
MEMORANDUM

To: City of Santa Clara

From: Townsend Public Affairs
Casey Elliott, Vice President

Date: August 18, 2026

Subject: Q2 Legislative Update

June saw major political, policy, and budget milestones, as the state moved from the June 2 Primary Election into the final stretch of budget negotiations. The primary election set the field for the November General Election, with Xavier Becerra and Steve Hilton emerging as the top-two candidates for the gubernatorial election. The election was also the first federal election conducted under California's new congressional district boundaries established by Proposition 50, demonstrating how the state's top-two primary system can complicate partisan expectations even under newly drawn maps. Also related to the November election were negotiations over proposed ballot measures ahead of the June 25 qualification deadline, with discussions focused the Taxpayer Protection Act and a Housing Bond.

With the June 15 constitutional deadline to pass a budget and the end of the fiscal year at the close of the month, the State Budget remained the dominant issue throughout June. The Assembly and Senate released their respective budget plans early in the month, which framed legislative priorities on homelessness, health care, education, public safety, revenues, reserves, and implementation of federal HR 1 requirements. By June 11, amendments to AB 109 placed the Legislature's two-party budget agreement into print, setting up negotiations with the Governor's Office ahead of a final three-party package. At the conclusion of the month, the Governor, Senate Pro Tem, and Assembly Speaker released their agreed-upon budget with a batch of 19 budget-related bills forming the bulk of the 2026-27 budget, which was signed into law on June 29.

STATE BUDGET UPDATES

June was the central month for legislative budget activity. In early June, the Senate and Assembly developed a legislative version of the budget that built on the Senate's "Foundation for the Future" framework, emphasizing responsible budgeting, no major new ongoing commitments, preservation of key programs, and a balanced approach that included more than \$5 billion in proposed new revenues and additional program reductions. The Legislature's June budget framework proposed approximately \$355.9 billion in total expenditures for 2026–27, including about \$253 billion from the General Fund, and identified roughly \$36.5 billion in total reserves, memorialized in [AB 109](#).

By late June, the Governor and legislative leaders announced a three-party budget agreement for the 2026–27 fiscal year, described as a balanced plan with no projected deficit in the current or budget year, while continuing investments in schools, healthcare affordability, childcare, housing production, disaster response, and election administration. The overall budget

agreement landed at approximately \$351.7 billion in total spending. The agreement also relied on a combination of new revenues, reserve management, fund shifts, and spending controls to address the state's near-term fiscal position while attempting to reduce future structural deficits.

To implement the budget and make necessary adjustments to prior budgets, numerous budget trailer bills and budget bill amendments, including [SB 111](#), were introduced, heard, and approved, including measures addressing education, human services, public resources, transportation, housing, taxation, and Medi-Cal-related corporate accountability proposals. Notably, the budget package included continued discussion of revenue proposals affecting corporations, software and digital services, business tax credits, and the managed care organization tax, as well as policy choices to preserve or expand childcare slots and delay or modify some proposed health and human services reductions. Between June 29 and July 2, the Legislature dispensed with approximately 20 budget-related bills constituting the bulk of state spending.

To address projected out-year budget shortfalls, June negotiations led to a combination of revenue-related proposals, spending reductions, programmatic changes, and fund shifts intended to improve the state's long-term fiscal outlook. The Administration estimates these actions would generate several billion dollars in budgetary solutions annually over the next several fiscal years, with a focus on reducing projected structural deficits in later budget windows.

Cap-and-Invest Revenue Uncertainty and Legislative Funding Considerations

One of the significant emerging budget issues involves uncertainty surrounding future Cap-and-Invest revenues and the Greenhouse Gas Reduction Fund (GGRF), which supports a wide range of state climate, housing, and transportation programs.

Recent [analysis](#) from the LAO suggests that proposed regulatory changes under consideration by the California Air Resources Board (CARB) could significantly reduce annual Cap-and-Invest auction revenues available for legislative appropriation. Under CARB's current proposal, annual GGRF revenues could decline to approximately \$2 billion per year, roughly half of recent funding levels.

The issue largely centers on CARB's proposed "Manufacturing Decarbonization Incentive" (MDI), which would provide additional free emissions allowances to certain industrial facilities making qualifying decarbonization investments. Analysts have raised concerns that these changes could reduce participation in future Cap-and-Invest auctions and lower overall auction revenues available to the state.

This matters because last year's [SB 840 \(Limón\)](#) expenditure framework assumed substantially higher ongoing Cap-and-Invest revenues to support a range of state priorities. If revenues decline significantly, the Legislature may need to revisit existing funding assumptions and reprioritize programs supported by the GGRF.

