that this incentive will likely be much more generous than what California provided under CVRP despite ZEV sales increasing since then. **Members may wish to encourage incentive caps, income caps, etc.**

Staff also notes that multiple ZEV only manufacturers that make long range vehicles and larger SUVs and trucks that will not benefit from this incentive due to the MSRP caps. **Members may want to consider increasing MSRP caps for ZEV only manufacturers.**

Members my want to ask:

- **How will CARB divide these funds between manufacturers?**
- **What will the rebate amount be?**
- **How many rebates will this fund?**
- **Why does the administration not propose any new funding for ZEV infrastructure (above AB 126), medium and heavy-duty incentives, or Clean Cars for All (which is expected to run out of funding before this fiscal year ends)?**

Staff Recommendation: Hold open.

Issue 3: Bi-directional Electric Vehicle Charging BCP and Trailer Bill

The Governor’s Budget requests \$1.1 million in limited-term funding in 2026-27 and 2027-28 from the Air Pollution Control Fund (APCF) and statutory authority to change the implementing agency for SB 59 (Skinner, 2024) on bi-directional charging from the California Energy Commission to the California Air Resources Board (CARB).

This language can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1368>.

Panel

This panel will feature representatives from the California Air Resources Board, the California Energy Commission, the Department of Finance, and the Legislative Analyst’s Office.

Staff Comments

This trailer bill reverses amendments taken in the Assembly Appropriations Committee.

This fiscal estimate is roughly 2.5 times the original cost in Appropriations due to an expedited implementation timeline not originally planned by CARB.

Generally, the Energy Commission has jurisdiction over charging infrastructure and the Air Resources Board has jurisdiction over vehicles.

The administration states the intent of this proposal is to reduce potentially overlapping regulations at the two agencies.

While litigation is pending, the federal government has repealed CARB’s ability to set vehicle standards above the federal government.

Staff Recommendation: Hold open.

Various

Issue 4: Greenhouse Gas Reduction Fund Overview

The Governor’s Budget requests to appropriate roughly \$1.624 billion in discretionary GGRF and requests ongoing state operations increases (outlined below).

2026-27 Cap-and-Invest Expenditure Plan		
<i>(Dollars in Millions)</i>		
Beginning Fund Balance		\$250
Revenues	Estimated Auction Proceeds ^{1/}	\$3,770
	Estimated Total Resources Available	\$4,020
Tier 1 Appropriations	Manufacturing Tax Credit	\$159
	State Operations	\$120
	State Responsibility Area Fee Backfill	\$88
	Legislative Counsel Climate Bureau	\$3
Net Revenues Available for Tier 2 and Tier 3		\$3,400
Tier 2 Appropriations	High Speed Rail Authority	\$1,000
	<i>\$1 billion reserved for discretionary appropriations:</i>	
	- CAL FIRE General Fund Backfill ^{2/}	\$750
	- SB 840 Commitments	\$250
	- Remaining Available Tier 2 Discretionary Funding	\$0
Net Revenues Available for Tier 3		\$1,400
Tier 3 Continuous Appropriations	Affordable Housing (Up to \$560M) ^{3/}	\$396
	Transit and Intercity Rail Capital Program (Up to \$400M)	\$283
	Community Air Protection (Up to \$250M)	\$177
	Sustainable Communities and Agricultural Land Conservation (Up to \$240M) ^{3/}	\$170
	Low Carbon Transit Operations Program (Up to \$200M)	\$141
	Healthy and Resilient Forests (Up to \$200M)	\$141
	Safe & Affordable Drinking Water Program (Up to \$130M)	\$92
	Total (Up to \$1.98 billion)	\$1,400
Additional Revenues	Estimated Interest Earnings	\$500
Remaining Revenues for Discretionary Appropriations		\$500

Additional Discretionary Funding	Additional Discretionary - Remaining CAL FIRE General Fund Backfill	\$500
	Zero-emission Vehicle Incentive Funding ^{4/}	\$115
	Total	\$615

Panel

This panel will feature representatives from the California Air Resources Board, the Department of Finance, and the Legislative Analyst’s Office.

