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## **California Climate-Smart Economy Initiative**

### ***Reimagining Climate Leadership Through Economic Prosperity***

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#### **Authors**

Matt Armsby, Interim President, Resources Legacy Fund

Kate Gordon, CEO, CA FWD

Nuin-Tara Key, Executive Director, Programs, CA FWD

Alvaro Sanchez, former Vice President of Policy for the Greenlining Institute (opinions his own)

Craig Segall, former Deputy Executive Officer and Assistant Chief Counsel of the California Air Resources Board (opinions his own)

## Introduction and Overview

California faces a perfect storm: a cost-of-living crisis, federal attacks on climate policy, and mounting wildfire expenses threaten our climate leadership just when the nation needs it most. Political support for climate ambition is fading--and if California cannot lead, U.S. climate policy is in danger.

This crisis is an opportunity to broaden our policy and political playbook and reinvigorate our movement. At a moment of profound challenge and opportunity, California must once again step forward—not just as a model for climate action, but as the architect of a new **climate-smart economy**.

What is a climate-smart economy? It's one that **delivers broadly-shared prosperity, economic resilience, and local community benefits**. It's one that responds to the reality that we need an economy-wide transition that drives sustainable and inclusive economic growth, cuts daily costs, and creates businesses in every region. And one where climate policy solutions are fundamentally aligned with the global scale of the climate crisis —not merely delivering greenhouse gas emissions reductions within the state.

**We are proposing an 18-month effort, through the inauguration of the next California governor in 2027, to grow and align a broad coalition around key principles and goals fundamental to delivering a climate-smart economy, including a detailed and implementable policy playbook focused on both near-and longer-term opportunities.**

We envision connecting thought leaders across the climate, economic development, and workforce development communities, through our strong and broad networks across California's regions, to shift both the climate and the economic conversations to meet this moment.

After two decades of leading the nation on climate policy, California's traditional playbook of emissions reduction-focused regulation and cleantech incentives is no longer sufficient on its own. Federal attacks on state climate authority, voter concerns about affordability, and the disconnect between climate promises and on-the-ground economic reality have created an urgent need for a new approach that can both complement regulatory ambition and open new paths.

The challenge isn't just a result of messaging or outreach—it's also felt in our policy outcomes. **We need to own up to the fact that not everything we in the climate movement have spent years building is working on its own—we need to do more.** We cannot expect pollution rules and air pollution agencies alone to deliver state economy-wide changes, much less navigate the complex geopolitical tactics needed to drive forward a global clean economy. Without abandoning our progress, **it is time to build the government offices, policies, and field capacity needed to execute a whole-of-economy strategy**. This moment demands a fundamental shift in our vision and strategy for success, and a much broader field of political engagement.

Over the last six months, Resources Legacy Fund has partnered with key architects of the current system who are now advocating for a new approach: Kate Gordon, Nuin-Tara Key, Alvaro Sanchez, and Craig Segall.

This working group coalesced around a fundamental inquiry: Can California build an enduring climate agenda that strengthens social and economic resilience while delivering measurable prosperity across the state? And would there be shared interest and energy in a project to develop such an agenda?

Through extensive conversations with dozens of civic leaders, policymakers, experts, and funders, we have identified four key challenges and opportunities to engage:

- **Economic anxiety and inequality are driving political change** while state-level support for climate action is waning.
- **Federal attacks on California's climate regime are accelerating** as traditional climate messaging loses its power.
- **America is losing the clean tech and infrastructure delivery race** at a time when tangible benefits matter most.
- **The "field" needs capacity growth** to meet these mounting challenges.

Our initial evaluation revealed broad agreement that pollution reduction standards alone cannot build sustained political support—and that ambitious policies driving economic prosperity are a natural and necessary next step. These concerns are not theoretical: Already, senior state leaders have considered freezing the state's marquee Low Carbon Fuel Standard in the face of projected refinery closures and gas price increases, while the Vice Chair of the California Energy Commission is calling for a sustained and funded economic transition strategy to address those same challenges.

