
SENATE COMMITTEE ON ENVIRONMENTAL QUALITY

Senator Blakespear, Chair

2025 - 2026 Regular

Bill No: SB 840

Author: Limón, et al.

Version: 9/10/2025

Hearing Date: 9/11/2025

Urgency: Yes

Fiscal: Yes

Consultant: Heather Walters

SUBJECT: Greenhouse gases: report

DIGEST: This bill reconfigures the continuous appropriations established for the Greenhouse Gas Reduction Fund (GGRF) and sets new legislative intent for how GGRF monies are spent. The bill also directs the California Air Resources Board (CARB) to assess and update compliance offset protocols, and establishes a new unit within the Legislative Counsel Bureau to support climate and environmental policymaking efforts.

ANALYSIS:

Existing law:

- 1) Requires CARB to ensure that statewide greenhouse gas (GHG) emissions are reduced to at least 40% below the 1990 level by December 31, 2030 (i.e., SB 32); and allows ARB, until December 31, 2030, to adopt regulations that utilize market-based compliance mechanisms (i.e., the cap-and-trade program) to reduce GHG emissions. (Health and Safety Code (HSC) §§ 38566, 38562)
- 2) Establishes the GGRF in the State Treasury, requires all monies, except for fines and penalties, collected pursuant to a market-based mechanism be deposited in the fund. (Government Code (GOV) §16428.8)

This bill:

- 1) Establishes and funds the Legislative Counsel Climate Bureau, with specified duties and responsibilities.
- 2) Requires CARB to, no later than December 31, 2026, report to the Legislature on offsets, including but not limited to evaluations about offsets' role and opportunity for potential changes.

- 3) Requires CARB to, no later than January 1, 2029, update all existing compliance offset protocols to ensure they reflect the best available science, as defined, and update accordingly every five years.
- 4) States the intent of the Legislature to direct percentages of GGRF revenues to individual funds, guided by multiyear spending plans, dedicated to clean transportation, housing and community development, clean air and water, wildfire prevention and resilience, agriculture, clean energy, and climate-focused innovation.
- 5) Sunsets existing continuous appropriations at the end of this fiscal year.
- 6) Allocates, beginning next fiscal year, GGRF moneys to:
 - a) Before all else:
 - i) Backfill revenues generated by the State Responsibility Area fire prevention fee; and
 - ii) Establish the Legislative Counsel Climate Bureau; and
 - b) Once the above are fully funded:
 - i) Provide \$1 billion to High Speed Rail; and
 - ii) Provide, in the 2026-2027 fiscal year, \$1 billion to specific designated purposes; and
 - c) Once the above are fully funded:
 - i) Provide dollar amounts roughly equivalent to past proportional GGRF continuous appropriations in line with those commitments; and
 - ii) Provide \$250 million to CARB to implement AB 617; and
 - d) Once all of the above are fully funded:
 - i) Give the Legislature discretion on all additional GGRF revenues to be appropriated through the annual Budget Act or other statute.

Background

- 1) *GGRF*. The GGRF is the depository for revenues generated from the sale of cap-and-trade allowances. In recent years, cap-and-trade auctions have raised between \$2 billion and \$5 billion per year, totaling \$26.4 billion between 2013 and 2023. Multiple factors influence revenues—including interest in purchasing allowances from outside investors, confidence in the longevity of the program, and the balance of supply versus demand for allowances.

As a result of several bills over the years, roughly 65% of annual GGRF revenues is now dedicated to statutorily required continuous appropriations. Since 2014, High-Speed Rail (receiving 25% of GGRF revenues), Affordable

Housing and Sustainable Communities (20%), Transit and Intercity Rail (10%), and Low Carbon Transit Operations (5%) have collectively accounted for 60% of all GGRF spending. More recently, Safe and Affordable Drinking Water (\$130 million) and Healthy and Resilient Forests (\$200 million) were added as continuous appropriations in 2019 and 2022, respectively.

After accounting for these statutory spending commitments, the remainder of annual GGRF revenues are available for the state to spend on other activities, at its discretion (and pursuant to other statutory requirements). The Legislature typically appropriates GGRF funds as a part of the annual budget process, and spending priorities for these “discretionary” revenues can vary each year. Past expenditures have focused on low-carbon transportation programs, community-based air protection, and agriculture programs. The Legislative Analyst’s Office has noted in several recent reports on GGRF expenditures that the existing statutory commitments were made under different policy environments than exists today.