Background

GGRF Auction Proceeds

Average proceeds are roughly \$4 billion a year, so \$1 billion average per auction.

- FY 2023-2024 \$5,132,709,364.83 (\$5.1 billion)
- FY 2024-2025 \$3,379,368,257.32 (\$3.3 billion)
- Q3 2025 (August) \$841,229,449.02 (\$841 million)
- Q4 2025 (November) \$844,193,201.34 (\$844 million)
- Q1 2026 (February) (\$919 million)

State Operations

Greenhouse Gas Reduction Fund (3228) State Operations at 2026 Governor's Budget

Name	BU	2025-26	2026-27
Land Use and Climate Innovation (LCI)	BU 0650	-\$	355,000\$
<i>2026-27 Governor's Budget: LCI - California's Sixth Climate Change Assessment</i>	<i>BU 0650</i>	<i>-\$</i>	<i>(355,000)</i>
Office of Emergency Services	BU 0690	1,285,000	1,287,000
California Conservation Corps (CCC)	BU 3340	8,382,000	8,477,000
CalFire	BU 3540	9,646,000	9,900,00
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
<i>2026-27 Governor's Budget: CARB AB 617 Community Air Monitoring Updates (SB 352)</i>	<i>BU 3900</i>	<i>-\$</i>	<i>(1,602,000)</i>
<i>2026-27 Governor's Budget: CARB Cap-and-Invest Implementation (SB 840 and AB 1207)</i>	<i>BU 3900</i>	<i>-\$</i>	<i>(871,000)</i>
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
<i>2026-27 Governor's Budget: CPUC Cap-and-Invest Implementation (AB 1207)</i>	<i>BU 8660</i>	<i>-\$</i>	<i>(2,149,000)</i>
Pro Rata	BU 9900	\$ 39,699,000	33,597,000
Total		\$ 114,902,000	\$ 114,702,000

Cuts to Discretionary Funding

The following discretionary expenditures previously adopted for the next three fiscal years are cut as a result of the CalFIRE operations fund shift:

Program	Department	2026-27	2027-28	2028-29
ZEV fueling infrastructure grants (ZEV)	CEC	—	\$99	—
Fire prevention grants (Wildfire)	CalFire	—	42	—
Ocean protection activities (Coastal)	OPC	37	—	—
Equitable Building Decarbonization (Energy)	CEC	—	93	—
Climate Action Corps (Community Resilience)	OPR	9	9	—
ZEV programs (ZEV)	CEC	299	387	—
ZEV programs (ZEV)	CARB	301	213	—
Distributed Electricity Backup Assets (Energy)	CEC	180	—	—
Oroville pump storage (Energy)	DWR	100	100	—
SWEEP (Water)	CDFA	21	—	—
Environmental justice grants (Community Resilience)	CalEPA	5	—	—
Unit fire prevention projects (Wildfire)	CalFire	—	26	—
Regional Forest and Fire Capacity (Wildfire)	DOC	—	20	—
Competitive and formula-based TIRCP (SB 125)	CalSTA	\$20	—	—
Vulnerable community toxic cleanup	DTSC	43	—	—
Diablo Canyon land conservation (SB 846)	Various	50	\$50	—
Clean Energy Reliability Investment Plan (SB 846)	CEC	150	50	\$650
Highways to Boulevards	Caltrans	50	—	—
Oil well plug/abandonment	DOC	50	—	—
Zero Emission Transit Capital Program (SB 125)	CalSTA	230	460	—
Community Solar	CPUC	—	—	25
Totals		\$1,544	\$1,549	\$675

LAO Comments**Summary**

2026-27 Greenhouse Gas Reduction Fund (GGRF) Expenditure Plan Implements New Allocation Methodology. The Governor’s 2026-27 budget proposal is the first since the passage of Chapter 117 (AB 1207, Irwin) and Chapter 121 (SB 840, Limón). Together, these bills extended the cap-and-invest program and modified the methodology for allocating the associated GGRF revenues, including creating new allocation “tiers.”

