

CLIMATE CHANGE AND ENVIRONMENT

Over the past decade, Californians have experienced the destructive impact of climate change, including devastating wildfires, record-breaking heat, historic drought, hazardous flooding, and damaging sea level rise and coastal erosion. The state continues to confront this challenge with scale and urgency by reducing carbon pollution, building clean energy, protecting vulnerable communities from climate impacts, and building resilience to future climate risks. Since 2021, California has invested tens of billions in infrastructure and on-the-ground action that is protecting residents from climate change and building an affordable and prosperous future for all Californians.

The Governor's Budget proposes \$2.7 billion for the first year of a multi-year expenditure plan to implement the \$10 billion Climate Bond (Proposition 4) authorized by voters in November. This plan will accelerate projects and programs that build water and wildfire resilience, with up to two-thirds of these investments delivering on California's nature-based solution climate targets, increasing the health of natural systems and their ability to absorb more carbon than they release.

CLIMATE BOND

The Budget allocates Climate Bond resources to maintain momentum and build on California's climate progress. These investments are strategic and focused to deliver projects that help to meet the state's key climate targets and strategies.

Implementation will be carried out in a transparent way to maximize impact and support historically underinvested communities.

Climate Bond Expenditure Plan
(\$ in Millions)

Investment Category	Bond Allocation	Proposed 2025-26	Out-Years	Pending Allocation
Safe Drinking Water, Drought, Flood & Water Resilience	\$3,800	\$1,074	\$2,716	\$10
Wildfire & Forest Resilience	\$1,500	\$325	\$1,086	\$89
Coastal Resilience	\$1,200	\$173	\$1,027	\$0
Extreme Heat Mitigation	\$450	\$102	\$348	\$0
Biodiversity & Nature-Based Solutions	\$1,200	\$286	\$813	\$101
Climate Smart Agriculture	\$300	\$134	\$106	\$60
Outdoor Access	\$700	\$286	\$183	\$231
Clean Air & Energy	\$850	\$275	\$252	\$323
Total	\$10,000	\$2,655	\$6,531	\$814

Allocations for some bond programs and projects have not yet been scheduled to a specific fiscal year, and the Administration will engage with the Legislature on the expenditure plan for these allocations as part of the annual budget process.

SAFE DRINKING WATER, DROUGHT, FLOOD, AND WATER RESILIENCE

California's climate is warming and becoming more variable and extreme, which reduces annual mountain snowpack, intensifies drought, and drives shorter, more intense wet seasons that worsen flooding. Existing challenges like depleted groundwater basins and aging infrastructure are compounded by climate change. The proposed investments will protect communities and allow California to continue to adaptively respond to unprecedented weather whiplash.

The Budget proposes the following water-related infrastructure investments from the Climate Bond in 2025-26:

- **Dam Safety and Climate Resilience**—\$231.5 million to the Dam Safety and Climate Resilience Local Assistance Program for competitive grants for projects that support dam safety and reservoir operations, such as funding for repairs, rehabilitation, and enhancements.

- **Water Quality and Safe Drinking Water and Tribal Water Infrastructure**—\$183.2 million for grants and loans that improve water quality and help provide clean, safe, reliable drinking water, such as water quality monitoring and remediation of perfluoroalkyl and polyfluoroalkyl substances, implementation of countywide drought and water shortage contingency plans, prevention and treatment of contaminated groundwater, consolidation or extension of water or wastewater systems, and \$11.1 million dedicated to tribal water infrastructure projects.
- **Flood Management Projects**—\$173.1 million for flood control projects to evaluate, repair, rehabilitate, reconstruct, expand, or replace levees, weirs, bypasses, and facilities of the State Plan of Flood Control, as well as funding for the Flood Control Subventions Program.
- **Water Reuse and Recycling**—\$153.4 million for water reuse and recycling projects that support treatment, storage, conveyance, or distribution facilities for potable and nonpotable use, dedicated infrastructure to serve retrofit projects, and multi-benefit projects that allow use of recycled water.
- **Salton Sea Management Program**—\$148.2 million to implement the Salton Sea Management Program 10-year Plan and deliver projects that reduce dust emissions—benefitting air quality and public health—and restore environmental habitat.

In addition to these investments, the Budget proposes \$173.5 million to improve water storage, replenish groundwater, improve conditions in streams and rivers, and complete various water resilience projects and programs.

Recognizing the importance of expanding the state's capacity to operate, maintain, and manage new dust suppression and habitat projects at the Salton Sea, Chapter 771, Statutes of 2024 (SB 583) established the Salton Sea Conservancy. The Climate Bond advances implementation of this new conservancy by providing funds for its creation. To allow additional time for stakeholder and community input and organizational processes, the Administration's proposal to establish the Salton Sea Conservancy will be submitted in the spring.

