

# 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 Administration 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.

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## 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-Trade—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-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 May Revision proposes an extension of the Cap-and-Trade program that is best captured in a renaming of the program to the Cap-and-Invest program and enshrined in clear guiding principles that enable a stable and predictable price on carbon pollution to drive deeper investments in carbon reduction and clean technologies. Importantly, extension of this program will result in a continuation of the California Climate Credit, resulting in approximately \$60 billion available for utility bill credits to California residents over the duration of the extension.

The Administration intends to work with the Legislature to design an 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. Specifically, 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.

### ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **Department of Forestry and Fire Protection (CAL FIRE) Operations Costs**—A shift of \$1.54 billion from the General Fund to the Greenhouse Gas Reduction Fund to support CAL FIRE's fire prevention, fire control, and resource management activities on an ongoing basis. This proposal aligns with the polluter-pays principle in which carbon emitters will fund the state's world-class forestry and fire protection programs in the face of wildfires that have become increasingly destructive because of climate change. The proposal also 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. After decades of development, study, planning, and review, the Delta Conveyance Project must move forward 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.

## MODERNIZING CRITICAL WATER INFRASTRUCTURE

The May Revision proposes statutory changes to streamline administrative processes for the Delta Conveyance Project, which will save time and reduce costs to adapt the State Water Project to the effects of climate change and protect against earthquake risk. This proposal preserves environmental protections and promotes 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.

## 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 May Revision continues strategic investments in the 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 in 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 through 2028-29 to support the California Energy

Commission's Opt-in clean energy and advanced manufacturing permitting program. Additionally, the May Revision includes statutory changes to the program's project application fee structure to align it with current program needs.

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## OTHER CLIMATE AND ENVIRONMENT RELATED ISSUES

### ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **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, CA. 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 of the \$132 million. This proposal would repurpose the remaining \$75 million to be used for residential cleanup and shift \$35 million of the \$75 million of the remaining funding 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.
- **CAL FIRE Training Center**—A reversion of \$31.5 million General Fund appropriated 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.
- **Community Renewable Energy and Storage**—A reversion of \$33 million General Fund for programs funding community renewable energy projects at the California Public Utilities Commission (CPUC). The 2023 Budget Act included \$33 million as part of the Clean Energy Reliability Investment Plan to support community renewable generation and storage-backed renewable generation programs at the CPUC. This proposal would revert the \$33 million given that the CPUC has received federal funding from the U.S. Environmental Protection Agency for community renewable generation projects.

- **Offshore Wind**—A shift of \$42.8 million General Fund to the Climate Bond (Proposition 4) in 2025-26 to support a program for the development of offshore wind generation at the California Energy Commission. The 2022 Budget Act included \$45 million General Fund to support offshore wind infrastructure improvements. The proposal would shift \$42.8 million to Proposition 4 for activities consistent with the purposes of the Climate Bond program for offshore wind.