Expenditure Plan Allocates Discretionary Revenues to Various Activities. In its 2026-27 GGRF expenditure plan, the administration proposes to allocate a total of over \$1.6 billion to discretionary activities, including: (1) \$1.25 billion to backfill California Department of Forestry and Fire Protection (CalFire) costs that otherwise would be paid by the General Fund, (2) \$250 million for activities specified in intent language in SB 840, and (3) \$115 million to create a new light-duty zero-emission vehicle (ZEV) incentive program. The administration does not anticipate GGRF will have adequate revenues to support the full amounts identified in SB 840 for certain programs.

Proposed Activities Generally Reflect Recent Agreements, With Addition of New ZEV Program. We find that the administration’s proposal to support the CalFire backfill and SB 840 intent items is consistent with recent legislative guidance. Notably, however, the administration chooses not to support any of the programs that were anticipated to receive out-year monies in the 2024-25 GGRF expenditure plan, including some funds that the state has already awarded to local transit agencies. Failing to provide these transit funds could have negative implications, such as on agencies’ financial positions and ability to draw down federal grant funds. Instead, the Governor prioritizes providing GGRF to support the creation of an entirely new ZEV program.

Given General Fund Condition, Recommend Directing GGRF to Highest Priorities Across Budget. In a typical year, trying to maintain existing funding commitments makes sense. However, in light of the state’s alarming multiyear budget deficits, we recommend the Legislature use GGRF as an important tool to help it fund its highest funding priorities across the entire state budget. This will necessitate reexamining existing GGRF commitments—both discretionary and statutory—to make sure they continue to reflect the Legislature’s highest priorities, and making 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 support. We also recommend the Legislature apply a very high bar to its review of new spending proposals, whether from the General Fund or GGRF. Consistent with this guidance, we recommend rejecting the Governor’s proposal to fund a new ZEV incentive program.

Consider Whether Proposed Statutory Changes Are Consistent With Legislative Intent. The administration proposes budget trailer legislation to codify its view that the SB 840 allocation methodology is only intended to apply to auction revenues (not interest income or any entering fund balance). The choice of which funds to include in the SB 840 methodology has important implications for the level of support programs receive under

this new structure. Accordingly, we recommend the Legislature consider whether the proposed statutory changes conform to its intent.

Background

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	<ul style="list-style-type: none"> Roughly \$160 million
State operations ^a	Various	<ul style="list-style-type: none"> Roughly \$120 million
State Responsibility Area fee backfill	CalFire	<ul style="list-style-type: none"> Roughly \$90 million
Legislative Counsel Climate Bureau	Legislative Counsel	<ul style="list-style-type: none"> \$3 million
Tier 2: Then second to the following programs:		

High-speed rail project	HSRA	<ul style="list-style-type: none"> \$1 billion
Unspecified programs subject to appropriation ^b	Various	<ul style="list-style-type: none"> \$1 billion
Tier 3: Then third, if funding is available, to the following programs^c:		
Affordable Housing and Sustainable Communities Program ^d	SGC	<ul style="list-style-type: none"> \$800 million
TIRCP	CalSTA	<ul style="list-style-type: none"> \$400 million
Community Air Protection Program—AB 617	CARB	<ul style="list-style-type: none"> \$250 million
Low Carbon Transit Operations Program	Caltrans	<ul style="list-style-type: none"> \$200 million
Wildfire and forest resilience—SB 901	CalFire	<ul style="list-style-type: none"> \$200 million
Safe and Affordable Drinking Water Program	SWRCB	<ul style="list-style-type: none"> \$130 million

Tier 4: Then fourth, remaining funding is subject to legislative appropriation for discretionary purposes.

^aSB 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.

^bSB 840 included intent language for spending some of this funding in 2026-27.

^cSB 840 requires the Department of Finance to proportionately reduce the amounts for these programs if funding is insufficient to fully support them.

^dThe 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 Resources 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](#).)

Governor’s Proposal

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
^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.	

