

CLIMATE CHANGE AND ENVIRONMENT

California continues to experience the adverse impacts of climate change, with record breaking heat waves, historic droughts, hazardous flooding and increasingly destructive wildfires. In January, multiple catastrophic wildfires devastated large portions of the Los Angeles region, displacing thousands of residents and destroying thousands of buildings—underscoring the urgency to address and reduce the state's multi-faceted climate risks.

Building on decades of bipartisan climate leadership, the state has invested tens of billions of dollars in the California Climate Commitment and is implementing the \$10 billion Climate Bond (Proposition 4). This historic funding continues to protect communities, reduce pollution, accelerate clean energy, and make progress toward the state's world-leading climate goals.

CAP-AND-INVEST

In April, the Governor and legislative leaders announced their joint intention to extend California's nation-leading climate pollution reduction program—known as Cap-and-Invest—that is currently set to expire in 2030. Extending the program this year will further California's climate leadership, set the state on a clear path to achieve its 2045 carbon-neutrality goal, provide greater market certainty, and attract stable, private investment for decades.

Since its establishment in 2006, California's Cap-and-Invest, formerly known as Cap-and-Trade, program remains globally recognized as a cost-effective tool to reduce carbon pollution by encouraging clean technology investment from carbon emitters, generating billions of dollars in proceeds to support investments in innovative and pollution-reducing projects. The program's proceeds have funded nearly \$33 billion in investments across the state and cut carbon pollution equivalent to taking 1.3 million gas-powered cars off the road.

The Administration will continue to work with the Legislature over the summer to extend the Cap-and-Invest program to enable a stable and predictable price on carbon pollution to drive deeper investments in carbon reduction and clean technologies, and to continue the California Climate Credit—which will result in approximately \$30 billion in utility bill credits to California residents over the duration of the extension.

Additionally, the Administration will continue to work with the Legislature over the summer to develop a comprehensive expenditure plan that invests the program's proceeds in transformative climate projects, such as the High-Speed Rail project, as well as other climate programs. The Administration maintains that at least \$1 billion annually should be provided for the High-Speed Rail Project to establish a stable and predictable funding stream, which will enable the High-Speed Rail Authority to plan with greater certainty and deliver the project more efficiently. A guaranteed minimum funding level will also improve the project's ability to attract private capital and leverage additional funds upfront, which will accelerate project delivery, lower long-term costs, and increase flexibility through alternative delivery methods.

SIGNIFICANT BUDGET ADJUSTMENT

- **Department of Forestry and Fire Protection (CAL FIRE) Operations Costs**—A shift of \$1 billion from the General Fund to the Greenhouse Gas Reduction Fund to support CAL FIRE's fire protection activities in 2025-26. The Budget also includes shifts of \$1.25 billion in 2026-27, \$500 million in 2027-28, and \$500 million in 2028-29 for this purpose if the General Fund is projected to be in a deficit. If the General Fund is not projected to be in a deficit, \$500 million will be shifted from the General Fund to the Greenhouse Gas Reduction Fund for this purpose in 2026-27, with no shifts in 2027-28 and 2028-29. Additionally, the Budget includes a General Fund backstop to protect CAL FIRE's operations in the event Cap-and-Invest auction proceeds fall below projected revenues.

WATER SUPPLY RELIABILITY

The State Water Project supplies water to more than 27 million Californians and is the backbone of the state's economy. The statewide service area it supports would qualify as the eighth largest economy in the world if it were its own nation. In recognition of climate change impacts on the state's water supplies, it is critical to modernize infrastructure to improve water supply reliability.

MODERNIZING CRITICAL WATER INFRASTRUCTURE

After decades of development, study, planning, and review, the Delta Conveyance Project is instrumental to provide long-term affordability and reliability of water for California's residents and its economy. Accordingly, the state must clear a path for this critical climate-adaptation project by unwinding overly complicated processes that create unnecessary delays. The Administration and Legislature have committed to continuing discussions during the summer to enact statutory changes to streamline administrative processes for the Delta Conveyance Project. The Administration's goal is to preserve environmental protections and promote efficiency and expediency, which will accelerate the state's most important surface water supply and climate adaptation project, saving billions of dollars by avoiding unnecessary delays.

CALIFORNIA AIR RESOURCES BOARD

California continues to take bold steps to advance clean fuels and zero-emission vehicles necessary to achieve carbon neutrality by 2045 and address California's significant air quality challenges. The Budget advances these efforts through the following investments.

SIGNIFICANT BUDGET ADJUSTMENTS

- **E15 Transportation Fuel Blend**—The Budget includes \$2.3 million ongoing from the Air Pollution Control Fund for the California Air Resources Board to evaluate, develop, and implement the appropriate regulatory changes necessary to authorize the use of E15 in California, upon submission to the California Environmental Policy Council of the written summary and results of the peer review for the multimedia evaluation of E11-E15 gasoline-ethanol blends.

- **Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project**—The Budget includes \$132 million one-time from the Air Pollution Control Fund for the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project. This funding is from the Hino Motors Settlement and will be allocated by the California Air Resources Board to reduce NOx emissions, consistent with the settlement.

ENERGY

California is building the clean, reliable, affordable and safe energy system of the future to provide reliable power to the public and combat climate change and the stresses it poses to the state's electric grid. The Budget continues strategic investments in support of a safe and reliable energy system.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Safe Battery Energy Storage Systems**—\$3.7 million Public Utilities Commission Utilities Reimbursement Account (PUCURA) in 2025-26 and 2026-27, and \$2.9 million ongoing PUCURA and 12 positions from 2027-28 to support compliance and enforcement of safety standards for large-scale, electric grid connected battery energy storage systems.
- **Expediting Clean Energy Development**—\$1.9 million Energy Facility Licensing and Compliance Fund and 9 positions ongoing to support the California Energy Commission's Opt-in clean energy and advanced manufacturing permitting program. Additionally, the Budget includes statutory changes to the program's project application fee structure to align it with current program needs.

