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QUARTERLY LEGISLATIVE UPDATE

To: **City of Santa Clara**

From **Townsend Public Affairs**
Casey Elliott, Vice President & Chief Strategy Officer

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Subject: **Q4 Legislative Update**

STATE UPDATES

Legislative activity at the Capitol remained quiet in the months of November and December, as lawmakers continued their interim recess, spending the majority of their time in their districts addressing local priorities and engaging directly with constituents. Formal policy deliberations and hearings were limited as member offices built out their legislative packages for introduction in 2026.

In contrast, the political landscape continued to evolve, particularly around the 2026 gubernatorial contest. With Governor Newsom ineligible to seek another term, a broad and still-expanding group of potential candidates has begun laying the groundwork for statewide campaigns. These early efforts have centered on elevating policy themes such as housing costs, education outcomes, and long-term infrastructure investment.

Although the Legislature is not expected to take up major policy initiatives until it reconvenes, activity in December has largely been behind the scenes, as legislators and stakeholders prepare for the start of the new legislative year and a competitive 2026 election cycle.

STATE BUDGET UPDATE

LAO Releases Fiscal Outlook for 2026-27

On November 19th, the Legislative Analyst's Office (LAO) released its annual Fiscal Outlook for the State's 2026-27 budget cycle, offering an independent assessment of California's budget condition for the coming fiscal year along with multi-year projections of revenues, expenditures, and structural balance. As always, the analysis reflects existing state and federal policies and does not anticipate future actions by the Administration, Legislature, or federal government. Despite stronger personal income tax collections, the LAO now projects an $18 billion budget deficit, which is larger than previously expected.

Recent state revenues have strengthened, driven largely by stock-market gains linked to AI-related growth in the tech sector. However, the LAO cautions that these trends may not be sustainable and notes parallels to the dot-com bubble. Moreover, the recent revenue boost does not improve the State’s bottom line because constitutionally required increases in Prop 98 school funding and Prop 2 debt payments absorb most of the gains. Additional cost pressures across Medi-Cal, CalFresh, pensions, and corrections further widen the shortfall.

According to the LAO, beginning in 2027-28, the State is projected to face ongoing structural deficits of roughly $35 billion per year as expenditure growth continues to outpace revenues, major cost increases associated with HR 1 are phased in, and one-time solutions expire. After three consecutive years of shortfalls, California’s reserves have declined to approximately $14 billion, and most temporary measures have already been exhausted, leaving the State less prepared for an economic downturn.

The Governor’s upcoming January budget proposal will provide updated economic and revenue assumptions produced by the Department of Finance, but the LAO advises the Legislature to prioritize ongoing solutions rather than temporary fixes. They recommend treating any unexpected revenue gains as one-time in nature and directing them toward rebuilding reserves or reducing budgetary debt rather than expanding ongoing program commitments.

Department of Finance Releases December 2025 Bulletin

The California Department of Finance’s December 2025 Finance Bulletin, points to steady economic conditions, paired with stronger-than-anticipated General Fund revenue performance. Nationally, the U.S. unemployment rate rose to 4.6 percent in November, its highest level since September 2021, reflecting slower job growth and ongoing disruptions associated with the federal government shutdown. Job gains for 2025 remain well below 2024 levels and have been concentrated primarily in private education and health services.

In California, labor market conditions continued to ease, with the statewide unemployment rate increasing to 5.6 percent in September amid a prolonged period of job losses throughout 2025. Modest employment growth was recorded in education, health services, leisure and hospitality, and government; however, these gains were more than offset by continued declines in professional services, manufacturing, and trade-related sectors. These patterns underscore persistent pressure on industries most exposed to higher interest rates and weaker consumer demand.

Even as labor market indicators softened, state revenues remained relatively strong. Preliminary General Fund agency cash receipts exceeded Budget Act projections by $454 million in November, largely driven by higher-than-expected personal income tax collections. Withholding and estimated payments continued to outperform forecasts, while refunds remained below anticipated levels. Since April, cumulative General Fund receipts are $9.1 billion above forecast, contributing to a stronger near-term fiscal outlook than was assumed at the beginning of the fiscal year.