‘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
<p>^aRevenue 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.</p> <p>^bTier 3 amounts reflect proportional reductions to statutorily-defined amounts based on projected revenues, pursuant to the SB 840 methodology.</p> <p>^cThe Governor proposes budget trailer legislation to divide the Affordable Housing and Sustainable Communities funding into two separate programs.</p>				
<p>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).</p>				

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.)

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 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 our publication, *The 2026-27 Budget: California Public Utilities Commission’s Implementation of AB 1207.*)

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

Staff notes that GGRF revenue is uncertain. The state is still in the process of adopting regulations and transitioning to the new funding framework, which may cause temporary hiccups. Revenue for the 2025-26 fiscal year (that was appropriated last year) won’t be known until late May 2026. Revenue for the 2026-27 fiscal year that is proposed in this item will not be

known until likely late May 2027. It is premature to worry about future revenue projections, and staff recommends focusing on program structure and discretionary appropriations.

Additionally, the old funding framework “self-corrected” since the continuous appropriations were percentages, flat amounts were typically funded first (off the top), and discretionary revenues and interest were last, so the Legislature’s funding ability fluctuated. Discretionary appropriations were still made a year in advance of final revenue numbers, so departments were only allowed to commit 75% of appropriated funds until the final quarterly auction. Now the Tier 3 continuous appropriations will bear the brunt of this revenue uncertainty.

Staff notes that the Administration seems to propose changing the program structure (further outlined in Issue 5) to prioritize their funding priorities first, in violation of the Legislative intent (and direct statute of SB 840 and the 2025 Budget Act). This includes setting interest proceeds apart from revenue so it can be spent separately/first and shifting state operations (staffing costs) to Tier 1 instead of Tier 3. This results in the \$1.25 billion CalFire operations fund shift being fully funded first regardless of GGRF Auction revenue, instead of with a General Fund backfill as intended in the 2025 Budget Act.

Staff also notes the 2025 Budget Act agreement to backfill CalFire operations would be reduced to \$500 million in 2026-27 if the General Fund is not projected to be in a deficit.

Members should opine if they have priorities for GGRF dollars (that may supersede their desire to fund the programs proposed by the Administration).

Staff notes that this funding plan cuts the following categories that this subcommittee has prioritized in prior years:

- \$250 million that was committed to transit agencies under SB 125 this year and \$460 million next year.
- \$1.3 billion for a suite of zero-emission vehicle programs, with \$600 million slated for this year.
- \$950 million for clean energy and land conservation in SB 846 that extended the Diablo Canyon nuclear power plant until 2030. \$200 million was slated for this year.

Staff notes the intent language in SB 840 (2025) identified funding the following new one-time programs in 2026-27. Besides the Topanga Park item, many would need additional guidance, like a state agency to implement the funds and budget bill language or trailer bill language outlining how the funds should be spent. **Members should opine how they would like these funds spent.**

- \$125 million for transit passes.
- \$85 million for an entity chosen by the Legislature to support climate-focused technological innovation, related research, and the deployment of climate solutions identified in the scoping plan prepared pursuant to Section 38561.
- \$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).

Staff notes that the funding for Topanga Park could be funded with Prop 4 funds if this subcommittee would like to free up additional GGRF dollars which are more flexible. Additionally, up to \$10 million for seed funding for a University of California Climate Research Center could potentially be shifted to Prop 4 if it is for capital expenses.

For the free transit passes, this is already an eligible expense under the Transit and Intercity Rail Capital Program (TIRCP). **Members of this subcommittee may wish to direct these funds to students or other categories of riders or routes they would like to subsidize.** Alternatively, members of this subcommittee may wish to direct these funds to one-time improvements that may enhance the transit experience, as funding transit passes creates ongoing cost pressures that the State (or struggling transit agencies) could be expected to pay for. For example, one transit agency mentioned that they expect \$60,000 from the program, but when they offered free transit to students for two months it cost the agency \$88,000 in lost revenue. One-time funds could be allocated to getting all transit agencies on real time bus tracking, traffic light synchronization, or bus only lane planning/ construction.

Staff Recommendation: Hold open.