Programs that could face increased funding pressure include:

- Affordable Housing and Sustainable Communities (AHSC)
- Transit and Intercity Rail Capital Program (TIRCP)
- Low Carbon Transit Operations Program (LCTOP)
- Community Air Protection Program
- Wildfire and forest resilience programs

- Safe and Affordable Drinking Water programs

These programs have historically served as major funding sources for local governments, transit agencies, regional transportation entities, and affordable housing developments throughout California. As a result, any sustained reduction in Cap-and-Invest revenues could have meaningful downstream impacts on future state grant availability and program stability. Local agencies may face increased competition for programs such as TIRCP and AHSC, while transit and climate-related funding programs could become less predictable in future budget cycles. Reduced GGRF revenues may also create longer-term uncertainty for programs like LCTOP that support transit operations and related local investments. In response, the Legislature may increasingly rely on alternative funding mechanisms, including Proposition 4 bond funds or limited General Fund support, to sustain certain climate and infrastructure priorities. These pressures could also prompt lawmakers to revisit or restructure portions of the SB 840 expenditure framework during upcoming budget negotiations.

In the Assembly Budget Subcommittee 4 on Climate, Resources, Energy, and Transportation, a proposal by the California Air Resources Board that would essentially reduce Greenhouse Gas Reduction Fund (GGRF) revenues by half was discussed. The proposal would add 118 million emissions allowances above the cap for the new MDI program, where industrial entities can apply to receive emissions credits to support decarbonization-related projects. Typically, industrial entities must purchase credits at an auction, but the new credits would allow them to apply for and receive them for free, reducing revenues for the cap-and-invest program. Revenue from credits is deposited into multiple accounts, including the GGRF account, which funds a variety of local programs. This is particularly relevant as last year, the Legislature passed [AB 1207](#) and [SB 840](#) to specifically extend and reform the program and allocate GGRF funds to local programs, all of which are dependent on GGRF funding increasing or staying at the same level.

During CARB's May 28 and 29 Board Meeting, CARB staff claimed there were not enough allowances offered to emitters, hence the increase of 118 million emissions allowances above the cap for the MDI program. Comments and questions from board members, presentations from staff, and public comment ran the hearing late into the evening on May 28, then resumed on May 29 to continue discussions and hold a vote. As CARB staff presented the potential fiscal impacts of the proposal, they claimed that the GGRF would realize an impact of \$500 million despite the LAO's estimated impact of a \$2 billion hit to the program. The hearing concluded with the Board approving the proposal. Over the summer, CARB will host a workshop to begin updating compliance offset protocols, and the updated regulations will take effect on September 1, 2026.

ELECTIONS UPDATE

Californians Cast Votes in State's June Primary Election

Tuesday, June 2, was California's Primary Election, and millions of voters submitted their ballots to set the final stage of candidates for the November General Election. A highly fragmented gubernatorial field took center stage with over 60 candidates throwing their hats in the ring to head the state's Executive Office, with Republican Steve Hilton and Democrat Xavier Becerra emerging as the top two candidates. A Hilton-Becerra runoff will produce the traditional Democrat-versus-Republican general election, likely centered on affordability, homelessness, public safety, housing, taxation, and state governance.

The June election also served as the first federal election conducted under California's new congressional district boundaries established by Proposition 50. Several Congressional Districts

felt the impact of the new boundaries, which packed or cracked districts to increase Democratic-held seats in Congress. At the same time, the primary underscored that the new map's partisan intent can be complicated by California's top-two system. In several districts, the most consequential question is not simply whether the district favors Democrats or Republicans on paper, but whether each party successfully consolidates enough primary support to secure a viable November matchup.

Billionaire Tax Qualifies for the Ballot

On June 17, a proposed statewide [2026 Billionaire Tax Act](#) qualified for the November 2026 ballot, setting up what could become one of the most expensive and high-profile ballot measure fights of the cycle. The measure, backed by SEIU-United Healthcare Workers West, would impose a one-time 5 percent tax on California residents whose net worth exceeded \$1 billion at the start of 2026. Supporters estimate the measure could generate approximately \$100 billion, with revenues dedicated primarily to health care programs, along with funding for education and food assistance.

The qualification of the measure comes as state leaders continue grappling with federal health care funding reductions and the ongoing challenge of maintaining safety net programs within a constrained budget environment. Proponents argue the measure is necessary to backfill federal cuts and prevent deeper impacts to hospitals, clinics, Medi-Cal, and related services. The initiative would place the Legislature in control of appropriating the funds, with annual allocations available for designated programs.

Opposition is already significant and includes Governor Newsom, business organizations, and wealthy donors who argue the tax could accelerate outmigration among high-net-worth individuals and undermine the state's revenue base. Several countermeasures are also expected to appear on the ballot, including proposals that could limit or invalidate new taxes on personal property.

Taxpayer Protection Act Negotiations Produce Narrower Constitutional Amendment

Late in the month, much of the Legislature's attention was on negotiations to remove the [Taxpayer Protection Act](#) initiative from the November ballot in exchange for an alternative measure. Preliminary discussions appeared to center on a proposal to remove the Act from the ballot and instead put forward an initiative limiting charter city real estate transfer taxes. That approach ultimately did not move forward after the Howard Jarvis Taxpayers Association declined to withdraw the initiative under those terms.