Taken together, the bulletin suggests that California enters early 2026 with a measure of fiscal flexibility, although economic signals warrant close monitoring. Continued strength in personal income tax revenues may help cushion near-term labor market softness, but a sustained slowdown in employment or further weakening in consumer and business activity could exert downward pressure on revenues as the fiscal year progresses.

LAO Releases Overview of HR 1 and Its Implications for CalFresh

On November 13th, the Legislative Analyst's Office (LAO) released an assessment of the federal HR 1, the One Big Beautiful Bill Act, outlining its anticipated impacts on CalFresh. The analysis highlights significant changes to program eligibility, benefit levels, and state and county administrative costs.

CalFresh, the State's implementation of the federal Supplemental Nutrition Assistance Program (SNAP), provides monthly food benefits to low-income individuals and families to help them purchase groceries. Benefits are distributed via an electronic benefits card and play a central role in addressing food insecurity and supporting basic nutritional needs across the State.

According to the LAO, HR 1 proposes broad revisions to federal nutrition programs that are expected to reduce CalFresh participation and benefit amounts. A major component of the bill is the expansion of work requirements for Able-Bodied Adults Without Dependents. HR 1 would increase the age range subject to time-limited benefits, narrow several existing exemptions, and impose more stringent standards for waivers based on local economic conditions. Collectively, these changes could render a substantial share of current recipients ineligible. The measure also reduces eligibility for certain immigrant groups, which the LAO estimates would remove tens of thousands of Californians from federally funded food assistance.

Beyond eligibility changes, HR 1 includes provisions that would lower benefits for many households. The bill places restrictions on how the federal Thrifty Food Plan can be updated – limiting future increases in maximum benefits – and curtails California's ability to use its Standard Utility Allowance, which currently raises benefits for many recipients. It also eliminates federal nutrition education funding starting in October 2025. These changes are projected to result in widespread reductions in monthly support and, for some households, the complete loss of assistance.

HR 1 also shifts additional financial responsibility from the federal government to states and counties. Beginning in 2027, states with payment error rates above newly imposed thresholds would be required to cover a share of benefit costs. Based on recent performance, California could potentially be responsible for an estimated $2 billion in annual CalFresh benefit payments unless error rates improve. Administrative costs are also expected to rise in 2026 when the federal reimbursement rate decreases, increasing state and county obligations for program operations.

To support preparation for these potential changes, the enacted 2025–26 state budget includes funding for system updates, county implementation efforts, payment error reduction strategies, and resources for food banks. The LAO notes that the ultimate impact of HR 1 will depend on forthcoming federal guidance and the timelines for implementing the new requirements.

Cap and Invest Auction Revenues Released

In its December 9 publication, the Legislative Analyst's Office (LAO) reported an assessment of the November 2025 Cap-and-Invest quarterly auction, reporting that the California Air Resources Board anticipates approximately $844 million in proceeds to be deposited into the Greenhouse Gas Reduction Fund (GGRF). While this outcome is generally consistent with the August auction, it came in modestly below the quarterly revenue assumption reflected in the enacted budget, which estimated roughly $870 million per auction. Revenues were also down significantly compared to the same auction period last year, declining by approximately $150 million. Should this pattern persist, the LAO cautions that total GGRF revenues for the 2025–26 fiscal year could come in about $100 million below budgeted levels, potentially prompting adjustments to discretionary allocations later in the fiscal year.

Looking ahead, recent statutory changes will reshape how GGRF revenues are allocated beginning in 2026–27. SB 840 restructures portions of the fund by replacing certain percentage-based allocations with fixed-dollar commitments and revising the order in which funds are distributed. Under this new framework, fully funding the programs, discretionary items, and administrative costs identified in statute would require approximately $4.3 billion annually. In addition, legislative intent language contained in SB 840 and AB 102 outline up to $1.5 billion in potential discretionary uses, including wildfire response, transit affordability, climate innovation initiatives, and park rehabilitation projects.