Issue 5: Greenhouse Gas Reduction Fund Clean-up Trailer Bill

The Governor's Budget requests statutory authority to amend SB 840 (2025) regarding Cap and Invest expenditures. These include:

- Moves state operations from Tier 3 to Tier 1, with totals at the discretion of the Department of Finance.
- Excludes interest revenue from the Tiered expenditure calculations.
- Bifurcates the \$800 million for Affordable Housing and Sustainable Communities Program as follows: up to \$560 million to the Housing Development and Finance Committee for the Housing Allocation and up to \$240 million to the Strategic Growth Council for the Sustainable Communities Allocation.
- Provide flexibility to CalFire for allocation of the up to \$200 million for forest health, fire prevention, and fuel reduction programs and projects by removing fixed percentage amounts for the specified activities.
- Authorize the Department of Transportation to provide administrative support for Transit and Intercity Rail Capital Program (TIRCP) and Low Carbon Transit Operations Program (LCTOP) consistent with the current administration of both programs.
- Clarify that the Low Carbon Transit Operations Program is administered through the State Transit Assistance business unit instead of the Transportation Agency.
- Authorizes funding of state operations costs from the \$1 billion allocated to the High-Speed Rail Authority.
- Make cross-references to other statutes to allow departments to expend the new continuous appropriations according to section 39719.4 of the Health and Safety Code.

This language can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1364>.

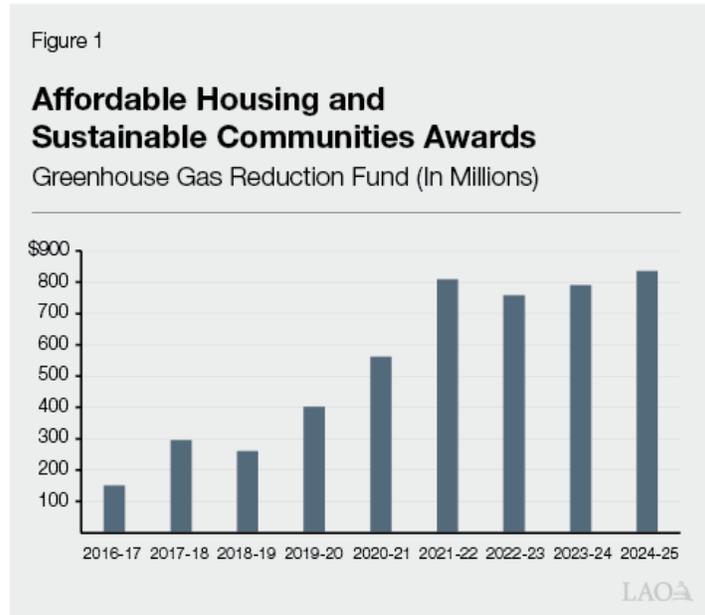
Panel

This panel will feature representatives from the California Air Resources Board, the Department of Finance, and the Legislative Analyst's Office.

LAO Comments**Affordable Housing and Sustainable Communities (AHSC)**

Strategic Growth Council (SGC). A key source of gap funding for developers is the Affordable Housing and Sustainable Communities (AHSC) program. AHSC is funded on an ongoing basis by Greenhouse Gas Reduction Fund, with revenues derived from cap-and-invest (previously known as cap-and-trade) auction proceeds. The program is statutorily required to receive 20 percent of auction revenue, with at least half of AHSC funding for affordable housing. The purpose of AHSC is to fund projects that reduce greenhouse gases by supporting high-density, energy-efficient developments and encouraging transit and "active transportation" (such as cycling). The affordable housing component of AHSC provides a low-interest loan similar to HCD's and CalHFA's programs; the "sustainable communities" component consists primarily of

a grant for transportation adjacent to the housing that is built (such as for bus shelters and bike-path upgrades). Currently, applicants submit a single application with a project proposal that must integrate housing with transportation. Each funded project can receive up to a \$35 million award for affordable housing and up to \$15 million for transportation (sustainable communities). AHSC is administered by SGC, which develops the guidelines for the program. HCD currently performs a number of programmatic functions for AHSC, including preparing the notice of funding availability, assisting SGC staff with the review and scoring of applications, and disbursing the award monies to recipients. Figure 1 shows total award amounts since the first year of the program.