Comments

- 1) *Purpose of Bill.* According to the author, California has ambitious climate goals of 100% carbon-free energy supply by 2045. Cap and Invest has been a cost effective way to reduce greenhouse gas emissions in California, but it is set to sunset in 2030. This is part of the reauthorization of Cap and Invest, making reforms to keep the legitimacy of the program while containing consumer costs and adding essential oversight and accountability measures. SB 840 will also allow the legislature to invest billions of dollars in climate infrastructure over the next 20 years.
- 2) *Continuous appropriations are dead, long live continuous appropriations.* As part of the informal workshops that preceded CARB’s cap-and-trade rulemaking, modeling was commissioned to estimate future allowance prices under a range of scenarios.¹ That model predicted that under most scenarios allowance prices would climb quickly upon program reauthorization. In other words, the cost impacts and inflows to GGRF are expected to climb sharply, even without any further policy changes beyond simply reauthorizing the program. When envisioning a post-2030 cap-and-trade program, the Legislature should consider that there is effectively no status quo; we are entering uncharted territory with or without any specific reforms.

¹ Bushnell, James, Aaron Smith, Wuzheqian Xiao, and Julie Witcover. 2023. Allowance Supply and Demand in California’s Cap-and-Trade Market: Initial Results. *Energy Institute at Haas* (blog). <https://energyathaas.wordpress.com/2023/11/27/californias-cap-andtrade-market-enters-its-teen-age-years/>

Because of this, it makes sense that the existing continuous appropriations will be treated different going forward than they have been to date. When the current continuous appropriations were set, GGRF was significantly smaller. Setting appropriations purely through percentages would mean the dollars flowing to each program with a continuous appropriation would continue to grow and grow. Under the plan laid out in SB 840, those programs that previously secured a continuous appropriation will continue to be roughly as funded as they would have been under a \$4 billion GGRF year. This compromise neither ties the hands of the Legislature going forward as the current arrangement does, nor does it completely upend these significant programs.

There remain some open questions that the committee may wish to ask the author. What are some possible uses the Legislature could consider for the “additional” revenues above the newly-appropriated amounts? What is meant by “climate-focused technological innovation” in the 2026-2027 appropriation? How can the Legislature ensure recipients of these funds are using them effectively for their highest and best purposes?

- 3) *Funding for AB 617.* As part of the last cap-and-trade reauthorization, the Legislature passed AB 617 (C. Garcia, Chapter 136, Statutes of 2017). Based on direction from AB 617, CARB established the Community Air Protection Program, which directs CARB and local air districts to more effectively measure and reduce exposure in communities most impacted by air pollution through the development of Community Air Monitoring Systems and Community Emissions Reduction Programs (CERPs).

Despite the value of the framework and the promise the approach holds, outcomes have been heterogeneous across participating communities. One common refrain shared between AB 617’s most vocal proponents and many of its critics is that the program requires more (and more reliable) funding in order to be more successful. For the first time, SB 840 will establish a continuous GGRF appropriation for CARB to take actions in line with communities’ CERPs. While this alone is not sufficient to fulfill the promises of AB 617, it is one significant step towards addressing the serious environmental injustices that continue to afflict many communities neighboring and hosting emitters covered by cap-and-trade.

- 4) *On offsets.* In 2017, the California Legislature passed AB 398 to reauthorize the cap-and-trade program along with a number of provisions affecting offsets (such as lowering the limitations on how many offsets covered entities could

use to comply). Even then, offsets (particularly those generated through forest management) were a fraught and complex topic, and so AB 398 included the establishment of the Compliance Offsets Protocol Task Force, a group of specified stakeholders intended to provide expert guidance to CARB on new offset protocols.