The LAO notes that if auction proceeds remain near current levels, GGRF revenues in 2026–27 could total roughly $3.4 billion, supplemented by an estimated $600 million in interest earnings. Even when combined, these revenue sources may be insufficient to fully meet statutory funding targets, raising the prospect of funding shortfalls for certain programs. Upcoming auctions scheduled for February and May 2026, following the release of the Governor's January Budget, are expected to provide additional insight into how the Administration intends to manage GGRF resources and prioritize climate-related investments.

ELECTION UPDATE

Proposed Insurance Reform Initiative Clears Circulation

The "Insurance Policyholder Bill of Rights" initiative statute was cleared for circulation in December. The measure proposes new statewide standards governing homeowners insurance policies, with a particular focus on wildfire-related risk. Under the proposal, the Insurance Commissioner would be directed to develop wildfire safety criteria for residential properties, and insurers would be required to offer coverage to homeowners whose properties meet those standards. Insurers that refuse to provide coverage to qualifying properties would be barred from selling homeowners or automobile insurance in California for a period of five years.

The initiative also proposes expanded requirements related to policy non-renewals and coverage reductions. In such cases, insurers would be required to provide detailed justifications for their actions, specify any repairs necessary to retain coverage eligibility, and grant homeowners additional time to complete those repairs. For properties destroyed in declared disasters, the measure would require insurers to pay the full personal property policy limit, up to $350,000, without requiring an itemized accounting of losses.

Additional provisions would authorize refunds when insurance rates are deemed excessive and broaden the consumer protection authorities within the Department. Collectively, these changes are intended to enhance transparency in insurer decision-making and improve communication between insurers and policyholders.

To qualify for the ballot, proponents must submit 546,651 valid signatures by May 26, 2026. If qualified, the initiative would appear on a statewide ballot for voter consideration and, if approved, would have the same legal force as legislation enacted by the Legislature.

EXECUTIVE BRANCH ACTIVITY

Throughout December, Governor Newsom advanced a series of initiatives focused on accountability, public safety, and targeted community investment across the state.

Early in the month, the Governor announced the launch of a new statewide online portal allowing Californians to report suspected misconduct by federal agents operating within the state. The portal enables members of the public to submit photos, videos, or written accounts of incidents they believe may violate constitutional or statutory protections. Submissions will be reviewed by the California Department of Justice, which may use the information to inform investigations or potential legal action. State officials emphasized that federal agencies retain the authority to enforce federal law, but must do so within constitutional boundaries. They clarified that the portal is intended as a transparency and information-gathering tool, rather than a replacement for emergency services or formal law enforcement reporting.

Later in December, Governor Newsom announced a package of actions aimed at strengthening communities through investments in housing, public health, and youth services. The Administration will distribute more than $52 million in federal funding to support local infrastructure improvements and homelessness-related services statewide. These investments are expected to benefit more than 160,000 residents through projects such as homelessness prevention programs, emergency shelter, rapid rehousing efforts, and facility upgrades.

The Governor also highlighted progress under the state's CalRx initiative to expand access to naloxone, reporting that state-supported distribution efforts have contributed to the reversal of nearly 400,000 opioid overdoses. Beginning January 1, 2026, CalRx-branded naloxone nasal spray is available over the counter without a prescription for $19 per dose, while free naloxone distribution to eligible organizations will continue through existing state programs.

In addition, Governor Newsom announced nearly $47 million in grants to support youth substance use prevention initiatives. The funding will be directed to community-based and tribal organizations providing mentorship, leadership development, and prevention services, with a particular emphasis on supporting young men and boys facing elevated risk factors.

Attorneys General Coalition Challenges Federal Policy Affecting H-1B Visa Applications

On December 12, California Attorney General Rob Bonta announced that California, along with a coalition of 19 attorneys general, filed a lawsuit challenging a new $100,000 fee imposed by the Trump Administration on certain H-1B visa petitions. The lawsuit seeks to block implementation of the fee, which would apply to new applications under the H-1B visa program commonly used by employers to hire workers in specialized occupations.