We need a policy response grounded in these new political and economic realities. The next playbook absolutely needs to incorporate and rebuild pollution laws, or reimagine these laws where it makes sense. But it also must be grounded in solutions that help the whole state economy uncouple from fossil fuels without major supply shocks, in ways that build up new diversified economies while cutting daily costs like energy, housing, food, and transportation. And it needs to materially address the real economic and fiscal impacts of a changing climate.

### **Building and Delivering a Climate-Smart Economic Initiative**

With new statewide leadership taking office in January 2027, our working group sees a narrow window to bring the climate-smart economy agenda to life. We envision a linked political and policy strategy that explicitly uses policy development to help expand and orient the field towards a durable political position. Our conversations indicated the need for five key strategies:

1. **Develop a comprehensive near- and long-term policy playbook** through cross-sector stakeholder convenings and technical research.
2. **Create a compelling vision, narrative, and message** about what a climate-smart economy could deliver.
3. **Educate decision-makers** about the playbook, including current and future candidates and legislative champions.
4. **Build a broader coalition** spanning business, labor, local government, rural communities, and environmental justice advocates.
5. **Create field capacity** for sustained advocacy through cross-sector trust building, organizer training, and grassroots engagement.

***The stakes couldn't be higher.*** California has both an opportunity and a duty to lead. Its position as the world's fourth-largest economy gives the state unique power to demonstrate that climate action and economic prosperity are mutually reinforcing.

It's critical to defend our ability to regulate in a strategic and effective manner. But we can't regulate or defend our way to victory—we need a proactive strategy to build a climate-smart economy that works for working families, delivers economic prosperity, reduces emissions, and makes our society more resilient.

This is the moment to pursue an integrated approach that rebuilds public trust in climate policy by delivering tangible benefits across multiple issue areas: climate, economic development, workforce, governance, and democratic engagement.

For philanthropy, this is a unique window to shape the next generation of climate leadership—not just for California, but for the country—and for laying the foundation for a durable, just, and resilient climate economy that can once again lead the world.

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### **Key Challenges: Economic Anxiety, Political Headwinds, and Delivery Failures**

Stakeholders identified several interconnected challenges to California's climate leadership:

**Economic anxiety is driving political change.** California voters prioritize "getting costs under control" above environmental concerns. Acute economic inequality, combined with declining faith in the government's ability to deliver change, imperil climate progress. Recent polling shows California lags Texas in voter satisfaction with cost of living. Candidates who spoke vigorously to economic concerns rose to the top in the 2024 election. Regional inequalities, including long-term challenges in rural and inland California, further exacerbate these dynamics.

California is the second-worst state in the nation for income inequality. Despite our movement's promise of "green jobs," ***the truth is that for many Californians today, it's harder to achieve basic economic security than it was in 2006 when the state catapulted into climate leadership with the passage of Assembly Bill 32.***

A November 2024 poll by the Public Policy Institute of California found that supermajorities of California voters wanted policymakers to prioritize "getting costs and inflation under control" and "building an economy that gives every American a chance to succeed." In the 2024 general election, the California electorate demonstrably shifted to the right, giving Kamala Harris the lowest vote share for a Democrat in 20 years, and flipping 10 counties and a handful of state legislative seats from blue to red.

More recent polling indicates that California's high cost of living far outweighs the environment as a concern for the state's voters, and that California lags red states when it comes to voter satisfaction with the cost of living and quality of life. ***Conditions are brewing for bigger change in California's political leadership; they do not bode well for climate policy.***

**Climate messaging is losing its power and state-level ambition is waning.** The focus on global carbon levels and regulatory leadership no longer resonates beyond a narrow base

of highly-informed climate activists. Messaging about security, energy dominance, and consumer prices—often funded by a persistent and resilient fossil fuel industry and its allies—is winning by tapping into real economic fears.<sup>1</sup> Working people see insufficient tangible benefits from climate policy. As a result, California political reality increasingly does not support climate ambition—and traditional regulatory approaches are unlikely to win back support on their own.

**Federal attacks are accelerating while we're losing the delivery race.** The current administration is challenging California's climate authority through legal attacks, executive orders, and clawbacks of federal climate investments. Meanwhile, from our aging power grid to our housing crisis to our high speed rail project, California is losing its reputation for building big. While China built an entire high-speed rail network, California remains in its third decade trying to build a single line. It takes too long and costs too much to build big things here, and voters are taking notice.