Following additional negotiations, the parties reached a revised framework under which the Taxpayer Protection Act initiative would be withdrawn in exchange for the Legislature placing a constitutional amendment before voters. The negotiated proposal, reflected in [ACA 22](#), would prospectively require all future local special taxes to receive two-thirds voter approval, regardless of whether the measure is placed on the ballot by a local governing body or through the local initiative process. In practical terms, the amendment would close the "*Upland* loophole" by applying the two-thirds threshold to the electorate exercising the initiative power, rather than allowing certain citizen-sponsored special taxes to pass by simple majority.

The most significant aspect of the compromise is what it appears to leave out. Unlike the original Taxpayer Protection Act initiative, the negotiated constitutional amendment would not retroactively invalidate existing voter-approved special taxes and would not include the provisions that would have repealed or substantially restricted existing charter city real estate transfer taxes. As a result, the immediate fiscal disruption associated with the original initiative is avoided, while

future special tax measures, including regional transportation, housing, homelessness, climate resilience, parks, open space, and infrastructure measures, would face a higher approval threshold. ACA 22 was approved by both the Senate and Assembly and filed with the Secretary of State on June 25.

STATE LEGISLATIVE UPDATES

Revenue Generating Measures Advance in the Legislature

In June, Lawmakers advanced a package of tax-related budget measures that could significantly affect health plans, technology companies, and businesses that rely on state tax credits. The proposals include increasing taxes on health insurance plans, extending the sales tax to certain digital and cloud-based prewritten software, and continuing the limitation on certain business tax credits. Supporters argue the measures are needed to preserve health care access and state programs in response to federal funding reductions and the state's long-term budget shortfall.

The health plan tax proposal drew particular criticism for its potential impact on private health insurance premiums. Supporters maintained that the state must adjust the tax structure to respond to federal changes affecting California's ability to draw down health care funding, while opponents warned that the costs may be passed on to employers and consumers. This debate was central through the budget-making process, specifically around health care budget negotiations as the State seeks to protect Medi-Cal, hospitals, and other safety net services while managing affordability concerns for privately insured Californians.

The digital software tax would extend sales tax treatment to prewritten software regardless of delivery method, including software accessed remotely or through cloud-based systems. The Legislative Analyst's Office has noted that this would modernize part of the state's sales tax base, but also raised concerns about taxing business-to-business transactions and suggested lawmakers consider modifications or exemptions.

Assembly Emergency Management Committee Holds Hearing on Increasing Costs for Fire Apparatus

On June 22nd, the Assembly Committee on Emergency Management held an informational hearing on fire apparatus costs that focused on issues related to price, delays and adverse impacts to communities.

The Assembly Committee hearing provided a California-specific examination of how national market pressures are affecting local agencies and public safety readiness across the state. The hearing consisted of opening remarks from Assembly Member Rhodesia Ransom, the Committee's chair, as well as two panels.

Chair Ransom framed the hearing around concerns that rising apparatus costs and lengthy delivery delays are eroding emergency response capabilities across California, leaving departments with fewer operational vehicles and higher maintenance burdens. She noted that these challenges have already affected communities statewide and stated that the hearing aimed to better understand the risks posed by current market conditions and their impact on California's ability to respond to emergencies.

The opening panel featured a State Fire and Rescue Chief representing local government, and the Deputy Director of Fire Protection Programs for the California Department of Forestry and Fire Protection (CAL FIRE), who is responsible for the acquisition and maintenance of fire apparatus. Both of their presentations summarized that the fire truck shortage stems from a post-COVID demand surge hitting a market dominated by just three major manufacturers, leaving few competitors willing to bid on government contracts. Workforce shortages, supply chain disruptions, inflation, and parts scarcity have compounded the problem.

The shortage in available equipment has had significant impacts for local governments. Departments have been forced to rely on outdated equipment, and the traditional 15-year repair cycle is breaking down because replacement parts for older trucks are hard to acquire due to the same supply chain and scarcity issues. The panelists spoke about how reduced fleet capacity has undermined mutual aid and emergency readiness across the board—not just for wildfires, but for hazmat incidents, swift water rescues, and urban emergencies. Local governments are also suffering from reduced purchasing power, as costs for equipment have doubled while municipal budgets have stayed relatively stable.

A second panel featured fire service leaders representing both city and county fire agencies. The local representatives provided examples of the escalating costs for fire trucks, and related equipment, which in some cases has seen a 300% price increase over a 10-year span. They also cited examples related to significant delays for equipment repairs and a lack of options for parts and maintenance, which contributes to the overall cost of operations.

