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**SENATE COMMITTEE ON ENVIRONMENTAL QUALITY**

**Senator Blakespear, Chair**

**2025 - 2026 Regular**

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**Bill No:** SB 872  
**Author:** McNerney  
**Version:** 2/18/2026  
**Urgency:** No  
**Consultant:** Heather Walters  
**Hearing Date:** 3/18/2026  
**Fiscal:** Yes

**SUBJECT:** Climate change: funding priorities

**DIGEST:** This bill continuously appropriates \$300 million from the Greenhouse Gas Reduction Fund (GGRF) annually for the next 20 years for specified purposes regarding water conveyance and levees.

**ANALYSIS:**

Existing law:

- 1) Requires the California Air Resources Board (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 CARB, until December 31, 2030, to adopt regulations that utilize market-based compliance mechanisms (i.e., the cap-and-invest 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)
- 3) Directs GGRF monies, under SB 840, to:
  - a) Before all else (“Tier 1”):
    - 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 (“Tier 2”):
    - i) Provide \$1 billion to High Speed Rail; and
    - ii) Reserve, \$1 billion for appropriation by the Legislature (including for specified purposes in the 2026-2027 fiscal year); and
  - c) Once the above are fully funded (“Tier 3”):
    - 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 (“Tier 4”):
  - i) Give the Legislature discretion on all additional GGRF revenues to be appropriated through the annual Budget Act or other statute.

This bill:

- 1) Makes findings and declarations regarding climate change, California’s groundwater, and the Sacramento-San Joaquin Delta.
- 2) Continuously appropriates, in Tier 2 of GGRF until the 2046-47 fiscal year:
  - a) \$150 million to the Department of Water Resources for capital improvements to water projects affected by subsidence; and
  - b) \$150 million to the Sacramento-San Joaquin Delta Conservancy to improve existing levees, among other things.
- 3) Specifies certain activities that cannot be funded by GGRF.

## Background

- 1) *GGRF, historically.* The GGRF is the depository for revenues generated from the sale of cap-and-invest allowances. In 2025, the Legislature passed SB 840 (Limón), which responded to historical trends by making changes to GGRF alongside cap-and-trade reauthorization (and renaming to cap-and-invest).

In the years leading up to reauthorization, cap-and-invest auctions have raised between \$2 billion and \$5 billion per year, totaling \$26.4 billion between 2013 and 2023. Multiple factors influenced 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 had been 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 had been available for the state to spend on other

activities, at its discretion (and pursuant to other statutory requirements). The Legislature typically appropriated GGRF funds as a part of the annual budget process, and spending priorities for these “discretionary” revenues varied 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.

- 2) *GGRF, in 2026 and beyond.* There have only been two quarterly cap-and-invest auctions since the passage of SB 840, meaning there are limited data with which to evaluate the present and future state of GGRF. The outlook, however, is not rosy.

SB 840 introduced a new funding structure for GGRF, in an effort to honor the commitments made by past Legislatures for continuous appropriations while also freeing the current and future Legislature to freely allocate all funds above a certain threshold to address present realities. If GGRF were expending well over \$4 billion per year, this would be the case. However, the recent auctions suggest the state will not reach that threshold, and so the Legislature in fact has somewhat *less* discretion over GGRF expenditures this year, owing to the inclusion of additional continuous appropriations and multi-year commitments of GGRF for CalFire operations.

CARB’s recent Initial Statement of Reasons (ISOR) for the implementing regulations for AB 1207 and SB 840 included a long-term projection of GGRF revenues from the program as proposed to be amended. Although the specific basis of those projections was not disclosed, the ISOR predicts GGRF revenues will not exceed \$4 billion for the remaining life of the program.

- 3) *GGRF expenditures and indirect GHG reductions.* When cap-and-trade was first established in California, law specified that the auction revenues must be used to facilitate the achievement of measurable GHG emissions reductions and outlined various categories of allowable expenditures. However, upon the program’s reauthorization in 2017 (through AB 398 (E. Garcia, Chapter 135, Statutes of 2017)), the nature of GGRF expenditures changed. In a 2018 opinion from Legislative Counsel, it was determined that, “In the context of AB 398, it is our view that the Legislature changed the character of the cap-and-trade charge from a fee to a tax by granting new authority for the cap-and-trade charge and changing the purposes for which the revenue from the charge may be appropriated to incorporate General Fund expenditures. Moreover, because the bill received a two-thirds vote in each house of the Legislature, it is

a validly enacted tax... On and after January 1, 2021, the revenue generated by the cap-and-trade charge constitutes General Fund revenue that may be appropriated for any lawful purpose.”

