STATE CAPITOL
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California Legislature

August 24, 2026

The Honorable Robert Rivas
Speaker of the Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

Re: Cap-and-Invest, the Greenhouse Gas Reduction Fund, and the Manufacturing Decarbonization Incentive

Dear Speaker Rivas:

The undersigned members write in response to concerns expressed in recent letters and legislative proposals pertaining to Cap-and-Invest revenues, program design, and the Greenhouse Gas Reduction Fund (GGRF). We share our colleagues' concern for transit operations, affordable housing near transit, community air protection, wildfire resilience, and safe drinking water.

Declining GGRF revenue is what a tightening cap looks like.

Cap-and-Invest is designed to create cost-effective emission reduction opportunities for regulated entities. To ensure the program is cost-effective, cost containment and leakage minimization are key components of the program. AB 32, SB 32, AB 398, AB 1279, and AB 1207 direct the California Air Resources Board (CARB) toward cost effective reductions, affordability, ratepayer protection, and minimizing leakage. At no point in these statutes does the Legislature direct CARB to maximize revenue.[1] Revenue is one output of the program being more cost-effective than a regulated parties next best alternative. The Legislative Analyst has characterized auction proceeds in similar terms, as a by-product of the program rather than its aim.[2]

Math follows the design. The adopted amendments remove 118.3 million allowances from annual budgets through 2030 to align the program with the SB 32 target, and roughly 900

[1] Cal. Health & Safety Code section 38562(b) and (c)(2), as amended by AB 1207 (Irwin, Ch. 117, Stats. 2025); AB 398 (E. Garcia, Ch. 135, Stats. 2017); SB 32 (Pavley, Ch. 249, Stats. 2016); AB 1279 (Muratsuchi, Ch. 337, Stats. 2022).

[2] Legislative Analyst's Office, The Greenhouse Gas Reduction Fund: Current Status and Choices Ahead (Apr. 30, 2025), presented to Assembly Budget Subcommittee No. 4 (describing auction revenues, from an economic perspective, as a by-product of cap-and-trade programs rather than their primary aim).

million allowances from post-2030 budgets to align with AB 1279.[3] The annual allowance budget now declines about 11 percent per year from 2027 through 2030, against roughly 5 percent under the prior regulation.[4]

These changes reduce the number of allowances offered for sale in auctions. Fewer allowances sold means less revenue. That is not a programmatic failure. It is a result of the ambitious climate goals in legislation we passed.

Alternatively, holding GGRF revenue flat against a shrinking supply requires the allowance price to rise, increasing what Californians pay for fuel, goods, and energy. Fully funding the SB 840 statutory tiers would require allowance prices to increase by roughly 125 percent. California would have more revenue to spend on projects that the Legislature supports, but Californians would face a higher cost of living. ***We can pursue revenue or affordability but not both.***

The MDI has no real effect on current revenues.

Some of us support the Manufacturing Decarbonization Incentive (MDI) as a needed financing tool for the deep industrial decarbonization the 2045 target requires, and the desire to keep good-paying manufacturing jobs and the associated tax base in California. Others among us have real questions about how the MDI will be implemented. All of us agree on the following points of fact.

- **The MDI does not affect current year revenues.** Under CARB Resolution 26-7, the first application deadline is June 1, 2027, with allowances provided in fall 2027 for the compliance period ending in 2028.[5] The allocation runs from 2028 through 2035.[6] No MDI allowance touches the 2026-27 budget or the revenue estimates supporting it.
- **Allowances were "cheered" when removed from the annual budgets then "jeered" when assigned to the Manufacturing Decarbonization Incentive.** The 118.3 million allowances taken out of the 2027 through 2030 budgets to meet the SB 32 target were placed in a dedicated reserve account held separate from the cap budgets.[7] They were never part of the allowance pool for the state auctions under the adopted carbon budget and therefore would never have generated revenue. Characterizing them as forgone GGRF revenue is simply false.
- **MDI is unresolved.** Resolution 26-7 directs at least one public workshop on MDI implementation before any MDI allowances are issued, requires the Executive Officer to report back to the Board and propose amendments if more than 25 million MDI allowances are awarded, requires separate registry tracking and annual public reporting of

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[3] CARB Resolution 26-7 (May 28, 2026), pp. 10-11.