After a year of work, the 11-member Task Force released its final recommendations in March of 2021, but the report was saddled with controversy. Specifically, two members (the representatives of advocates for environmental and environmental justice issues) resigned in protest less than a month before the report was finalized. The designated representative of environmental advocates, in tendering his resignation, wrote:

“As we heard several times at the November Task Force meeting, it is precisely the intention of both the Task Force and the Air Resources Board to describe the recommendations as the product of diverse stakeholder input, including environmental and environmental justice advocates. However, the membership of the Task Force does not adequately represent either environmental or environmental justice interests. Nor does a perfunctory public comment process represent meaningful inclusion of environmental justice interests, or the free, prior, and informed consent that should be expected of such a product.

“I understand that the composition and mandate of the Task Force is set by statute, which is beyond the control of either the Air Resources Board or the Task Force members. However, I do not feel that my participation adds value to a wish list from offset proponents and developers. In fact, I feel that my inclusion on the final product would serve only to obscure the true nature of the Task Force report and add to the misconception that the recommendations represent a broad array of interests.”²

Ultimately, the final recommendations in the report were never presented to the CARB board. In recognition of the continued controversies around offsets, the technical complexity of developing robust offset protocols, and the challenges faced by the Task Force, SB 840 tries a new approach.

First, CARB must report by the end of next year to the Legislature about the contribution of offsets towards California’s climate goals, as well as evaluations and recommendations regarding the offset protocols and methodologies. While this could be helpful information, this provision does not in and of itself change anything about how CARB administers offsets. Thus,

² Nowicki, Brian. Compliance Offsets Protocol Task Force Resignation Letter, 2/8/21.

https://ww2.arb.ca.gov/sites/default/files/2021-02/nowicki_brian_offsets_task_force_letter_020821.pdf

any successful outcome from this will require the Legislature to receive and act upon the information CARB provides.

Beyond that one-time report, SB 840 also takes the novel approach of requiring CARB to periodically align the state's offset protocols to reflect the best available science. Specifically, CARB will need to look at compliance offset protocols in other carbon markets, notably including those established under Article 6.4 of the Paris Agreement. The challenges California faces in validating and uplifting high-quality offsets are not unique to the state, and lessons can be learned from across the globe as others develop best practices to advance effective, durable offset projects through robust protocols.

- 5) *New oversight authority.* Finally, SB 840 also creates a new unit within the Legislative Counsel Bureau to provide advice and investigation services to the Legislature on topics related to climate, energy, environmental quality, natural resources, and water. Although the specific contours of how this role could best serve the Legislature are yet to be determined, the additional support will be welcome, given the legal complexity of many of the topics in these issue areas.
- 6) *New buckets.* Beyond the reconfigured continuous appropriations and set-aside 2026-2027 appropriations, SB 840 provides minimal direction regarding the remainder of GGRF. Depending on how the reauthorization and reforms to the program enacted by AB 1207 influence the market, it is possible that a significant amount of revenue could enter GGRF beyond what has already been spoken for.

SB 840 states that it is the intent of the Legislature to direct specific percentages of revenues to seven categories of projects: clean transportation, housing and community investment, clean air and water, wildfire prevention and resilience, agriculture, clean energy, and climate-focused innovation. Moreover, these appropriations are to be guided by multiyear spending plans; this has the potential to benefit projects that are not funded by continuous appropriations and yet rely on GGRF. Rather than facing the annual uncertainty of seeking a one-year discretionary appropriation, projects will have longer time horizons where the funding situation will be known.

- 7) *Putting the “invest” in cap-and-invest.* Taken together, AB 1207 and SB 840 chart a promising path for the future of California's flagship climate policy. Although prescriptive and substantive offset reform has remained too elusive to be enshrined in law with the other reforms in AB 1207, the approach taken in SB 840 is a meaningful effort to find lasting solutions. The continuous funding of CERP implementation and other new buckets of GGRF funding should

provide opportunities for Californians to see and touch the benefits of cap-and-invest in their day-to-day lives. And the additional support provided by the new unit within Legislative Counsel can help the Legislature ensure all of these efforts are as successful as they can be. All in all, the guidance provided in SB 840 may put us on the path towards a more successful, popular, effective cap-and-invest program, but it will be the Legislature's responsibility to continue reviewing and course-correcting as necessary.

SOURCE: Author

SUPPORT:

Climate Center; the
Natural Resources Defense Council (NRDC)

OPPOSITION:

None received to current version of bill

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