## Comments

- 1) *Purpose of Bill.* According to the author, “The Sacramento-San Joaquin River Delta and the State Water Project (SWP) together make up California’s primary water source, providing freshwater supplies to 27 million people, businesses, and farms in the Central Valley, the Bay Area, and Southern California. But the Delta’s levees and the SWP’s water canals are in desperate need of repair. Many of the Delta’s aging levees are at risk of collapse, threatening the region with catastrophic flooding. And the SWP’s canals are being seriously impacted by sinking land, imperiling up to 80% of the system’s water supplies. SB 872 protects CA’s main water system by directing \$300 million annually to essential levee repairs in the Delta and shoring up SWP’s canals impacted by subsidence to prevent interruptions in essential water deliveries. Historically, CA’s longstanding water wars have pitted North against South, the environment versus agriculture. SB 872 provides a pragmatic and peaceful solution by bringing traditional adversaries together to support projects that will benefit the entire state.”
- 2) *Can’t get blood from a stone.* As described in the background section, there is unlikely to be sufficient GGRF revenues this fiscal year to fully fund all existing statutory appropriations. Adding \$300 million annually in additional cost pressures—which must be fully funded *before* existing continuous appropriations—would only make matters worse for those existing funding obligations.

***The committee may wish to shift the proposed \$300 million funding obligation to a separate fund, which could receive monies from other sources including but not limited to GGRF.***

- 3) *No comment on the merits.* The necessity and appropriateness of \$300 million appropriated annually for 20 years to address subsidence and levee issues is beyond the scope of this committee. The Senate Natural Resources and Water Committee, where this bill will be heard next if passed today, will weigh such considerations. Although the bill’s findings and declarations make the case for the GHG reduction impacts of the funding, GGRF expenditures no longer need a direct GHG reduction nexus, and have not since 2020. Thus, assessing whether or not GHG reductions would result from the actions funded by this

bill is not essential.

- 4) *Committee amendments. Staff recommends that the committee adopt the bolded amendments contained in comment 2 above.*

**DOUBLE REFERRAL:**

If this measure is approved by the Senate Environmental Quality Committee, the do pass motion must include the action to re-refer the bill to the Senate Natural Resources and Water Committee.

**Related/Prior Legislation**

SB 840 (Limón, 2025) reconfigures the continuous appropriations established for the GGRF and sets new legislative intent for how GGRF monies are spent. The bill also directs the 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.

**SOURCE:** Author

**SUPPORT:**

- Alameda County Zone 7 Water Agency
- Antelope Valley East Kern Water Agency
- Bay Area Council
- Burbank Water and Power
- Cal Asian Chamber of Commerce
- California Alliance for Jobs
- California Building Industry Association
- California State Association of Counties (CSAC)
- Camrosa Water District
- Central Coast Water Authority
- City of Beverly Hills
- City of Fullerton
- City of Glendale Water & Power
- Coachella Valley Water District
- Contra Costa County
- County of Yolo
- Crescenta Valley Water District
- Crestline-lake Arrowhead Water Agency
- Cucamonga Valley Water District

Defenders of Wildlife  
Delta Counties Coalition  
Desert Water Agency  
Dudley Ridge Water District  
Foothill Municipal Water District  
Fresno County Economic Development Corporation  
Greater Conejo Valley Chamber of Commerce  
Inland Empire Utilities Agency  
International Union of Operating Engineers, Cal-nevada Conference  
Irvine Ranch Water District  
Kern County Water Agency  
Las Virgenes Municipal Water District  
Long Beach Area Chamber of Commerce  
Metropolitan Water District of Orange County  
Metropolitan Water District of Southern California  
Mojave Water Agency  
Napa County Flood Control and Water Conservation District  
New California Coalition  
Orange County Business Council  
Palmdale Water District  
Public Water Agencies Group  
Rancho California Water District  
Restore the Delta  
San Bernardino Valley Municipal Water District  
San Gabriel Valley Municipal Water District  
San Gabriel Valley Water Association  
San Geronio PASS Water Agency  
San Joaquin; County of  
Santa Clarita Valley Water Agency  
Secure Water Alliance  
Sierra Club California  
Solano County Water Agency  
Solano; County of  
Southern California Leadership Council  
Southern California Water Coalition  
State Building & Construction Trades Council of California  
State Water Contractors  
Three Valleys Municipal Water District  
Three Valleys Municipal Water District  
Upper San Gabriel Valley Municipal Water District  
West Basin Municipal Water District  
Western Municipal Water District

**OPPOSITION:**

None received

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