[4] Cal. Code Regs., tit. 17, section 95841, Table 6-2, as adopted; CARB, Initial Statement of Reasons (Jan. 20, 2026), p. 133 (removals of 15 million allowances in 2027, 26.5 million in 2028, 35.1 million in 2029, and 41.7 million in 2030, producing a consistent 11 percent year-over-year decline from 2027 to 2030). The prior regulation produced an annual decline of roughly 5 percent.

[5] CARB Resolution 26-7 (May 28, 2026), p. 9.

[6] CARB Resolution 26-7 (May 28, 2026), p. 12 (MDI allocation for 2028-2035, providing no more than 118.3 million allowances).

[7] CARB Resolution 26-7 (May 28, 2026), pp. 10-12. See also International Carbon Action Partnership, California Air Resources Board adopts regulatory updates to the Cap-and-Invest Program (June 2026) (describing the MDI pool as held in a dedicated reserve account separate from the cap budgets).

applications and issuances, requires a report to the Board if two consecutive current vintage auctions are undersubscribed, and directs evaluation of the overall quantity of MDI allowances, compliance period limits, and sector limits.[8] Unused MDI value must be returned to CARB and retired.[9]

Legislating before the workshop occurs and before a single application is filed would substitute a statutory number for an evidentiary record that does not yet exist. It would also introduce exactly the kind of mid-course uncertainty that discourages the necessary capital investment the MDI is meant to unlock, in facilities that anchor jobs and local tax base in communities across the state.

What is the efficacy of GGRF expenditures?

We support finding durable funding for decarbonization projects and for the important purposes Tier 3 serves. We also think this moment calls for a harder look at the cost effectiveness of those expenditures. Independent analysis puts the funding-weighted average cost of GGRF appropriations at roughly $1,268 per ton, against a 2022 Scoping Plan benchmark closer to $230 per ton for most available abatement.[10] The Legislative Analyst reached a related conclusion in February, recommending that the Legislature reexamine existing GGRF commitments, statutory and discretionary alike, to confirm they still reflect its highest priorities.[11]

That is the conversation worth having and may lead the Legislature to revisit SB 840's three tiers. What it should not lead to is destabilizing the state's flagship climate program on the strength of a revenue expectation the enacting statutes never created.

Request

We respectfully ask that the Assembly:

1. Treat GGRF revenue as a function of finding cost effective emission reductions through price discovery within the auction and build appropriations against a declining supply rather than against the statutory maximums.
2. Take up SB 840's tiering and the cost effectiveness of GGRF appropriations through the regular budget and policy process, where the tradeoffs can be weighed in the open.
3. Decline to enact statutory limits on the MDI this year and allow CARB to complete the public workshop and report back to the Board as Resolution 26-7 requires.

We appreciate your leadership on these issues, and we would welcome the chance to work with your office, the Senate, and the Administration.

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[8] CARB Resolution 26-7 (May 28, 2026), pp. 15-16.

[9] CARB Resolution 26-7 (May 28, 2026), p. 8 ("any unused MDI allocation allowances not used for eligible activities must be returned to CARB and will be retired").

[10] Uden, S. & DeMarco, A. (updated 2025). Data analysis of California's Greenhouse Gas Reduction Fund. Net Zero California. The $1,268 per ton figure is a funding-weighted average across the GGRF portfolio, benchmarked against the 2022 Scoping Plan estimate of roughly $230 per ton for the majority of available mitigation.

[11] LAO (Feb. 10, 2026), pp. 1 and 8 (recommending that the Legislature reexamine existing GGRF commitments, both discretionary and statutory, to confirm they continue to reflect its highest priorities).

Respectfully,

David Alvarez
Assemblymember, 80th District

Juan Alanis
Assemblymember, 22nd District

Darshana Patel
Assemblymember, 76th District

Tom Lackey
Assemblymember, 34th District

Tim Grayson,
Senator, 9th District

Laurie Davies
Assemblymember, 74th District

Juan Carrillo
Assemblymember, 39th District

Blanca Rubio
Assemblymember, 48th District

Suzette Valladares
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Anamarie Ávila Farías
Assemblymember, 15th District

Josh Hoover
Assemblymember, 7th District

Blanca Pacheco
Assemblymember, 64th District

Jeff Gonzalez
Assemblymember, 36th District

José Luis Solache, Jr.
Assemblymember, 62nd District

Patrick Ahrens,
Assemblymember, 26th District

Stephanie Nguyen
Assemblymember, 10th District

cc: The Honorable Monique Limón, Senate President pro Tempore, Chairs and Members, Assembly and Senate Budget Committees; Chairs and Members, Assembly Natural Resources and Senate Environmental Quality Committees