Assessment

Merit to Moving Affordable Housing Awards to HDFC... Overall, having AHSC’s affordable housing program at HDFC has the potential to simplify how developers build their capital stack. This is because, rather than having programs spread across SGC and other state entities, developers would be able to apply for funding at one place—HDFC. Also, HCD currently plays a key role in the review and implementation of AHSC, so it already has “in house” knowledge of the program. Further, the intent is that this knowledge and program capacity will be transmitted to HDFC through the proposed position transfers from HCD to HDFC.

...Though, for Some Projects, Approach Would Run Contrary to Streamlining Goals. We concur with the administration’s point that no longer *requiring* applications to include both affordable housing and transportation components would provide more flexibility to developers to address local needs. In some cases, though, developers may wish to obtain funding to undertake both components for a given project. Yet, under the Governor’s proposal, in such cases the developer would have to begin applying in two places: HDFC for affordable housing and SGC for the transportation component—with no guarantee the project would be approved by both entities. Such an approach, though, would work at cross-purposes with the state’s policy goals of (1) reducing the number of places and times a developer must apply and (2) no longer

potentially having scenarios in which a project is approved by one state entity but rejected by another.

Unclear Whether Proposed Funding Split Is the “Right” One. The Governor’s proposal to provide 70 percent of total AHSC funds for affordable housing (and 30 percent for the transportation aspect) is based on the historical split. This split, in turn, is based on SGC’s practice of awarding up to \$35 million per project (70 percent) for affordable housing and up to \$15 million (30 percent) for transportation. Yet, there is no inherent policy rationale for that 70/30 split. The Legislature may find that the need and demand for affordable housing is different from what is proposed by the Governor and that proportionally more (or less) funding should be provided for that purpose.

Recommendations

Approve Proposal, With Two Modifications. First, we recommend the Legislature direct the administration to retain an option for developers to submit a single application for an integrated housing-transportation project (rather than requiring them to split up their project into a proposal for HDFC and a separate proposal for SGC). Under this approach, a joint committee of HDFC and SGC staff could review and decide on integrated project proposals. Second, we recommend the Legislature require the administration to report back at the end of the 2026-27 award cycle on demand for (1) affordable housing and (2) sustainable communities—including the number of applications received for each type, funding requested, and qualified applications denied due to insufficient funding. The Legislature could use the data to help decide whether to modify the funding amounts provided for the two components.

Staff Comments

Staff notes that this proposal touches on departments that are not in attendance today and will likely be revisited at later topical hearings.

Interest

As noted in Issue 4, staff believes allowing interest revenue to be appropriated separately from the SB 840 tier system is a violation of the intent of SB 840. It will result in Tier 3 continuous appropriations being underfunded in order to allow the Administration to spend roughly \$500-600 million a year outside of the Legislature’s intent. Holding interest outside the old percentage based continuous appropriations made sense to not allow double dipping, but it no longer makes sense under SB 840 which has an expenditure target.

State Operations

Staff notes that “state operations” is a loose term and could include the entire CalFire \$1.25 billion operations backfill or half of CARB’s annual budget. Under current practice, staff believes that the state operations portion of GGRF is reasonable, but this trailer bill gives the Department of Finance too much authority to shift funding to Tier 1. **Staff believes, and members should opine, if this language should be amended to require the Legislature to annually approve which state operations items should be included instead of in the discretionary pot.**

Staff believes that putting state operations in Tier 1 instead of Tier 3 is a direct violation of the Legislative intent and statute of SB 840 (2025).

AHSC

This trailer bill also has a companion trailer bill that specifically outlines statutory changes to the Affordable Housing and Sustainable Communities (AHSC) program. It can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1376> and will be heard in Subcommittee No. 5 for the housing impacts.