CLIMATE BOND

California has invested billions of dollars for priority projects and activities to reduce climate-related risk. Last year, California voters approved a \$10 billion Climate Bond that invests heavily in maintaining momentum and building on California's climate progress. These investments are focused on delivering projects that help to meet the state's key climate targets and strategies. Implementation will be carried out in a transparent way to maximize impact and support historically underinvested communities.

Enacted in April, Chapter 2, Statutes of 2025 (AB 100) added Section 15.00 to the 2024 Budget Act to appropriate \$181 million from the Climate Bond to various conservancies for forest and vegetation management across the state (\$171 million) and CAL FIRE for training center infrastructure (\$10 million) to enhance wildfire resilience. The Budget allocates these amounts to various conservancies and CAL FIRE as follows:

- \$30,904,000 to the Sierra Nevada Conservancy
- \$23,524,000 to the California Tahoe Conservancy
- \$31,349,000 to the Santa Monica Mountains Conservancy
- \$30,904,000 to the State Coastal Conservancy
- \$30,904,000 to the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
- \$23,524,000 to the San Diego River Conservancy
- \$10,000,000 to CAL FIRE to fund training center infrastructure for a fire resiliency center for the Karuk Tribe

The Administration will continue to work with the Legislature this summer to enact a comprehensive Climate Bond package that includes significant investments in safe drinking water, drought, flood, and water resilience; wildfire and forest resilience; coastal resilience; clean air and energy; extreme heat mitigation; and other strategic climate priorities.

OTHER CLIMATE AND ENVIRONMENT RELATED ISSUES

SIGNIFICANT BUDGET ADJUSTMENTS

- **Transition of Seasonal Firefighters to Permanent Firefighters**—The Budget includes \$39 million General Fund in 2025-26 and \$78 million General Fund in 2026-27 and ongoing to begin transitioning a portion of Firefighter I positions assigned to hand crews within CAL FIRE to a permanent firefighter employment classification. This funding will allow CAL FIRE to increase its hand crew staffing levels during its three-month base staffing period. The Budget also includes language stating the intent of the Legislature to transition Firefighter I positions assigned to Engine Crews, Helitack, and Air Attack to a permanent firefighter employment classification,

subject to enactment of future legislation and appropriation of funding for that purpose.

- **Exide Cleanup Fund Shift**—A shift of \$35 million General Fund to the Lead-Acid Battery Cleanup Fund for the cleanup of residential properties with lead contamination near the former Exide lead-acid battery recycling facility in Vernon. The 2021 Budget Act included \$132 million one-time General Fund for the cleanup and closure of the facility. There is approximately \$75 million remaining which, the Budget repurposes for residential cleanup and shifts \$35 million of the remaining \$75 million from the General Fund to the Lead-Acid Battery Recycling Fund, which is an appropriate fund source for residential cleanup and has been previously used for this purpose.
- **Community Renewable Energy and Storage**—A reversion of \$33 million General Fund for the California Public Utilities Commission's programs that fund community renewable energy projects.
- **CAL FIRE Training Center**—A reversion of \$31.5 million General Fund for the acquisition of property for a new CAL FIRE training center. CAL FIRE is exploring more cost-effective alternatives that will meet the same training capacity goals as the new additional training center project through a combination of expanding and upgrading existing training facilities and utilizing newly identified long-term lease opportunities to minimize delays in training output. These options will provide sufficient training capacity to meet the demands associated with increases in staffing in recent years, including the transition to a 66-hour work week.
- **Demand Side Grid Support**—A reversion of \$18 million General Fund for the California Energy Commission's Demand Side Grid Support Program which provides incentives to electric customers for load reduction and backup generation during extreme events.

The Administration intends to work with the Legislature over the summer to develop a comprehensive Climate Bond package that backfills the following reversions in the Budget:

- **Stewardship of State-Owned Land**—A reversion of \$68 million General Fund for the Department of Parks and Recreation to conduct forest health, fire prevention, fuels reduction, and vegetation management projects on state-owned land.
- **Water Recycling**—A reversion of \$51 million General Fund for the State Water Resources Control Board to provide grants for water recycling projects.

- **Dam Safety**—A reversion of \$47 million General Fund for the Department of Water Resources' Dam Safety program which provides state funding for repairs, rehabilitation, and enhancement.
- **Offshore Wind**—A reversion of \$42.8 million General Fund for a program to develop offshore wind generation at the California Energy Commission.
- **Watershed Climate Resilience**—A reversion of \$32 million General Fund for the Wildlife Conservation Board to provide grants to multi-benefit projects
- **Systemwide Flood Risk Reduction Program**—A reversion of \$15 million General Fund for the Department of Water Resources' systemwide flood risk reduction program, which provides funding to develop and implement multi-benefit flood risk reduction and habitat restoration projects.
- **Community Resilience and Heat Program**—A reversion of \$15 million General Fund for the Office of Land Use and Climate Innovation's Integrated Climate Adaptation and Resiliency Program, which provides grants for extreme heat and community resilience.
- **Deferred Maintenance**—A reversion of \$14 million General Fund for the Department of Parks and Recreation to address deferred maintenance projects.
- **Home Hardening**—A reversion of \$13 million General Fund for community-level wildfire home hardening grants jointly administered by the Office of Emergency Services and CAL FIRE through the California Wildfire Mitigation Program.