According to the complaint, the federal government lacks statutory authority to impose a fee of this magnitude and adopted the policy without following required administrative procedures. The lawsuit argues that the increase far exceeds existing visa-related fees and could create significant financial burdens for employers that rely on the H-1B program, including public agencies and nonprofit organizations.
The coalition is asking the court to halt enforcement of the fee, asserting that it violates federal administrative law and exceeds executive authority. The attorneys general contend that, if allowed to take effect, the policy could have far-reaching consequences for workforce recruitment across key sectors.

PRIORITY LEGISLATION

Legislative Calendar

Below are the upcoming relevant dates for the Legislature:

January 5th – Legislature reconvenes session
January 10th – Deadline for Governor to release his January Budget proposal
January 16th – Deadline for policy committees to consider two-year bills in their House of Origin
January 23rd – Deadline for fiscal committees to consider two-year bills in their House of Origin
January 31st – Deadline for two-year bills to be passed out of their House of Origin

Priority Bills

The Legislature is scheduled to reconvene session on January 5th. At that time, legislators will be able to introduce new bills for consideration in 2026. Additionally, the Legislature will utilize the month of January to consider two-year bills that remain in their House of Origin. These measures, which were introduced in 2025, but did not advance beyond the House they were introduced in, will need to be approved by policy committees, fiscal committees, and the Senate or Assembly Floor prior to the end of January. Any two-year bill that remains in its House of Origin after the January 31st deadline will be considered dead and no longer eligible for consideration.

For bills that are newly introduced in 2026, measures will need to be in print for 30 days before they are eligible to be considered in a policy committee. The bulk of new bills will be considered by policy committees during the month of April.

FEDERAL UPDATES

LEGISLATIVE BRANCH ACTIVITY

Federal Government Shutdown Ended on November 12

The federal government shutdown officially ended on November 12th when a number of moderate Senate Democrats agreed to vote with Republicans to pass a modified version of the House-passed clean continuing resolution, HR 5371, with an end date of January 30, 2026. The House then passed the measure, returning to Washington DC after being out of session since September 19, followed by the President signing the resolution that evening.

In exchange, Democrats were assured a December floor vote in the Senate to extend the Affordable Care Act (ACA) health insurance premium subsidies set to expire at the end of the year, the reversal of layoffs of federal workers during the shutdown, and a temporary prohibition on further layoffs until January 30, 2026. There is no guarantee the vote to extend the subsidy passes, and House Speaker Mike Johnson refused to guarantee a floor vote in the regardless of Senate action. Attached to the shutdown ending continuing resolution were three of the twelve regular, full-year appropriations bills intended to jumpstart a return to the normal process of funding the government.

The three full-year appropriations bills are generally the bipartisan versions previously passed out of the Senate Appropriations Committee. Included are the Agriculture-FDA, Military Construction and Veterans Affairs, and Legislative Branch bills, which would fully fund the Supplemental

Nutrition Assistance Program (SNAP/CalFresh), another program for Women, Infants, and Children (WIC), and Temporary Assistance for Needy Families (TANF/CalWORKS).

Also included are a number of extensions of authorities for Farm Bill programs not previously included in HR 1, the One Big Beautiful Bill Act, and authorities for certain telehealth, prescription, and health center programs that expired at the end of Fiscal Year 2025 on September 30th.

Congress Sees Minimal Progress on FY26 Funding Bills, Efforts Ongoing in Both Chambers

Efforts were ongoing in December to finalize the appropriations process for Fiscal Year 2026 as HR 5371 the continuing resolution (CR), which reopened the federal government is set to expire on January 30, 2026. The House and the Senate remain stalled on advancing a minibus package combining between three and five of the nine remaining full-year appropriations bills left to pass.