Staff notes that the Sustainable Agricultural Lands Conservation (SALC) program currently receives 10% of the funds to AHSC.

- What amount of funds will be annually awarded to the SALC program under this proposal?
- What amount of funding is currently awarded to transportation projects?
- What amount of funds will be annually awarded to transportation under this proposal?
- How will we achieve vehicle miles traveled (VMT) goals/AHSC goals by separating the transit funding from housing?
- Does requiring transit to apply to a separate department undermine the goal of a one stop shop or ensure transit and housing will not be coordinated?

TIRCP/LCTOP

- How much DOT administrative funding is currently allocated under TIRCP/LCTOP?
- Is this a change from current practice?

CalFire Prevention

- If we are repealing the statutory guidance for the \$200 million for wildfire prevention, how will these funds be allocated going forward?

Staff Recommendation: Hold open.

3900 California Air Resources Board

Issue 6: Department Overview

Department Responsibilities

The California Air Resources Board has primary responsibility for protecting air quality in California. This responsibility includes establishing ambient air quality standards for specific pollutants, maintaining a statewide ambient air-monitoring network in conjunction with local air districts, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency, and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and other mobile sources, fuels, consumer products, and industrial sources established by the Board and local air districts. The Air Resources Board also has the responsibility to develop measures to reduce greenhouse gas emissions at least 40 percent below 1990 levels by 2030, pursuant to Chapter 488, Statutes of 2006 (AB 32), Chapter 249, Statutes of 2016 (SB 32), and Chapter 337, Statutes of 2022 (AB 1279). The Air Resources Board oversees an extensive portfolio of incentives intended to reduce air pollution (including greenhouse gases), support shifts towards less-polluting transportation options, and advance zero emission technologies, among other purposes. The Air Resources Board is also responsible for developing guidance for agencies administering California Climate Investments programs to ensure statutory requirements of the Greenhouse Gas Reduction Fund are met, including maximizing benefits for disadvantaged communities, reporting, and quantification methods, pursuant to Chapter 36, Statutes of 2014 (SB 862), and serves as the account administrator for the Greenhouse Gas Reduction Fund. The Air Resources Board also implements the Community Air Protection Program to reduce air pollution in the state's most burdened communities, pursuant to Chapter 136, Statutes of 2017 (AB 617). The Air Resources Board works with local air districts, the business community, scientists, community representatives, and other stakeholders to implement its programs.

Department Budget

The Governor's 2026-27 Budget requests authority to spend up to \$1.15 billion and 2,005 staff. This includes requests for 31.2 personnel years/staff.

The 2026-27 proposed budget requests to spend \$2.1 million from the General Fund with the remainder from special funds, largely the Air Pollution Control Fund (\$372 million), Greenhouse Gas Reduction Fund (\$345 million) and Motor Vehicle Account (\$168 million).

The 2026-27 budget proposes \$598 million for state operations (staff, supplies, etc.) and \$557 million for local assistance (costs related to grants, and other pass-through funds).

Efficiencies and Vacant Position Sweeps

Control Sections 4.05 and 4.12 of the 2024-25 and 2025-26 budget acts directed the Department of Finance to identify efficiencies to reduce costs without adverse effects on state services.

To date, CARB reduced \$25.4 million and 119.1 positions as a result. This includes \$24.5 million from efficiencies and \$0.9 million from vacant position sweeps. This funding is all special funds except \$242,000 from General Fund.

Recent State Funding

The 2025-26 Budget Act appropriated the following amounts (discretionary to CARB):

- \$100 million to AB 617 (2017) for environmental justice communities.
- \$45 million (GGRF) for Clean Cars for All for local air districts to replace older cars owned by low-income Californians for newer zero-emission vehicles. Additionally, \$18 million was shifted from e-bike incentives to Clean Cars for All.
- \$40 million for infrastructure for medium and heavy duty zero-emission vehicles (to the Energy Commission).
- \$132 million for Clean Truck and Bus Vouchers (HVIP).