WILDFIRE AND FOREST RESILIENCE

The ongoing impacts of climate change in California and the consequences of a century-old legacy of fire suppression continue to create catastrophic wildfire risks that threaten communities, landscapes, and their ecosystems across the state. Historic

investments since 2021 have supported over 2,000 wildfire resilience and forest health projects that are completed or underway, including fuel breaks around communities, prescribed fire projects, and landscape-scale forest health projects. These projects are demonstrating effective methods to protect communities, keep wildfires from growing larger and more dangerous, and aid firefighters in combating wildfires.

The Budget builds on this work with investments from the Climate Bond in 2025-26 for the following wildfire and forest resilience efforts:

- **Forest Health Program**—\$82.2 million for projects that improve forest health by significantly reducing fuels, reintroducing beneficial fire, restoring degraded areas, and conserving threatened forests.
- **Regional Projects**—\$79.5 million for block grants to support landscape-scale, multi-benefit projects developed by forest collaboratives in high-risk regions.
- **Local Fire Prevention Grants**—\$59.1 million for the Wildfire Prevention Grants Program to support local projects in and near fire-threatened communities, including fuels reduction, wildfire prevention planning, and wildfire prevention education with an emphasis on improving public health and safety.
- **Resilient State-Owned Lands**—\$33.4 million to help restore health and resilience to 3.8 million acres of state-owned lands vulnerable to destructive wildfires, including expansion of beneficial fire.
- **State Conservancies–Watershed Improvement and Wildfire Resilience**—\$22.4 million for various conservancies within the Natural Resources Agency for watershed improvement, forest health, biomass utilization, chaparral and forest restoration, and workforce development.
- **Wildfire Mitigation**—\$9.1 million for the Wildfire Mitigation Program, administered by the Office of Emergency Services and the Department of Forestry and Fire Protection, which offers financial assistance to vulnerable populations in wildfire-prone areas throughout the state for cost-effective structure hardening and retrofitting to create fire-resistant homes, as well as defensible space and vegetation management activities.

In addition to these investments, the Budget proposes \$39.3 million for various wildfire and forest resilience projects and programs, including defensible space, home hardening, reforestation, and wood utilization.

COASTAL RESILIENCE

Climate change continues to impact California's coast, generating sea level rise, storm surge and flooding, coastal erosion, and habitat loss. These impacts threaten public health and safety, critical infrastructure, communities and homes, tribal cultural resources, public access, and the health of ecosystems.

The Budget proposes the following investments from the Climate Bond in 2025-26 to help protect coastal communities against these impacts, safeguard local economies, conserve and restore biodiversity and natural areas, elevate tribal knowledge, and improve public access to the coast:

- **Coastal Resilience**—\$30.8 million for projects to protect coastal lands, public access facilities, and habitats, as well as an additional \$20 million for projects that address sea level rise, flood management, and wetland restoration, consistent with the San Francisco Bay Restoration Authority Act or the San Francisco Bay Area Conservancy Program.
- **Sea Level Rise Mitigation and Adaptation**—\$20.3 million for planning and implementation of projects that help communities prepare for impacts of sea level rise and coastal flooding, and \$7.5 million for grants to increase resilience of coastal ecosystems and protect marine wildlife.
- **Dam Removal and Related Infrastructure**—\$8.5 million for removal of obsolete dams and modifications to related infrastructure to increase habitat connectivity, build climate resilience for culturally and economically important fisheries and improve coastal sediment supply for beaches and shorelines.

In addition to these investments, the Budget proposes \$85.9 million for various coastal resilience and sea level rise adaptation projects, such as upgraded fish hatcheries for Central Valley Chinook Salmon.

EXTREME HEAT MITIGATION

Climate change intensifies heat waves across the state, threatening public health and safety, economic stability, food and water security, critical infrastructure, and the resilience of natural systems. In the last two years, California experienced temperatures that shattered previous records, and the best available science projects this trend will continue.

The Budget proposes the following investments from the Climate Bond in 2025-26 to build resilience to extreme heat across California, with a focus on those most vulnerable to its impacts:

- **Urban Greening Program**—\$46.8 million for greening communities through the creation and expansion of green streets, parks, and schoolyards.
- **Fairground Updates**—\$37.6 million to modify or upgrade fairgrounds to enhance communities' emergency preparedness capabilities, particularly in response to climate change.
- **Extreme Heat and Community Resilience Program**—\$16.1 million to fund projects that reduce the impacts of extreme heat, reduce urban heat island effect, and build community resilience to extreme heat.

In addition to these investments, the Budget proposes \$1.5 million for various extreme heat mitigation projects and programs.