In closing remarks, Chair Ransom highlighted concerns about manufacturers treating critical public safety equipment and repair information as proprietary. She concluded by stating that the legislature has work to do to ensure local governments are not overly dependent on private manufacturers for critical emergency response resources.

The hearing comes amid growing federal scrutiny of the same market dynamics driving fire apparatus cost increases and delivery delays for local governments. On April 15, 2025, US Senators Elizabeth Warren and Jim Banks sent a bipartisan oversight letter to the International Association of Fire Fighters seeking information on how private equity roll-ups in fire truck manufacturing have affected firefighter safety, department budgets, and apparatus availability. On September 10, 2025, the US Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Management held a hearing titled “Sounding the Alarm: America’s Fire Apparatus Crisis,” where lawmakers examined the nationwide impacts of apparatus shortages and manufacturer consolidation.

More recently, on March 20, 2026, Representative Derek Tran transmitted letters to the Federal Trade Commission and Government Accountability Office requesting federal investigations into private equity consolidation in the fire apparatus manufacturing industry, including whether market concentration is contributing to higher costs, longer backlogs, restrictive contracting practices, and weakened disaster readiness.

EXECUTIVE BRANCH ACTIVITY

Governor Signs Bill Placing Housing Bond on November 2026 Ballot

Governor Gavin Newsom, Senate President pro Tempore Monique Limón, and Assembly Speaker Robert Rivas announced a three-party agreement to place the Veterans and Affordable Housing Bond Act of 2026 before voters at the November 2026 General Election. The agreed-

upon proposal, contained in [SB 417](#), would authorize \$11.25 billion in housing investments, the largest proposed housing bond measure in California history, including \$10 billion in general obligation bonds for affordable housing and homeownership programs and \$1.25 billion in self-supporting revenue bonds for the CalVet Home Loan Program. If approved by voters, the measure would provide a new long-term funding source for affordable housing production, preservation, and homeownership assistance.

The largest share of the bond, approximately \$5.1 billion, would be directed to the Multifamily Housing Program, the state's primary affordable rental housing production program. The proposal also includes \$1.15 billion for supportive housing and homelessness programs, \$1.1 billion for homeownership assistance, \$500 million for infill infrastructure, \$450 million for farmworker housing, \$350 million for student housing, \$200 million for tribal housing, and \$200 million for the Local Housing Trust Fund Matching Grant Program. The inclusion of the Local Housing Trust Fund program is prominent as it would provide a dedicated statewide funding source to support local and regional housing trust funds.

The agreement comes as prior voter-approved housing bond funds have largely been exhausted and as affordable housing developers continue to identify significant unmet financing needs for shovel-ready projects. Proponents have argued that the bond could help leverage federal, local, and private funding, thereby accelerating tens of thousands of affordable units that are currently awaiting gap financing. The bill received a final vote of approval on June 25 and was signed by the Governor shortly thereafter, officially placing the measure before voters on the November 3, 2026, statewide ballot.

Administration Applauds Organized Retail Crime Task Force Successes

Governor Newsom [announced](#) the state has significantly and successfully expanded its crackdown on organized retail theft following the recovery of nearly \$260 million in stolen merchandise since 2019. The California Highway Patrol's (CHP) Organized Retail Crime Task Force was launched as a partnership between the CHP and the Department of Justice (DOJ) after the passage of [AB 1065 \(Jones-Sawyer, 2018\)](#) to combat organized retail theft through consultation with allied agencies.

The coordinated enforcement efforts have resulted in tens of thousands of arrests, thousands of investigations, and thousands of cases referred for prosecution. As the Task Force's operations continue, the results are evidence that sustained investments in law enforcement and multi-agency partnerships are producing measurable outcomes for retailers, workers, and consumers. The administration also pointed to recent legislation strengthening penalties and prosecution tools for organized retail crime, arguing that these changes have improved law enforcement's ability to hold offenders accountable.

The Task Force's initial inception and ongoing investments in combating retail theft demonstrate the State's continued prioritization of retail theft enforcement through grants, task forces, and collaborative public safety initiatives. The administration linked these efforts to its public safety goals, including reducing property crime, supporting local businesses, and improving economic conditions in commercial corridors.

CAPITOL TO CAPITOL: FROM SACRAMENTO TO WASHINGTON, DC

EPA Transmits Additional Emissions Waivers to Congress for Review

On June 12, the Environmental Protection Agency (EPA) [announced](#) the transmission of four Clean Air Act (CAA) preemptive waivers for the State of California to Congress for review under the Congressional Review Act (CRA), which allows Congress to reject an agency regulation. The California Department of Justice (CalDOJ) has been in [litigation](#) with the EPA and Department of Justice (DOJ) regarding the EPA and Congress' ability to deny these waivers, which [allow](#) California to impose higher air quality standards than the CAA, without changing the underlying law.

