

May 21, 2025

Senate Pro Tem Mike McGuire
1021 O Street, Suite 8518
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Assembly Speaker Robert Rivas
1021 O Street, Suite 8330
Sacramento, CA 95814

Senator Catherine Blakespear
Chair, Senate Environmental Quality Committee
1021 O Street, Suite 7720
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Assemblymember Isaac Bryan
Chair, Assembly Natural Resources Committee
1021 O Street, Suite 5630
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Senator Ben Allen
Chair, Senate Budget Committee Sub 2
1021 O Street, Suite 6610
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Senator Monique Limón
Chair, Senate Climate Working Group
1021 I Street, Suite 7610
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Assemblymember Steve Bennett
Chair, Assembly Budget Committee Sub 4
1021 O Street, Suite 4710
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Assemblymember Jacqui Irwin
Chair, Assembly Cap & Trade Working Group
1021 O Street, Suite 6220
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Re: Reject Governor Newsom's Proposal for Reauthorizing Cap-and-Trade

Dear Pro Tem McGuire, Speaker Rivas, Senator Blakespear, Assemblymember Bryan, Senator Allen, Senator Limón, Assemblymember Bennett and Assemblymember Irwin:

The undersigned organizations write to implore you to reject Governor Newsom's proposal for reauthorizing California's Cap-and-Trade program (potentially renamed "Cap-and-Invest"). Urgent action is needed to ensure we are addressing affordability and equity issues within the program, and to protect critical climate investments for communities already suffering from the impacts of climate change.

Regressive cost impacts will persist and increase under the Governor's proposal. California has ambitious climate pollution reduction goals, which science tells us are necessary to avoid the most dangerous impacts of climate change. Time is running out, making action towards our state's climate ambition more important than ever. The Governor's proposal lacks necessary program reforms to ensure the future of climate action is equitable, affordable, and meaningful enough to meet this moment.

The Administration's proposal does not take control of who pays for these increased costs by adjusting allowance distribution in the program. In AB 398 (E. Garcia, 2017), the "industry assistance factor" was set at 100% for all industries - regardless of leakage risk. The biggest beneficiary of that policy change was the oil and gas industry, which received approximately \$300 million in free allowances in the first year that the industry would have otherwise had to purchase at auction - directly robbing our communities of critical revenue to the Greenhouse Gas Reduction Fund or California Climate Credit. ***In 2024 alone, the allowances given freely to the oil and gas industry are estimated to be valued at over \$890 million -***

and that value is expected to increase as the program becomes more stringent. That's why [over 40 environmental, environmental justice, housing, transit, agriculture, and public health organizations signed a letter](#) urging the Legislature to revisit this burdensome choice.

During a multi-billion dollar budget deficit year, the Governor is leaving money on the table by reauthorizing the Cap-and-Trade Program without shifting funds from oil and gas industry subsidies to support critical climate investments and efforts to address affordability concerns for low-income Californians through GGRF programs and/or the Climate Credit. Given the current affordability crisis that will get worse as fossil energy prices inevitably increase - California simply cannot afford to continue to subsidize the oil and gas industry to the level prescribed in the Governor's proposal.

Using the Greenhouse Gas Reduction Fund to backfill general fund expenditures would harm frontline communities. Communities that live directly next to facilities regulated by Cap-and-Trade already pay a price in the form of continued pollution in their backyards. The program was designed to invest revenue from credits into those communities in an effort to mitigate those continued emissions, and in recognition that our communities have urgent adaptation needs resulting from decades of disinvestment that will not be met without public investment. The Governor's proposal to lock up more than half of projected GGRF revenues for projects and programs that do *not* directly benefit frontline communities is in direct contradiction to statute (SB 535 - 2012, AB 1550 - 2016), which requires that at least 35% of GGRF dollars directly benefit Disadvantaged and Low-Income Communities and/or households. The Governor's proposal removes legislative discretion to spend GGRF dollars where they are most needed - putting Californians at further risk of increased affordability and public health impacts from continued pollution and more frequent catastrophic climate events.

We urge the Legislature to reject the Governor's proposal and to follow the recommendations of [a recent letter submitted by over 80 organizations](#) urging a spending plan that prioritizes equity and affordability.

General fund backfill is not necessary. The Governor's January Budget Proposal and May Revision include several expenditures that are not urgent or necessary, or fail to align with California's broader goals. For example, Caltrans annual budget is over \$17 billion dollars, with much of it going to highway expansion that harms our communities and undermines our emission reduction goals. Flexing STIP, SHOPP and IJJA dollars away from highway expansion and toward vital walking, biking and transit needs would cut emissions and restore previous and proposed cuts in the general fund to support sustainable transportation options.

The Governor also proposes allocating millions of dollars to unnecessary projects that do not warrant priority at this time. The Governor's "return to work" order for state employees will cost California millions of dollars just in space renovations, increased rental payments, and parking facilities. Several new websites, "belonging" initiatives, the Olympics, and other special projects are also included as additional expenditures. All told, [according to the Legislative Analyst's Office \(LAO\)](#) the Governor is proposing nearly \$2 billion in new revenue and spending proposals, which we agree should be carefully scrutinized to ensure that anything that is not urgent or required is not taking priority over protecting funding for consistent fire response or critical climate and affordability programs.

Further, the Governor failed to propose any new revenue generating mechanisms, such as increased corporate or wealth taxes or fees that would help offset cuts to critical programs, despite proposed federal tax cuts expected to primarily benefit corporations and the wealthy. As some advocates say: this isn't a budget crisis - it's a crisis of our values. We believe California, as the fourth largest economy in the world, can and ***must*** do better.

We also agree with Chair Bennett's recent remarks that moving an essential government service from the General Fund to GGRF to be extremely unwise, given the fluctuating nature of the GGRF and the inevitability of a significant decrease in revenue over time. Something as essential as fire response needs a consistent source of investment and a commitment from the general fund.

Giving industry what they want won't protect California or consumers. In 2017, the Legislature gave the industry all of their asks (and then some) for the Cap-and-Trade extension in AB 398 and AB 617. That action did not prevent cost increases - in fact, consumers saw increasing costs while industry saw increased profits. Decades of economic research has proven that "trickle down economics" does ***not*** work. Further, giving the industry their asks for the program renewal again this year will ***not*** insulate California from continued attacks from the federal administration, [which is also being actively lobbied by the oil industry to gut state climate programs.](#)

In this time of federal upheaval, California needs to push forward to protect our communities. The Legislature must take control of this program by making it ambitious enough to realize meaningful emissions reductions and generate substantial revenue to address affordability for all Californians. To the extent that the Legislature intends to prioritize affordability, meaningful climate action, equity, and investment in our future economy - we agree that these issues are essential to address, along with other reforms and priority investments. Acquiescing to the Governor's misguided proposal would result in severe impacts on the communities we represent, and we look forward to further discussion of how to build a better program to serve our communities and our climate for the next twenty years. If you have any questions, please do not hesitate to contact Katie Valenzuela (katie@everydayimpactconsulting.com).

Sincerely:

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