**The "field" needs capacity growth.** We need actors across our state and economy—not just dedicated environmental advocates—to demand action and help deliver outcomes. Existing activist and advocacy organizations are struggling: stakeholders report low levels of trust, a lack of leadership, entrenched positions, low institutional knowledge, siloing, and a culture of distrust as prevalent in the California climate ecosystem. Attacks on communities are draining the mental and emotional capacity of advocates to focus on long-term planning and strategy. High turnover in organizations and government has resulted in a decline in expertise and field capacity. Without the field infrastructure to produce more comprehensive policy agendas and to broaden the field of advocates and experts to engage economic and regional leaders beyond the traditional climate left, it is unlikely that we can build the necessary power and grassroots leadership required to deliver a climate agenda.

Much of this anxiety manifests in concerns about "affordability"—including rising electricity rates and a transportation fuels market with unique vulnerabilities to high prices. Recent efforts to reframe climate communications and policy campaigns around affordability are beginning to address these concerns. We see a need to build on these efforts, which are primarily focused on near-term messaging and policy solutions, to create a field-shifting vision that can durably protect and extend climate action throughout the entire economy. It's time to look beyond the immediate "affordability battlefield" to build new approaches to climate policy that will deliver on both sides of the affordability coin: on the one hand, lower costs for more sustainable and resilient goods and services; on the other, the shared economic prosperity necessary for all Californians to be able to pay.

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## **The Case for A Broader Approach: Beyond Regulatory Policy Alone**

In our conversations, we heard broad support for the proposition that California must update its vision of climate progress and focus on delivering results for working people—and that a fundamental challenge lies in the reality of how our climate policies work on the

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<sup>1</sup> Passage of Proposition 4, California's Climate Bond, in November 2024 should not be seen as a testament to the power of climate messaging. The ballot title and campaign messaging emphasized safe drinking water, wildfire, and other elements that tested best with voters.

ground.

The experts we spoke with described various ways that scaling up a climate-aligned economy is a different task than the one California's current climate policies were designed to solve:

- The regulatory approach of the 1970s, extended in the last decades to manage greenhouse gases like local pollutants, achieved important gains including reduced emissions, cleaner air and commercially viable clean technologies.<sup>2</sup> Strong pollution standards and big climate investments are critical. But an economy-wide energy transition requires not only cleaning up existing industry but also **building out a new set of infrastructure and industries** that will be the backbone of a new climate economy, while not worsening economic inequality.
- Our core climate policies **limit California's influence by prioritizing greenhouse gas pollution cuts in California over effective contributions to a global clean transition**. Both the cap-and-trade program and the revenue it produces are focused on reducing tons of greenhouse gas emitted in California. This is an understandable goal—and reductions of toxic and smog-forming pollutants are urgently needed—but it misses the larger global context for greenhouse gas pollution, in which in-state reductions alone are a partial and misleading metric for progress.
- Over the last two decades, the U.S. climate movement led by California has focused primarily on driving innovation and technological solutions through regulatory policy, with an emphasis on setting and pursuing ever-more-ambitious "net zero" or carbon neutrality goals in specific economic sectors. But **that task is not one emissions regulations can perform on their own**. The problem now is the need to mainstream and attract private capital to technological advances that can accelerate economic transformation, while ensuring the durability of that transformation by easing long-standing inequities, promoting public benefits, and building resilience to climate and economic shocks.
- It also is increasingly important to **address the climate impacts that are already baked into our system with ever greater costs as a result**. The anticipated costs of adaptation in California are breathtaking; even in "good" fiscal years, they have been secondary to emissions reduction programs and have begun to compete with the broader social safety net for public dollars. Without a change in direction, state and local budgets will be crunched, pinching both mitigation and resilience budgets, and creating real possibility of municipal bankruptcies. This looming threat requires managing physical risks in ways that better align economic incentives toward investment in climate adaptation, rather than continuing to shift disaster costs onto taxpayers through public budgets.

