

SENATE THIRD READING

SB 840 (Limón, et al.)

As Amended September 10, 2025

2/3 vote. Urgency

SUMMARY

Establishes a new structure for allocating the Greenhouse Gas Reduction Fund (GGRF) beginning with the 2026-27 fiscal year, including \$1 billion for high-speed rail, \$1 billion reserved for discretionary appropriation, commitments to other major categories consistent with previous appropriations, and \$3 million to establish a new climate bureau at Legislative Counsel. Requires the Air Resources Board (ARB) to update all existing compliance offset protocols to reflect best available science, as specified.

Major Provisions

- 1) Sunsets existing GGRF continuous appropriations as of July 1, 2026.
- 2) Establishes the following new GGRF allocations (totaling approximately \$4.2 billion/year), beginning with the 2026-27 fiscal year:
 - a) Backfill the State Responsibility Area (SRA) fire prevention fee (\$70-90 million/year until 2031).
 - b) Fund the manufacturing tax credit (\$100-150 million/year until 2031).
 - c) \$3 million to establish the Legislative Counsel Climate Bureau, contingent on legislation to establish the roles and responsibilities of the bureau.
 - d) \$1 billion continuously appropriated to the High-Speed Rail Authority
 - e) \$1 billion reserved for appropriation by the Legislature, with the intent that this amount is allocated in the following amounts for the 2026-27 fiscal year:
 - i) \$125 million for transit passes.
 - ii) \$25 million for seed funding for a University of California Climate Research Center.
 - iii) \$15 million for rebuilding Topanga Park.
 - iv) \$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 ARB scoping plan.
 - f) Remaining moneys in the fund continuously appropriated as follows (subject to proportional reductions by Department of Finance if revenues are insufficient):
 - i) \$800 million to the Strategic Growth Council for the Affordable Housing and Sustainable Communities Program.
 - ii) \$400 million to the Transportation Agency for the Transit and Intercity Rail Capital Program.

- iii) \$250 million to ARB for community air protection programs and allocated for financial incentives to reduce mobile and stationary sources of criteria air pollutants or toxic air contaminants consistent with community emissions reduction programs and for support for local air districts' implementation of AB 617.
 - iv) \$200 million to the Transportation Agency for the Low Carbon Transit Operations Program.
 - v) \$200 million to the Department of Forestry and Fire Protection and allocated as follows:
 - (1) 82.5% for healthy forest and fire prevention programs and projects that improve forest health and reduce emissions of greenhouse gases caused by uncontrolled wildfires.
 - (2) 17.5% for the completion of prescribed fire and other fuel reduction projects through proven forestry practices consistent with the recommendations of the California Forest Carbon Plan.
 - vi) \$130 million to the Safe and Affordable Drinking Water Fund.
- 3) Requires ARB, by December 31, 2026, to study and report to the Legislature regarding offsets, as specified.
 - 4) Requires ARB, by January 1, 2029, to update all existing compliance offset protocols to reflect best available science, as specified. Requires ARB, every five years thereafter, to evaluate all compliance offset protocols and consider whether updates are necessary to reflect best available science.
 - 5) Declares intent of the Legislature to enact legislation to establish a unit within the Legislative Counsel to provide advice and investigation services related to matters within the jurisdiction of the Joint Climate Committee and other committees covering energy, environmental quality and safety, natural resources, and water.
 - 6) Declares intent of the Legislature to direct specific percentages of GGRF revenues to be distributed to individual funds dedicated to funding clean transportation, housing and community investment, clean air and water, wildfire prevention and resilience, agriculture, clean energy, and climate-focused innovation, with appropriations from each of those funds to be guided by fund-specific, multiyear spending plans.
 - 7) Is an urgency statute.

COMMENTS

The future GGRF allocation structure established by this bill promises similar funding to major GGRF categories as the existing structure. A key difference is that this bill specifies dollar amounts for all continuous appropriations, rather than percentages of revenues. If net GGRF revenues available for appropriation are \$4 billion, the new dollar amounts and previous percentages would be equal. However, the only continuous appropriation amount that appears to be guaranteed is \$1 billion for high-speed rail. Other continuous appropriation amounts are

subject to proportional reductions if revenues are insufficient (i.e., below \$4 billion), but won't increase if revenues are higher. Covering all the bill's commitments, including the SRA fee backfill and manufacturing tax credit, requires annual GGRF revenue of approximately \$4.2 billion. This is consistent with Department of Finance's revenue estimate for 2025-26. However, GGRF revenues fluctuate from auction to auction. In recent years, cap-and-trade auctions have raised between \$2 billion and \$5 billion per year. Auction revenue for 2024-25 was approximately \$3.4 billion.

Six compliance offset protocols were adopted by ARB in the first phase of the cap-and-trade regulation, with the last updates occurring in 2015. The six protocols are:

U.S. Forest Projects – adopted 2011, 2014 and 2015

Ozone Depleting Substances (ODS) Projects – adopted 2011, 2014

Mine Methane Capture (MMC) Projects – adopted 2014

Livestock Projects – adopted 2011, 2014

Urban Forest Projects – adopted 2011

Rice Cultivation Projects – adopted 2015

Offsets have been produced under four of the six adopted protocols: U.S. Forest, ODS, MMC, and Livestock. More than 80% of compliance offsets are from U.S. Forest projects. Compliance offsets are sourced from projects across the U.S., with MMC entirely outside of California and a large share of U.S. Forest projects in Alaska.

In the 2021-2023 compliance period, offsets were used for about 3% of covered entities compliance obligations.

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 bill 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.

Arguments in Support

According to the State Building and Construction Trades Council, "our primary support of SB 840 is for the continued commitment to the California High-Speed Rail project."

According to the Natural Resources Defense Council, "SB 840 provides continued investments in climate innovation and reducing air pollution, which is critical at a time when California is facing continued federal attacks on its clean air and climate change standards."

Arguments in Opposition

None received

FISCAL COMMENTS

Unknown

VOTES (not relevant)**SENATE FLOOR: 38-0-2**

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

ABS, ABST OR NV: Hurtado, Reyes

ASM NATURAL RESOURCES: 12-0-2

YES: Bryan, Alanis, Connolly, Flora, Garcia, Haney, Hoover, Kalra, Muratsuchi, Pellerin, Schultz, Zbur

ABS, ABST OR NV: Ellis, Wicks

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Sanchez, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Ahrens, Pacheco, Pellerin, Solache, Ta, Tangipa

ASM NATURAL RESOURCES: 10-2-2

YES: Bryan, Connolly, Garcia, Haney, Kalra, Muratsuchi, Pellerin, Schultz, Wicks, Zbur

NO: Ellis, Hoover

ABS, ABST OR NV: Alanis, Flora

UPDATED

VERSION: September 10, 2025

CONSULTANT: Lawrence Lingbloom / NAT. RES. / (916) 319-2092

FN: 0002105