The House is working towards a smaller set of three to four bills, while the Senate is seeking to advance five bills covering Defense, Labor-HHS-Education, Transportation-HUD, Commerce-Justice-Science, and Interior programs. The Senate's proposal would contain the vast majority of discretionary spending alongside Community Projects Funding and Congressionally-Directed Spending requests, also known as earmarks. Some Senators are keeping the Senate from advancing their minibus over the size of the packages, objections to the inclusion of earmarks, and previous legislative promises given during the first shutdown by Senate Majority Leader John Thune.

In parallel, Democrats have not yet been included in negotiating the bills, which require 60 votes in the Senate and therefore must be bipartisan. Aside from the policy language usually attached to the legislation, leadership has not yet finalized topline funding numbers for each bill and some of the larger funding accounts, which would allow committee staff to begin compiling floor-ready legislation. It generally takes six weeks for staff to draft and vet floor-ready bills once topline numbers have been agreed to. In theory, a tighter timeline is attainable if appropriators are able to finalize more detailed negotiations, but the shortened timeframe increases the risk of a second, albeit partial, government shutdown.

House Passes Permitting Reform Efforts, Work Expected to Continue Into 2026

During the two weeks of session in December, the House worked through a number of permitting reform bills intended to streamline and reform the National Environmental Review Act (NEPA) environmental review process for certain infrastructure projects and bring federal law into compliance with a Supreme Court decision regarding the definition of Waters of the United States (WOTUS).

On December 9, the House passed HR 4503, the ePermit Act, on a bipartisan vote. The bill would digitize and streamline National Environmental Policy Act (NEPA) reviews for certain federally subsidized projects. The measure would require the Council on Environmental Quality (CEQ) to develop and implement software that would centralize data relevant to a project, allowing multiple agencies and offices to access it and avoid redundant work.

On December 11, the House passed HR 3898, the PERMIT Act, which would limit the scope of the Clean Water Act by creating exclusions for certain projects and waterways that could be considered "navigable" and making other changes to the definition of Waters of the United States

(WOTUS). The Environmental Protection Agency recently released a proposed rule making additional modifications to WOTUS definitions.

On December 12, the House passed HR 3668, the Improving Interagency Coordination for Pipeline Reviews Act, which would centralize environmental review authority for interstate natural gas pipeline projects with the Federal Energy Regulatory Commission (FERC).

The week of December 15, the House passed HR 4776, the SPEED Act, a bipartisan NEPA reform package that would notably create effective equivalency for CEQA and NEPA reviews and limit the types of projects subject to a full NEPA review, and HR 3632, the Power Plant Reliability Act of 2025, would allow FERC to delay power plant retirements and has the potential to bias generation towards older, and potentially less efficient, fossil fuel power sources.

HR 3616, the Reliable Power Act, would create a new process for determining and prioritizing grid stability when the federal government, via the North American Electric Reliability Corporation (NERC) and FERC, assesses the grid impacts of new regulations imposed by other federal agencies or states. Under the bill, FERC would be required to review the proposals and provide recommendations on how to prevent a negative impact on bulk-power systems. The agencies wouldn't be allowed to finalize the proposals without FERC approval.

The Senate is anticipated to consider the bills in the Spring as the House continues to work on regulatory reforms to make federally funded construction easier.

Housing for the 21st Century Act Introduced, Promises Housing Policy Reforms

On December 11, HR 6644, the Housing for the 21st Century Act, was introduced by House Financial Services Committee Chairman French Hill and Ranking Member Maxine Waters. The Committee also provided an analysis of the legislation.

The introduction of the bill follows the Chairman's successful effort to remove S 2651, the ROAD to Housing Act, from the 2026 National Defense Authorization Act, which became law in mid-December. The Housing for the 21st Century Act has significant overlap with housing policy changes, though it is significantly less proscriptive than the Road to Housing Act.

The bill would require the Department of Housing and Urban Development (HUD) to produce zoning recommendations, reclassify housing projects exempt from NEPA reviews, order the government to create policy definitions for middle-income and workforce housing, update HOME Investment Partnerships, reform Community Development Block Grants (CDBG) and make them contingent on reviews of local land use policies, and creates baseline policies for manufactured homes.