Throughout our conversations, many experts emphasized the need to design **climate policy that works for working people**. By not bringing in economic policy tools in tandem with climate policy tools, we've lost touch with the very people we need to welcome with more far-reaching climate action. We need to expand our thinking about what

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<sup>2</sup> California Air Resources Board Summary of Emissions Data 2000-2020 <https://ww2.arb.ca.gov/ghg-inventory-graphs>

constitutes meaningful climate action; without equally ambitious policies driving economic equity and resilient economic development, our existing policy tools are not sufficient to affect a just energy transition or build political will.

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## **Pathways for Integrating Climate and Economic Policy**

California's climate policy framework has set greenhouse gas emissions reductions as the primary metric for success, including by centering climate action in its air pollution regulator, the California Air Resources Board (CARB). Although California has a few high-level economic offices, CARB has no real economic development agency-scaled partner that can pair climate regulations with a broad-based economic strategy. And while the state has made significant progress in maturing its resilience agenda, it still lacks durable funding and financing streams and delivery structures for adaptation and resilience planning and implementation.

Predictably, this unbalanced structure has not resulted in comprehensive and durable state and regional economic delivery capacity for climate-aligned economic programs, and has led to under-investment in approaches that also support improved quality of life at the local level. The state regularly debates the best use of CARB's cap-and-trade revenue, even though these funds represent only a few percent of the total state budget—and those revenues, by law, often cannot be deployed to drive forward whole-of-economy strategies. Now, courtesy of federal rollbacks and state cost-of-living concerns, CARB is losing both authority and political support —ultimately because it is being asked to do a job that it isn't designed to do.

It is time for a real policy conversation about the agencies, tools, and investments California needs to pivot its economy at scale to meet this moment. This year's legislative session has accelerated the conversation, with high stakes legislation and debate on the carbon market, power grid, and CEQA system—but so far, without a clearly aligned political and policy theory to deliver long-term change and unified environmental and economic development community engagement. We aim to help produce that shared theory of change, with aligned thought leadership and a strong and diversified field to help deliver it.

We aim to explore ways to pivot California's climate policy framework to **include goals and metrics for economic development, equity, adaptation, and resilience** that have the potential to broaden its impact and appeal, and **backing them with government and market capacity and funding to deliver**.

Fundamentally, addressing urgent climate issues requires both short-term and long-term policy approaches. Longer-term policy approaches include instituting more consistent and coordinated investment into promising technologies and programs; driving workforce and economic development solutions that help communities access new opportunities; and generating sustained, durable funding and financing to invest in making the economy more resilient. **These policy approaches can raise incomes and access to clean energy and economic opportunities, while driving down energy costs.** Below we summarize some of the initial policy concepts that we heard and would further develop.

## **Aligning Market Incentives and Building a Distributively Fair Economy**

There is a significant gap between current investment and what is required to reach even our existing climate and economic goals. We can build strategies that scale up capital in key sectors, aid transitions away from fossil fuels through economic diversification and regional budget stabilization, and grow private firms in areas of California comparative advantage within the global clean economy. Key strategies include:

- **Scale up state and local capacity with purpose-built agencies.** Explore creating a cabinet-level economic development agency for California that can deliver a climate-aligned economic agenda, both through its own work and through alignment with other key agencies and departments. In the near term, consider working with the Governor’s Office to drive stronger coordination of existing efforts and establishment of more high-level, economy-focused roles within climate and energy agencies.
- **Reimagine public funding for climate:** Direct proactive coordination between California state funding entities around a shared climate-aligned economic strategy—including merging funding streams where possible. Create more stable, predictable revenue streams linked to economic development and climate policy, moving beyond the current siloed approach focused primarily on grants to commercialize clean technologies.
- **Driving private investment:** Nearly 70 percent of all global clean energy investment came from private sources in 2024. Identify strategies to better align the state's climate goals with private investment opportunities, including through industrial policy approaches that bear fruit in other states and countries. In the near term, work with the I-Bank and GOBiz to scale up their early “Investor Exchanges,” and Climate Catalyst Fund loan approaches to reach a broader and more diversified investor audience, and a wider set of projects on the ground.
- **New approaches to accelerate economic opportunities:** California has advantages in multiple global sectors that can drive decarbonization, but needs to exploit these in a thoughtful and strategic way that prioritizes durability, resilience, and regional strengths. Target regional economic growth strategies, including "Green Empowerment Zone" models and "Climate Resilience Districts" to help drive investment and improve insurability at the community scale.
- **Accelerated project delivery:** Speed up approvals and construction of key projects while reducing overall cost. Automatic or near-automatic approvals for key projects in the right places would yield large climate and economic results.

