California Climate Laws

Greenhouse Gas Emissions and Climate-Related Business Risks

Impacting All Companies That Work in the State

California's landmark legislation requires large businesses operating in California to disclose their greenhouse gas emissions and climate-related business risks. Companies working in California exceeding $500 million in revenue will be subject to these new laws, and smaller companies will likely experience increased pressure, as larger companies work to accurately calculate their Scope 3 GHG emissions.

Are you covered by the rules?

Senate Bill 253 (SB-253), Climate Corporate Data Accountability Act, and Senate Bill 261 (SB-261), Climate-Related Financial Risk Act, apply to:

- Public and private companies
- Formed under the laws of California, any other U.S. state or the District of Columbia or under an act of the U.S. Congress
- That do business in California
- With annual revenue of greater than $1 billion for SB-253 and $500 million for SB-261

Where is the applicable legislation?

- California Senate Bill 253: Climate Corporate Data Accountability Act
- California Senate Bill 261: Climate-Related Financial Risk Act

About Us

HDR is a 100% employee-owned professional services firm. Founded over a century ago to bring electricity to a changing world, we are now a global company specializing in architecture, engineering, environmental and construction services.

Our success in built and natural environments continues as we collaborate to solve our clients' and communities' most complex challenges.

The Race to Climate and GHG Regulation

While many companies already report their GHG emissions, due to European Union requirements or in response to investor demands, the California laws will be the first climate compliance requirements for many corporations. These laws align with a much larger, global trend toward transparent reporting of climate-related financial data and GHG emissions.

What are the disclosure rules for SB-253?

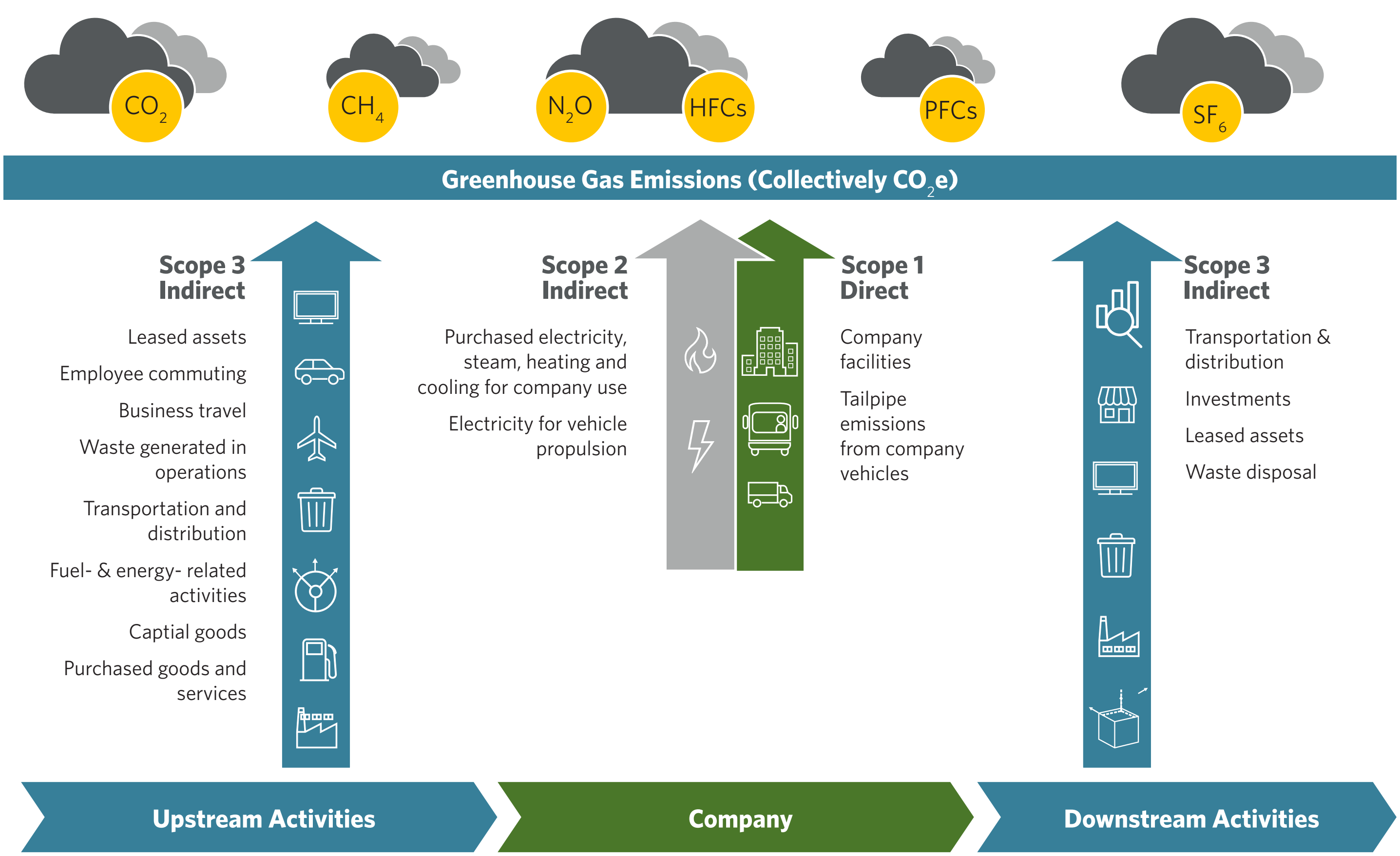
In conformance with the Greenhouse Gas Protocol, covered companies will be required to annually disclose their Scope 1 and 2 GHG emissions beginning in 2026, and the California Air Resources Board (CARB) has suggested that reporting will have a June 1, 2026, deadline. Indirect Scope 3 emissions disclosure will begin in 2027. A third party will need to be engaged by impacted companies to assure these disclosures, and the inventory will need to undergo an independent audit before disclosure. If a company fails to file in a timely manner, it will incur administrative penalties up to $500,000.