BIODIVERSITY AND NATURE-BASED SOLUTIONS

California is driving on a world-leading nature-based solutions agenda, having set the most ambitious and comprehensive nature-based solutions climate targets in the nation. In addition to the investments listed below, many of those in the Wildfire and Forest Resilience, Coastal Resilience, Extreme Heat Mitigation, and Climate Smart Agriculture sections will contribute to delivering on these nature-based solutions climate targets. California is also the first state to commit to supporting a global goal of conserving 30 percent of natural lands and coastal waters by 2030 (30x30 strategy).

The Budget proposes the following investments from the Climate Bond in 2025-26 to help meet the state's carbon neutrality and climate adaptation goals through its nature-based solutions climate targets and 30x30 strategy:

- **Protect and Enhance Fish and Wildlife Resources**—\$176 million for projects including, but not limited to, land conservation acquisitions and easements, habitat enhancement and restoration, floodplain reactivation and wetland restoration, and wildlife connectivity.
- **State Conservancies—Supporting Regional Action**—\$79.9 million for various conservancies within the Natural Resources Agency to drive climate action through

nature-based solutions, such as land conservation and habitat restoration and enhancement, and to improve equitable access to nature.

- **Tribal Nature-Based Solutions Program**—\$9.4 million for grants to California Native American tribes for multi-benefit nature-based solutions projects including ancestral land return, planning and implementation of habitat restoration projects, protecting the state's coast and oceans, and advancing wildfire resilience and cultural fire across California.

In addition to these investments, the Budget proposes \$20.7 million for various biodiversity and nature-based solutions projects and programs.

CLIMATE SMART AGRICULTURE

California's agricultural industry is where unrivaled innovation meets world-renowned output. In the face of mounting climate change-driven challenges like drought and extreme heat, California's farmers continue to produce food that improves nutritional outcomes in historically underserved communities and feeds households across the state, throughout the country, and around the world. California agriculture is also on the frontline of fighting climate change by fostering innovations in carbon sequestration, emissions reduction, and ecosystem resilience.

The Budget proposes the following climate smart agriculture-related investments from the Climate Bond in 2025-26:

- **State Water Efficiency and Enhancement Program**—\$37.6 million for improving irrigation systems on farms and ranches to save water and reduce emissions from pumping.
- **Healthy Soils Program**—\$35.9 million for sequestering carbon and reducing emissions through the implementation of soil health practices on farms and ranches.
- **Invasive Species Projects**—\$19.9 million to fund invasive species projects and activities recommended by the Invasive Species Council of California. The Council provides interagency leadership and coordination to exclude or rapidly eradicate invasive species from California.

In addition to these investments, the Budget proposes \$40.6 million for various climate smart agriculture projects and programs.

OUTDOOR ACCESS

Getting outdoors and into nature is critical to people's physical, mental, and social well-being. Across California, parks, open spaces and natural areas provide these experiences for millions of residents. Expanding outdoor access to all Californians is an important part of building a California for All.

The Budget supports California's Outdoors for All Strategy by expanding access in communities with little outdoor space and supporting programs to connect residents who lack access to the outdoors. These investments can also support implementation of California's nature-based solutions climate targets and 30x30 strategy.

The Budget proposes the following parks and outdoor access investments from the Climate Bond in 2025-26:

- **Statewide Park Program**—\$190 million to create new parks and improve existing parks in the state's most disadvantaged communities. The Statewide Park Program is the largest park-related grant program in California's history, creating and enhancing community open spaces where they are needed most in the state.
- **Deferred Maintenance Program**—\$84.4 million to help address deferred maintenance projects throughout the State Park System. These projects will enhance visitor experiences and increase access to California's state parks.
- **Reduction of Climate Impacts and Creation, Protection, and Expansion of Outdoor Recreation**—\$11 million to enhance visitor access on and increase the resilience of public lands by improving safety and accessibility of trails and facilities, increasing interpretive information, and completing wildfire preparedness and mitigation projects.

CLEAN AIR AND ENERGY

California is building the clean, reliable, affordable, and safe energy system of the future to provide reliable power to the public and withstand extreme weather events and the stresses they pose to the grid.

The Budget proposes the following clean energy investments from the Climate Bond in 2025-26 to provide resources at the scale necessary to meet California's evolving energy needs, reduce air pollution, and address times when climate-driven extreme weather events stress the grid:

- **Development of Port Upgrades to Serve Offshore Wind Generation and Other Purposes**—\$228.2 million for port upgrades, including construction and improvements of publicly owned port facilities for manufacturing, assembly, staging, and integration of components and vessels, to support the development of offshore wind generation and other activities.
- **Demand-Side Grid Support Program**—\$50 million for load reduction and backup generation efforts that support electric grid reliability during extreme weather events.