Last year, the Supreme Court [allowed](#) the litigation to proceed, and the CRA disapprovals from Congress to stand, leaving the status of the preemptive waivers unclear. The four rules would allow California to impose vehicle emissions standards higher than the federal level, including small offroad engines (SORE) such as lawn and garden equipment, and overall Greenhouse Gas Emissions Standards for vehicle manufacturers.

It is likely Congress will consider the CRA disapprovals, and ultimately pass them for the President's signature. Litigation is expected to be resolved before the end of the calendar year.

USDA Releases California SNAP Payment Error Rate, Triggering 15% Benefits Cost Share Under HR 1

On June 24, the US Department of Agriculture (USDA) [released](#) the Fiscal Year 2025 Payment Error Rates for the Supplemental Nutrition Assistance Program (SNAP/CalFresh). California's Payment Error Rate for the year was 10.93%. Under [HR 1](#), the One Big Beautiful Bill Act (OBBBA), states with an error rate of 6% or below will have no cost share; 6-8% will be 5%; 8-10% will be 10%; and 10% and above, like California, will be responsible for 15% of the total benefit allotments.

A February [report](#) from the California Legislative Analyst's Office estimates that beginning in October 2027, the 15% cost-share will create \$2 billion in new annual expenditures to support SNAP. More immediately, the OBBBA's changes to the administrative cost-share arrangement currently split 50% federal, 35% state, 15% county. Beginning in October of this year, the new cost-share will be 25% federal, 52.5% state, and 22.5% county. This is expected to result in \$480 million and \$190 million in new annual expenditures for the state and counties, respectively.

PRIORITY LEGISLATION

Legislative Calendar

Below are the upcoming relevant dates for the Legislature:

August 31st – Last day for Legislature to approve bills. Final recess begins upon adjournment
September 30th – Last day for the Governor to act on pending legislation

Priority Bills

AB 1383 (McKinnor) – Public employees' retirement benefits

The California Public Employees' Pension Reform Act of 2013 (PEPRA) establishes a variety of requirements and restrictions on public employers offering defined benefit pension plans. In this regard, PEPRA restricts the amount of compensation that may be applied for purposes of calculating a defined pension benefit for a new member, as defined, by restricting it to specified percentages of the contribution and benefit base under a specified federal law with respect to old age, survivors, and disability insurance benefits. This bill, for service performed on and after January 1, 2027, would prohibit the pensionable compensation for calendar year 2027 used to calculate the defined benefit paid to a new member of a retirement system subject to PEPRA who retires from the system from exceeding specified percentages of the contribution and benefit base under the specified federal law with respect to old age, survivors, and disability insurance benefits. Status: This measure was approved by the Senate Labor, Public Employment, and Retirement Committee (5-0) on June 24th. The measure is currently in the Senate Appropriations Committee pending consideration.

AB 1751 (Quirk-Silva) – Missing Middle Townhome Ownership Act

This bill, the Missing Middle Townhome Ownership Act, would authorize a development proponent to submit an application for a townhome housing development project that is subject to a prescribed ministerial approval process if the development complies with certain procedural requirements and satisfies specified objective planning standards. The bill would also require a local agency to ministerially consider, without discretionary review or a hearing, a parcel map or a tentative and final map for a townhome development project that meets specified requirements, including that the proposed subdivision will result in parcels and residential units that will meet prescribed densities and that the newly created parcels are no smaller than 600 square feet. Status: This bill was approved by the Senate Local Government Committee (6-0) on June 24th. The measure is currently in the Senate Appropriations Committee pending consideration.

AB 1821 (Pacheco) – California Public Records Act: agency response time

The California Public Records Act requires each state or local agency, upon a request for a copy of records that reasonably describes an identifiable record or records, to make the records promptly available to any person upon payment of fees covering direct costs of duplication, or a statutory fee if applicable, except with respect to public records exempt from disclosure by express provisions of law. Existing law requires each agency, within 10 days of a request for a copy of records, to determine whether the request seeks copies of disclosable public records in possession of the agency and to promptly notify the person of the determination and the reasons therefor. Existing law authorizes that time limit to be extended by no more than 14 days under unusual circumstances, as defined. This bill would instead require each agency to determine whether the request seeks copies of disclosable public records in possession of the agency and to promptly notify the person as described above within 10 business days of a request for a copy of records. Status: This bill was approved by the Senate Judiciary Committee (12-0) on June 27th. The measure is currently in the Senate Appropriations Committee pending consideration.

AB 2231 (Ahrens) – California Environmental Quality Act – hospital projects

This bill would establish streamlined procedures for the administrative and judicial review of the environmental review and approvals granted for an environmental leadership hospital campus project, defined by the bill as a construction project of a hospital campus in the City of Emeryville or of the City of Santa Clara, under certain conditions. The bill would require the city council of the City of Emeryville or Santa Clara, as the lead agency for the hospital campus project, to certify the project for the streamlined judicial review, if it finds the project will meet those conditions. The

bill would require the project applicant of the environmental leadership hospital campus project to take certain actions in order for those specified procedures to apply to the project. Status: This bill was approved by the Senate Judiciary Committee (13-0) on June 30th. The measure is currently in the Senate Appropriations Committee pending consideration.