Federal Impacts

The federal government has made the following funding and policy changes related to these issue areas:

- Eliminated the light duty zero-emission vehicle tax credit.
- Prohibits clean vehicles from using toll/carpool lanes (without tolls or high occupancy).
- Prohibits zero-emission vehicle buses from federal transportation funds.
- Revoked California’s Clean Air Act Waiver that allowed California to set more stringent vehicle emission standards (under litigation).
- Withholding previously awarded National Electric Vehicle Infrastructure (NEVI) funding, roughly \$222 million of funding to California is paused.

Panel

This panel will feature representatives from the California Air Resources Board, the Department of Finance, and the Legislative Analyst’s Office.

Staff Recommendation: Informational, no action necessary.

Non-Presentation Items

Issue 7: Western Climate Initiative Contracting Trailer Bill

The Governor's Budget requests statutory language to exempt any contract with the Western Climate Initiative, Incorporated entered into in furtherance of the provisions in Sections 12894 and 12894.5 of the Health and Safety Code from requirements of the Public Contract Code since it is considered a membership agreement.

This language can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1369>.

Staff Comments

The Western Climate Initiative is the long running technical contractor for the Cap and Invest program and specified in statute. This proposal clarifies that a contract with Western Climate Initiative (WCI), Inc. is considered a membership contract, not an information technology contract, to clarify procurement processes and streamline payment for critical administration of environmental program services.

Staff Recommendation: Absent member concerns or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 8: Cap-and-Invest Implementation (AB 1207 and SB 840)

The Governor's Budget requests \$3,642,000 and 10.0 permanent positions ongoing to implement the updated regulations and program requirements for the reauthorized Cap-and-Invest program, consistent with Chapter 117, Statutes of 2025 (AB 1207) and Chapter 121, Statutes of 2025 (SB 840). This consists of \$2,771,000 Cost of Implementation Account (COIA) and \$871,000 Greenhouse Gas Reduction Fund (GGRF).

Staff Recommendation: Absent member concerns or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

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

The Governor's Budget requests expenditure authority for the Hino Motors, Ltd. court-ordered Consent Decree settlement funds in the amount of \$95.6 million from the Air Pollution Control Fund (APCF) over three fiscal years. This 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. These requests are consistent with the court-ordered Hino settlement.

Staff Comments

The Budget Act of 2025 authorized the expenditure of \$132 million for rebates for clean trucks and buses from the Hino settlement. This proposal finalizes the remainder of the funds as outlined by the court decree.

Staff Recommendation: Absent member concerns or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 10: California Environmental Protection Agency (CalEPA) Bond and Technical Adjustments

The Governor's Budget requests to reappropriate and extend encumbrance dates for various staff resources, \$15.7 million for the Advanced Technology and Demonstration Pilot Program (for various cleaner air and marine projects), \$639,582 for the Clean Off-Road Equipment Voucher Incentive Project, and \$6.2 million for the Mobile Community Air Monitoring Program.

Staff Comments

Given that these funds are approaching their statutory limits (and thus contractual limits), the Legislature could revert these funds to their original fund source and appropriate the funding for other purposes at higher priority to the Legislature.

Staff Recommendation: Hold open.

Issue 11: AB 617 Community Air Monitoring Updates (SB 352)

The Governor's Budget requests \$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 Chapter 118, Statutes of 2025 (SB 352).

Staff Recommendation: Absent member concerns or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 12: Consolidated Administrative Operations

The Governor’s Budget requests \$995,000 in 2026-27 and ongoing from various special funds and 6.0 permanent positions to support baseline operational needs of the Personnel Transactions Section, the Workplace Investigations Unit, and the Vulnerability Management Program.

Staff Recommendation: Absent member concerns or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 13: Advanced Clean Fleets Implementation

The Governor’s Budget requests \$1,699,000 Air Pollution Control Fund (APCF) and 10.0 positions in 2026-27 and ongoing to implement the state and local government requirements of the Advanced Clean Fleets (ACF) regulation.

Staff Recommendation: Absent member concerns or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

This agenda and other publications are available on the Assembly Budget Committee’s website at: [Sub 4 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Shy Forbes.