OFFSETTING CURRENT EXPENDITURES

Given the significant investments made possible by the Climate Bond, the Budget proposes shifting \$273 million from prior General Fund obligations to Climate Bond funding. These include:

- **Stewardship of State-Owned Land**—\$68 million General Fund
- **Water Recycling**—\$51 million General Fund
- **Dam Safety**—\$47 million General Fund
- **Watershed Climate Resilience**—\$32 million General Fund
- **Demand-Side Grid Support Program**—\$18 million General Fund
- **Systemwide Flood Risk Reduction Program**—\$15 million General Fund
- **Community Resilience and Heat Program**—\$15 million General Fund
- **Deferred Maintenance**—\$14 million General Fund
- **Home Hardening**—\$13 million General Fund

In addition, the Budget proposes a \$32 million shift of Greenhouse Gas Reduction Fund for the Clean Energy Reliability Investment Plan to the Climate Bond to address a projected shortfall within the Motor Vehicle Account.

E 15 TRANSPORTATION FUEL BLEND

California continues to take bold steps to advance clean fuels and zero-emission vehicles necessary to achieve carbon neutrality by 2045 and address California's significant air quality challenges.

Although California's transportation sector is in the midst of a rapid transition away from fossil fuels, California consumers are still reliant on fossil fuels to power the vehicles and equipment that enable daily life and support the economy. In response to California families experiencing gasoline price spikes, the Governor directed state agencies to ensure that the state maintains a reliable and affordable supply of transportation fuels. In line with this direction, the State Air Resources Board is accelerating the evaluation of, and enabling changes to, California's fuel specification requirements. Allowing an increased blending of Ethanol from 10 percent (E10) to 15 percent (E15) is a potential strategy to augment the existing gasoline supply and reduce gasoline prices.

The Budget proposes \$2.3 million from special funds for the Board to evaluate, develop, and implement the appropriate regulatory changes necessary to authorize the use of E15 in California, upon submission to the California Environmental Policy Council of the written summary and results of the peer review for the multimedia evaluation of E11-E15 gasoline-ethanol blends.

ENERGY AFFORDABILITY

The monumental state energy investments over the last few years have proven instrumental in maintaining grid reliability during extreme weather conditions and facilitating the rapid deployment of clean energy resources. However, affordability, particularly electric bill affordability for customers in the largest electric utility territories in the state, continues to be an ongoing challenge. This challenge is driven largely by the cost of programs added over time, such as the outdated subsidy provided through the legacy Net Energy Metering program, as well as a massive ramp up of investments in utility wildfire mitigation measures. Those measures have been critical for reducing wildfire ignition risk and improving the safety and reliability of the electric grid, particularly in the wake of catastrophic wildfires that devastated communities throughout California.

As the state works to decarbonize its economy with power provided by clean energy resources, it is paramount that the Administration and Legislature partner to develop

and act on a multi-faceted suite of actions this legislative year and going forward that, only together, will yield meaningful electric bill cost savings for Californians.

CAP-AND-TRADE

Since its establishment in 2006 by Chapter 488, Statutes of 2006 (AB 32), California's cap-and-trade program is and remains globally recognized as a cost-effective tool for reducing carbon pollution that has generated billions in proceeds to support investment in innovative and pollution-reducing projects. California's cap-and-trade program was officially launched in 2012 and then reauthorized in 2017. The current program aligns with reducing greenhouse gas emissions by at least 40 percent below 1990 levels by 2030.

In 2022, Chapter 337, Statutes of 2022 (AB 1279) codified California's world-leading carbon neutrality target and requires direct greenhouse gas emission reductions of at least 85 percent below 1990 levels by 2045. California's cap-and-trade program is one of several tools that are critical in achieving this goal. The Administration, in partnership with the Legislature, will need to consider extending the cap-and-trade program beyond 2030 to achieve carbon neutrality. Although the current cap-and-trade program does not expire until 2030, considering extension sooner could provide greater certainty and attract stable investment.

Key to any conversation around extension is the usage of the proceeds from the cap-and-trade program. The Greenhouse Gas Reduction Fund must support Californians as the state makes the transition to a clean economy by investing in programs that deliver effective pollution reduction results, support clean transportation and communities, and help address energy affordability.

TRANSPORTATION

As the largest contributor of California's greenhouse gas emissions, the transportation sector must align project delivery with climate considerations to reduce both emissions and climate impacts. The Budget demonstrates a continued commitment to address transportation-related climate issues.

Recent budgets have included \$14.2 billion for transportation programs and projects that align with the state's climate goals. In alignment with the California State Transportation Agency's Climate Action Plan for Transportation Infrastructure, the

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Budget focuses on continued delivery of these critical investments in rail, transit, active transportation, and climate resiliency.

Additionally, the Budget proposes adding \$25 million one-time General Fund in 2025-26 to the Clean California Program for a Community Cleanup and Employment Pathways Grant Program. This funding will provide matching grants to communities with a Clean California Community designation focused on both litter remediation and jobs creation. This helps build on the state's continued investments in litter removal and related maintenance activities.