AB 2346 (Wilson) – Electric bicycles and speed limits

Existing law defines an electric bicycle as a bicycle equipped with fully operable pedals and an electric motor of less than 750 watts, and classifies electric bicycles into 3 classes with different restrictions for various purposes. This bill would require all class 2 electric bicycles manufactured, sold, or offered for sale on or after January 1, 2029, to be equipped with a speedometer. The bill would also require all electric bicycles manufactured, sold, or offered for sale on or after January 1, 2029, to be equipped with an integrated or detachable front lamp and a rear lamp. The bill would also require sellers and distributors of electric bicycles to disclose specified information at or before the point of sale. Status: This bill was approved by the Senate Transportation Committee (12-0) on June 23rd. The measure is currently in the Senate Appropriations Committee pending consideration.

SB 866 (Blakespear) – Planning and zoning: annual report: emergency shelter

The Planning and Zoning Law, requires each county and each city to adopt a comprehensive, long-term general plan for the physical development of the county or city, and specified land outside its boundaries, that includes, among other specified mandatory elements, a housing element. That law requires the planning agency of a city or county to provide by April 1 of each year an annual report to the Department of Housing and Community Development that includes, among other specified information, the agency's progress in meeting its share of regional housing needs and the number of units approved and disapproved in the prior year. This bill, beginning with the first annual report submitted after the due date for the 7th cycle revision of the housing element, would require that annual report to additionally include specified information regarding the special housing needs of families and persons in need of emergency shelter. Status: This bill was approved by the Assembly Housing and Community Development Committee (12-0) on July 1st. The measure is currently in the Assembly Appropriations Committee awaiting consideration.

SB 922 (Laird) – Vehicles: local agency charges: use of streets or highways

Existing law prohibits a local agency from imposing a tax, permit fee, or other charge for the privilege of using its streets or highways, other than a permit fee for an extralegal load unless the local agency had imposed the fee prior to June 1, 1989. This bill would expressly limit this prohibition to charges based on weight. The bill would also explicitly state that a fee, charge, or surcharge imposed by or for a local agency to recover the cost of street maintenance and repair and other costs associated with the use of its streets, roads, or highways to provide public services or public works is not a tax, permit fee, or other charge that is prohibited by the provision above. The bill would provide that nothing in the Vehicle Code prohibits a local agency from imposing or collecting this fee, charge, or surcharge. Status: This bill was approved by the Assembly Local Government Committee (8-2) on July 1st. The measure is currently on the Assembly Floor pending consideration.

SB 936 (Blakespear) – Nitrous oxide: sales

This bill would, except as specifically exempted, prohibit the sale and distribution of a nitrous oxide container that is capable of holding more than 8 grams of nitrous oxide or from which an individual may directly inhale nitrous oxide. The bill would also prohibit the sale and distribution of a nitrous oxide that has, or is marketed as having, the taste or smell of any food. The bill would prohibit knowingly selling or distributing a device that allows an individual to inhale nitrous oxide from the container or hold nitrous oxide for the purposes of inhalation. The bill would punish a violation of

these provisions as an infraction. Status: This bill was approved by the Assembly Public Safety Committee (9-0) on June 30th. The measure is currently on the Assembly Floor pending consideration.

SB 1159 (Cabaldon) – Artificial intelligence: transparency and governance

This bill would specify that, for purposes of the California Public Records Act, the Bagley-Keene Open Meeting Act, the Ralph M. Brown Act, the Legislative Open Records Act, the Administrative Procedure Act, the California Coastal Act of 1976, and CEQA, “person,” “interested person,” “participant,” “member of the public,” as applicable, and any other similar terms under each act referring to those who may engage with governmental agencies, do not include artificial intelligence, as defined, systems, autonomous agents, or robots, whether physical or digital. Status: This bill was approved by the Assembly Judiciary Committee (12-0) on June 30th. The measure is currently on the Assembly Floor pending consideration.

SB 1187 (Durazo) – Open meetings

The Ralph M. Brown Act requires, with specified exceptions, that all meetings of a legislative body, as defined, of a local agency be open and public and that all persons be permitted to attend and participate. Existing law, beginning July 1, 2026, requires eligible legislative bodies, as defined, to have in place a system for electronically accepting and fulfilling requests for meeting agendas and documents. Existing law additionally requires these legislative bodies to translate the agenda for each meeting of that body and to reasonably assist members of the public who wish to translate a public meeting or receive interpretation, as specified. This bill would instead delete the above-described requirements on eligible legislative bodies. Status: This bill was approved by the Assembly Local Government Committee (10-0) on July 1st. The measure is currently on the Assembly Floor pending consideration.