## **Regional Strategies for Resilient Growth**

In California, our regions are the size of many states, with a similar diversity of resources, economic opportunities, and cultures. As the federal government pulls back from climate funding, it is more important than ever to pivot towards a region-by-region orientation that drives shared prosperity through:

- **Regionalizing investment:** Build out regionally specific aligned regulatory, incentive, and investment strategies to promote specific clean industries and diversified economic transitions in key regions, with a focus on inland and rural California, as well as neglected urban cores.
- **Tying revenue streams to regions:** Create stable, predictable revenue streams

linked to durable, competitive economic development and climate policy that builds on key assets in each region, from viable forest management and bioeconomy strategies in the mountain counties, to meaningful agricultural and carbon sequestration opportunities in the Central Valley, to an innovative creative and tech economy on the coast.

## **Climate and Social Resilience**

Climate mitigation and resilience investments not only avoid future harm; they strengthen communities through economic growth and equitable development. Driving regions-up, inclusive economic development that will result in long-term support for economic transformation requires the state to ensure deep community engagement, foster cross-sector collaboration, make investments accessible and transparent, build local community capacity, and integrate place-based solutions. Key approaches include:

- **Community benefits:** Explore ways workforce and community agreements (Community Benefits Agreements, Good Neighbor Agreements, Project Labor Agreements) can become standard practice in infrastructure and climate spending.
- **Innovative Business Models:** Explore models for alternative corporate and ownership structures, including incentives for Public Benefits Corporations, employee ownership models, and equity sharing between project developers and key stakeholders.
- **Transition plans for communities:** Build on California's progress by establishing a coordinated cross-agency approach that leverages state funds and policy levers, looking at models from other states and countries, such as the creation of an Office of Energy Transition (similar to CO, NM, and other Western states).
- **Tackling the insurance crisis:** Couple sustained investment in risk reduction with regulatory reforms that improve overall market sustainability. Explore additional regulatory, budget, and policy changes that improve insurability and address government budget volatility.

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## **Building and Delivering a "California Climate-Smart Economy Initiative"**

Over the past six months, our conversations have revealed a consensus that for a new climate policy agenda to be successfully passed and implemented, both the government and the movement must transform to create new capacity, broader coalitions, and political power.

This requires designing a set of policies that can reinforce a stronger and more resilient climate constituency. To this end, we propose inviting leaders from across our broad networks of economic, climate, resilience, and equity organizations to iterate towards a clear set of goals and a long-term implementation plan supported by a broad field. We seek an active set of partners and evangelists who believe an integrated climate and economic agenda can deliver for them and their constituents. This requires a strong communication, outreach, and advocacy strategy to deliver both a clear vision and its sustained implementation.

California will have new political leadership in January 2027, and we must start preparing

now. The near-term timeline we envision would focus on introducing policy ideas responsive to emerging issues throughout 2025, and engaging directly with the growing field to test and develop principles for our shared engagement—with this effort maturing throughout 2026 through policy forums, engaged media work, and policy development—all designed to deliver a clear direction and implementable policies for new leadership.

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## **Conclusion**

Our climate future is threatened by legal, political, and economic headwinds. California has led the U.S. and the world in climate action, but its leadership going into the next phase of climate policy is unclear. As the federal government retreats and the world economy rushes forward, California has a chance to lead again.

There is growing consensus that neither the historic emissions-first regulatory approach nor a laissez-faire faith in the economics of clean energy will be enough to steer the state and the world through the choppy waters ahead. Instead, California will need to face its economic challenges and take an active role in solving them—making the investments that can help complete a fair economic transition.

***Climate leadership cannot rest on blocking attacks on climate progress; it must include rethinking our climate policy solutions so that they equally value and deliver economic prosperity, emissions reductions, and resilience.***

Let's show the world that the fourth largest economy in the world can again design climate and economic policies that deliver for people, the planet, and our future.<sup>3</sup>

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<sup>3</sup> Special thanks to early reviewers of this paper and to Tim Raphael for writing and editing support.