What are Scope 1, Scope 2 and Scope 3 GHG emissions sources?

Scope 1 emissions are those that result directly from a company's activities. In other words, the company owns and can control these emissions. An example would be emissions generated by a company-owned vehicle.

Scope 2 emissions are those that are released indirectly. For example, the electricity that a company purchases and uses in its facilities is Scope 2.

Scope 3 refers to all indirect emissions produced from a company's entire value chain. This includes businesses from which materials and services are purchased, as well as employee commutes or business travel. Scope 3 emissions are generally the largest for most companies, and they are also the most challenging to estimate. Scope 3 covers 15 topics, though not all 15 topics are material/relevant for every type of company. Regardless, Scope 3 requires a lot of time and coordination among personnel across the company to gather the activity data. Many companies need time to launch systems to inventory Scope 3 emissions for the year. These systems have a large maturity curve and, each year, the information process usually gets better and more accurate. Since Scope 3 emissions often account for the largest bulk of emissions at a company (sometimes 90% or greater), it is imperative to track the right data.



What are the disclosure rules for SB-261?

Companies that meet the law's criteria will be required to report climate-related financial risks, as well as measures used to mitigate these risks, under the Task Force on Climate-Related Financial Disclosures Framework or an equivalent. The first climate financial risk reports must be publicly released by January 1, 2026. CARB will open a docket for covered entities to post a link to their report beginning December 1, 2025, and the docket will remain open until June 2026.

What are climate-related financial risks?

Climate-related risks include, but are not limited to, risks to corporate operations, provision of goods and services, employee health and safety, capital and financial investments, and shareholder value. The intent of the law is to require that companies consider the physical risk associated with climate factors and transitional risk due to a decarbonizing economy. Physical risks to business activities and assets include wildfires, flooding, storms and extreme heat. The law provides an opportunity for companies to protect their interests by being proactive in assessing the risk of climate events to their company, from a financial perspective, as well as requiring the company to identify potential loss mitigation strategies.

Preparing Your Organization

CARB is working to develop implementing regulations and clarify what it means to "do business" in California. CARB is also expected to explain how the $500 million and $1 billion revenue thresholds are determined, as well as provide the specifics for reporting emissions and climate-related financial risks.

Recent CARB workshops shared draft concepts for identifying regulated businesses and the associated registration fees. Despite the fact that these elements are still being clarified, preparing your company to comply with these new laws is important. It takes time and effort to develop GHG inventories and evaluate a company's climate risk. At a minimum, you will want to review whether your company or subsidiaries are likely to be subject to the new rules. It is also advisable that you consider actions, like the following, in anticipation of complying with these new rules:

- Enhance your understanding of GHG terminology, standards and guidance
- Undertake discussions with third-party assurance providers and carbon accountants
- Begin to assemble data and establish a GHG baseline if you have not already done so
- Identify potential climate risk mitigation strategies that are feasible for your company in the near and longer term

If your company already has performed internal assessments of Scope 1, 2 or 3 emissions and/or already developed reports on climate-related financial risks, you should determine whether your calculations and assessments are consistent with the methodologies, standards and protocols required under the new laws.

How HDR Can Help

While we are most well-known for adding pride and structure to communities through high-performance buildings and smart infrastructure, we also support clients in developing and managing their GHG inventories, planning for resilience infrastructure, and supporting other climate-related needs — many of which may be required for you to comply with the new laws. Our climate scientists, air quality specialists, engineers, architects and planners can work with you to:

- Better align your current sustainability efforts with the expectations of these new laws
- Update your existing sustainability plans to reflect progress
- Consult/brainstorm unique solutions to addressing climate-related risks and GHG emissions reduction
- Develop sustainability vision, goals, targets and metrics
- Establish a baseline GHG inventory if not yet completed
- Identify GHG emissions reduction strategies
- Conduct scalable climate risk and vulnerability assessments based on selected climate scenarios
- Assess climate-related financial risks and outline an action plan moving forward

Regardless of new laws and regulations, many of our clients are addressing the changing climate and its risks through adaptation strategies, as well as mitigation efforts focused on GHG emissions reduction. New technologies, incentives and economic benefits support a call to action. At HDR, we have the technical resources available to support our clients as you navigate this changing environment.

Sustainability and Resilience Services

More than two decades ago, we established our sustainable solutions program to integrate sustainability into all of our business practices. Our specialists are leaders in climatology, natural resources, renewable energy, green rating systems, commissioning, measurement and verification, and community planning. We provide you with implementable strategies that are beneficial for your business, our communities and the planet.

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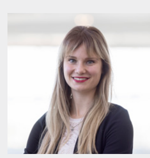

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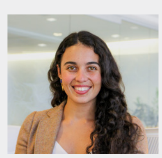

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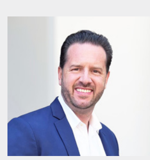

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