FEDERAL UPDATES

LEGISLATIVE BRANCH ACTIVITY

Senate Continues to Delay Appropriations Markups, Proposes to Move Forward Without Bipartisan Support

With Senate Appropriator Mitch McConnell still [hospitalized](#) at the end of June, the Senate Appropriations Committee postponed scheduled markups of their Fiscal Year 2027 (FY27) appropriations bills. Without McConnell’s vote, Republicans do not have a majority on the Committee. This leaves them almost a month behind schedule, and far behind the House, which has passed all 12 appropriations bills out of committee and is working towards floor consideration.

The compounding delays threaten passage of final bills by the September 30 end of the fiscal year and has led some Republican Senators to [propose](#) pushing ahead with the FY27 bills without Democratic support, which will only let the bills pass out of committee, but will not meet the 60-vote threshold required to pass off the Senate floor. Disagreements on topline spending numbers remain, as the White House is advocating for significant increases to military spending and cuts to social programs.

Typically, Appropriators in both chambers work to pass all 12 appropriations bills off their respective floors before the August recess, allowing staff to work over August and members through September to reconcile the two versions of each bill and come to a bipartisan agreement. Any movement away from bipartisanship in the Senate and the continued delays threaten

Congress's ability to complete the appropriations process on time and increase the chances of a government shutdown or continuing resolution at the end of September.

Congressional Calendar Tightens as Midterms Near, Despite Committee Progress

As August recess and the midterm elections approach, rank-and-file members of both parties are looking towards a growing list of priorities in fewer session days. Speaker Johnson is managing a narrow majority and has just shy of 30 days of session left before the midterm elections in November.

Following the enactment of [HR 1](#), the One Big Beautiful Bill Act, and [S 2](#), the Secure America Act, providing funding for immigration enforcement agencies through the end of the President's term, Republicans are now [discussing](#) a third reconciliation package focused on more of their [policy priorities](#). The majority of the appropriations bills await floor time and negotiations with the Senate, alongside negotiations on the National Defense Authorization Act (NDAA), Foreign Intelligence Surveillance Act (FISA), Surface Transportation Reauthorization Act, a Farm Bill reauthorization covering agriculture subsidies and food assistance programs, and a myriad of other issues with bipartisan support, including a bipartisan Artificial Intelligence (AI) regulatory framework.

Realistically, a number of these bills will require extensions as committees have not made sufficient progress to advance viable proposals, though Committees have advanced several bills either awaiting action by the other chamber or for negotiations to begin between the two chambers. Congress is expected to be out of session all of August and October to campaign for reelection, only adding to the urgency.

Congress Passes Major Housing Policy Package, the 21st Century ROAD to Housing Act, Awaits Presidential Action

On June 23, the House passed a compromise version of [HR 6644](#), the 21st Century ROAD to Housing Act, [sending](#) it to the President for signature. The bill represents the largest set of housing policy reforms in over three decades.

The bill would allow Community Development Block Grant (CDBG) funding to be used for affordable housing development, reauthorize the HOME Investment Partnership Program, create waivers for caps on Emergency Solutions Grant (ESG) funding, allow community banks to assume higher amounts of Federal Housing Authority (FHA) backed mortgage debt, exempt certain projects from National Environmental Policy Act (NEPA) reviews and labor standards, and enact a prohibition on institutional investors owning large numbers of single family homes.

While the bill would create new programs, it contains no advance appropriations and would need to be funded via the appropriations process. The bill [maintains](#) much of the Senate's original ROAD to Housing Act released in July of last year, preserves the bipartisan housing program changes from the Housing for the 21st Century Act, nine of the 11 House community banking bills, and language to ban large institutional investors from buying single-family homes.

After final action by the President, the Department of Housing and Urban Development and the Council on Environmental Quality will need to follow the rulemaking process to implement the new statute.

Confirmation Hearings for OMB Nominee Address OMB Proposed Rule Increasing Administration Control Over All Federal Grants

On June 16 and 17, the Senate Committee on the Budget [held](#) hearings, and the Senate Committee on Homeland Security and Government Affairs [held](#) hearings of its own to consider the nomination of Hal Duncan to be Deputy Director of the White House Office of Management and Budget (OMB).

OMB is the centralized entity responsible for the execution of the 12 appropriations bills passed by Congress and oversees federal grant administration for the Executive Branch. It is also the entity responsible for managing apportionment, which is the process of actually withdrawing funds from the Treasury of the United States in accordance with those bills.

OMB recently published a [proposed rule](#) changing the governance structure for all federal grants, including both discretionary/competitive and formula/entitlement funding, consolidating the Administration and its political appointees direct control over the disbursement of federal funding by providing new authorities under which to terminate, delay, or withhold federal funding before and after awards are made.