The Committee on Financial Services included the Housing for the 21st Century Act in a December 17 markup. The Chairman expressed confidence the bill would be brought for a vote on the floor in Spring 2026.

EXECUTIVE BRANCH ACTIVITY

HUD Temporarily Revoked Updated Continuum of Care Application, Judge Issues Preliminary Injunction Further Complicating the Case

On December 8, the Department of Housing and Urban Development (HUD) revoked the Fiscal Year (FY) 2025 Notice of Funding Opportunity (NOFO) for the Continuum of Care (CoC) program. The NOFO intentionally rebalanced the portfolio toward transitional housing and Supportive Services Only projects and conditioned a much larger share of funding on enforcement-oriented approaches.

The most consequential change was a 30% cap on the amount of annual renewal demand (ARD) funding available for permanent supportive housing (PSH). Previously, 90% of funding was allocated for PSH, and CoC's operating PSH programs in that 90% were classified as Tier 1 and considered part of the ARD, providing strong protection to existing projects. The NOFO was challenged by a number of states and HUD intends to release an updated version with "technical corrections." In their filing, HUD noted the January 14 deadline will likely have to be changed, though it did not guarantee it would be. In their notice, they also stated they do not plan to renew existing projects and will continue to pursue the policy changes in the NOFO. Regardless of action on the new NOFO, rent payments for permanent supportive housing recipients awarded by prior NOFOs will likely lapse beginning in January.

A preliminary injunction issued on December 19 further complicated the issue, effectively preventing HUD from reissuing the same NOFO and requiring that it maintain the status quo in the interim. HUD has not responded formally, or provided details on how they intend to comply, though the Department confirmed to the Judge that they have notified appropriate staff of the decision and that they intend to comply

In California, the updated NOFO was expected to create a $500 million dollar deficit and effectively remove up to 80,000 recipients from the program. HUD CoC generally serves individuals with severe disabilities, mental illness, and chronic health conditions that rely on the CoC funding for housing. HUD CoC is designed to quickly rehouse homeless individuals, families, persons fleeing domestic violence, dating violence, sexual assault, and stalking, and youth while minimizing the trauma and dislocation caused by homelessness.

USDA to Withhold SNAP Administrative Payments Unless California Provides Recipient Data

During an early December Cabinet Meeting, Department of Agriculture (USDA) Secretary Brooke Rollins reiterated her previous intention to withhold funding for the Supplemental Nutrition Assistance Program (SNAP), administered in California as CalFresh, until the State complied with a July request to provide recipient information to USDA for additional eligibility verification. USDA stated the request is part of an effort to prevent benefits fraud and create an Integrity Team to counter welfare fraud.

Following the July request, a number of states, including California, won a preliminary injunction allowing them to decline the request for information. USDA has argued this request is different than the one subject to the preliminary injunction, as USDA would only be withholding the funding for SNAP's administrative cost share, therefore not impacting beneficiaries. In FY23, California received $1.2 billion in administrative funding, which covers 50% of the costs incurred by the state and counties to run the program.

President Signs Executive Order on AI and EPA Provides Guidance on Clean Air Act Enforcement for Data Centers

The Administration worked towards a federal regulatory regime for Artificial Intelligence (AI), with the President signing Executive Order (EO) 14365 on December 11, titled Ensuring a National Policy Framework for Artificial Intelligence and the Environmental Protection Agency (EPA) announcing Clean Air Act clarifications for data center developers.

The most consequential provision in the EO is an attempt to preempt state and local regulations impacting AI use, misuse, and infrastructure, with funding conditions and penalties for jurisdictions that do not comply with the EO. The legality of similar funding conditions has been successfully challenged throughout the year, while the Supreme Court is anticipated to better define the limits of Presidential authority over Congressionally-appropriated funding in June.

The EPA announcement covered a new Clean Air Act resource specifically detailing the EPA's interpretation of the applicability of the Clean Air Act to data centers and developers. In particular, it highlights proposed regulatory changes to New Source Review for new energy projects required to support the grid demand necessary to sustain data centers.