May 19, 2026

The Honorable John Laird
Chair, Senate Budget and Fiscal Review Committee
1020 N. Street, Room 502
Sacramento, CA 95814

The Honorable Jesse Gabriel
Chair, Assembly Budget Committee
1021 O Street, Suite 8230
Sacramento, CA 95814

RE: Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation – LETTER OF CONCERN

Dear Chairs Laird and Gabriel,

The League of California Cities (Cal Cities) and the California State Association of Counties (CSAC) are **deeply concerned** about the April 14, 2026 Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market- Based Compliance Mechanisms Regulation (Draft Regulations) that are anticipated to have serious implications on the recently reauthorized framework for the Cap-and-Invest Program (Program), as was determined by the Legislature and signed by the Governor last year through SB 840 (Chapter 121, Statutes of 2025). The Legislature analyzed and developed the three-tiered framework for the Greenhouse Gas Reduction Fund (GGRF) and reauthorized this approach to align with the projected timeline of the Program until 2045.

Last year, our organizations strongly advocated for the Program's reauthorization to include funding for affordable housing projects, wildfire resilience, clean transportation, and climate adaptation funding for organic waste diversion and sea level rise infrastructure. The Proposed Amendments would dissolve the Program's new framework and reduce the highly meaningful GGRF programs that to-date have achieved[1]: 116.1 million metric tons of carbon dioxide equivalent in estimated emissions reductions, over 13,600 affordable housing units under contract, more than 560,000 in rebates for zero emission, plug-in hybrid vehicles, $1.5 billion invested in wildfire prevention efforts, and more.

The Proposed Amendments would provide greater allowance allocations for industrial purposes through the Manufacturing Decarbonization Incentive (MDI) program, resulting in less funding available for the Program specifically the GGRF and the California Climate Credit. Such industrial allowances would include covered manufacturing activities and facilities including the production of finished cement, steel production, and food processors. The Proposed Amendments also include greater allowances for utilities, product-based industrial uses for light duty vehicle assembly, and in-state mining and

[1] 2025 California Climate Investment Annual Report

manufacturing of materials using minerals mined in-state, as well as a three-year delay for covered emissions associated with a facility that is an independent merchant refinery. The potential to lose up to $8 billion through 2030 would present an approximate 50% decrease in annual GGRF funding, which would redirect the Legislature's discretionary funding (Tier 2) and essential programs in Tier 3 from receiving any funding at all. This is a structural reduction, not a short-term fluctuation and would dramatically alter the agreed upon GGRF framework by the Legislature and Governor last year. Even independent analyses[2] show the MDI program could impact the GGRF by estimates of up to $4 billion in lost auction revenue and $1.7 billion in the California Climate Credit to support more affordable utility bills for ratepayers through 2030. For CARB to continue to make progress towards our state's climate goals[3], such tradeoffs to provide leniency and free allowances for industry are not justified or in any way balanced in administering the state's more transformational, publicly funded climate program.

Critical initiatives in Tier 3 that could be eliminated or substantially reduced due to a lack of GGRF resources include:

- Wildfire and Forest Resilience
- Safe and Affordable Drinking Water Program
- Affordable Housing and Sustainable Communities Program
- Community Air Protection Program
- Low Carbon Transit Operations Program
- Transit and Intercity Rail Capital Program

However, what was still missing from this funding structure are investments in organic waste diversion, investments for public agencies who are required to comply with the advanced clean fleet regulations, as well as support for addressing sea level rise. These mandated programs will achieve significant greenhouse gas emissions reductions. Despite these not being explicitly included in the framework, Tier 2 was intended to be a source of discretionary funding for the Legislature to use to annually fund these types of emission reduction efforts. The Proposed Amendments would impact both Tier 2 and Tier 3 funding availability – significantly impacting meaningful emissions reduction efforts across the state.

Furthermore, the Proposed Amendments to the Draft Regulations present a scope and substantive changes that far exceed what is permissible under a 15-day public comment period pursuant to the Administrative Procedures Act. State statute[4] requires that such modifications be sufficiently related to the original proposal and constitute a logical outgrowth of the rulemaking, for which the Proposed Amendments do neither. Lastly, a

[2] Potential Lost Cap-and-Invest Revenue under the Manufacturing Decarbonization Incentive, Environmental Markets lab, University of California, Santa Barbara

[3] SB 32 (Pavley, Chapter 249, Statutes of 2016), which sets the target to reduce GHG emissions to 40% below 1990 levels by 2030 and AB 1279 (Muratsuchi, Chapter 337, Statutes of 2022), which requires reducing anthropogenic emissions by 85% below 1990 levels by 2045 and achieving carbon neutrality by 2045.

[4] Government Code §11346.8(c)

true economic impact analysis has not been conducted for the potential implications of this proposed decision.

Cal Cities and CSAC respectfully urge the Legislature to intervene in CARB's rulemaking to ensure the industrial allowances are removed or to ensure the Tier 3 programs are fully funded through the Legislature's Tier 2 discretionary funding or other sources to ensure that these programs continue to fund the critical projects that communities need for a sustainable future.

Please do not hesitate to contact Melissa Sparks-Kranz (Cal Cities) at msparkskranz@calcities.org or Jordan Wells (CSAC) at jwells@counties.org regarding our input.

Sincerely,

Melissa L. Sparks-Kranz

Jordan Wells

Melissa Sparks-Kranz
Legislative Advocate
League of California Cities

Jordan Wells
Legislative Advocate
California State Association of Counties

cc: Members, California Air Resources Board
Governor Gavin Newsom
Senate President pro Tempore Monique Limón
Speaker of the Assembly Robert Rivas
Chair and Members, Senate Budget and Fiscal Review Subcommittee No. 2
Chair and Members, Assembly Budget Subcommittee No. 4