California Senator Alex Padilla, a member of the Budget Committee, [asked](#) the nominee questions regarding the implementation of this rule, stating it would unduly increase the ability of the President to inject political considerations into federal grantmaking and circumvent the appropriations process and Congressional intent.

With the Second Reconciliation Bill Complete, Congressional Republicans Look Towards a Third Tax and Spending Package

With the passage of [S 2](#), the Secure America Act, providing funding for immigration enforcement agencies for the remainder of the President's term in office, Congressional leaders are looking towards passage of another reconciliation package before the midterm elections in the fall. Republican Leaders are hoping a third tax and spending package could deliver more of their [priorities](#) before they potentially lose control of the House.

Budget reconciliation is a special process allowing tax and spending measures to be passed without the usual 60-vote threshold in the Senate. In exchange for bypassing that requirement, they require extra procedural votes to ensure agreement amongst the majority party in both chambers pushing the bill forward. Due to House Speaker Mike Johnson's narrow majority in the House, alongside several Senate Republicans the President helped defeat in primary elections, questions remain about whether or not the political willpower exists to pass another bill.

During a budget hearing in June, Senate Appropriations Committee Chairwoman Susan Collins and Defense Subcommittee Chair Mitch McConnell both expressed [skepticism](#) about passage of a third reconciliation bill, while Republican Study Committee Chair Pfluger remains [committed](#) to a third package. The Iranian conflict could push a third reconciliation bill forward, as the Department of Defense (DoD) could [need](#) the funding to cover the costs and restore weapons stockpiles, with an estimated cost of \$80 to \$100 billion. Republican Leaders would hope to attach some of their domestic priorities to any defense supplemental.

House Financial Services Committee Looks to Reform CDBG-DR Funds

On June 10, the House Financial Service Committee's Subcommittee on Housing and Insurance held a [hearing](#) titled Examining Local Needs in Disaster Recovery. The hearing focused on the Department of Housing and Urban Development's (HUD's) administration of the Community Development Block Grant – Disaster Recovery Program (CDBG-DR).

Both sides of the aisle expressed significant concern regarding the slow expenditure of CDBG-DR funds, of which only 59% of the Congressionally-appropriated funding has been spent since the program's inception. Unlike regular CDBG, CDBG-DR is funded through supplemental appropriations made following a natural disaster and is usually accompanied by support from the Federal Emergency Management Agency (FEMA). As such, while CDBG-DR generally follows the regulatory framework of regular CDBG grants, certain exceptions can be made for each disaster, such as reducing the amount of funding dedicated to low- and moderate-income (LMI) communities. HUD is also generally provided with additional flexibility in administering the funding.

[Testimony](#) from an analyst with the Congressional Research Service (CRS), a nonpartisan research and analysis center within the Library of Congress, identified a variety of causes ranging from HUD delays to poor grant management by recipients. Chairman Mike Floor also noted that the program's authorization, the statute setting policy and allowing appropriators to fund the account, has long expired. [HR 8291](#), the Reforming Disaster Recovery Act, would permanently authorize the program, but has not yet received consideration by the Committee.

Energy and Commerce Committee Holds Hearing on Permitting Reforms

On May 13, the House Committee on Energy and Commerce's Subcommittee on Energy held a [hearing](#) titled, Wires, Rates, and States: Permitting Transmission for Reliable and Affordable Power, that sought to address potential permitting reform draft bills for energy generation projects.

Witnesses included Randy Howard, the General Manager at the Northern California Power Agency (NCPA), a Joint Powers Authority which plans, builds, and operates power generation resources [supplying](#) power from the Sierra Nevadas to the Bay Area. According to his [testimony](#), permitting reform is needed to bring additional generation resources online to meet rapidly growing demand, though many useful reforms fall outside the Committee's jurisdiction, which is limited to the Federal Power Act (FPA).

Witnesses emphasized local control and cooperative federalism in place of federal preemption and project selection, continued joint ownership and operation, and grid-enhancing technology to help current infrastructure meet the growing need. Base demand for power has been [increasing faster](#) than generation and transmission capacity, in part due to the rise of artificial intelligence (AI) data centers, which require substantial power to process consumer requests.

Members across the aisle also discussed changes to renewable energy tax credits, including the Investment Tax Credit (ITC) and Production Tax Credit (PTC) made in [HR 1](#), the One Big Beautiful Bill Act, which phased out the subsidies multiple years ahead of schedule and stranded some projects.

Congress has considered a number of permitting reform bills, including [HR 4776](#), the SPEED Act, which, among other things, would create equivalency between National Environmental Policy Act

(NEPA) and California Environmental Quality Act (CEQA) reviews. Congressional leaders have discussed grouping permitting reform bills together with Surface Transportation Reauthorization Act negotiations.

EXECUTIVE BRANCH ACTIVITY

Office of Management and Budget Announces Proposed Rule Enhancing Administration Control Over Federal Grants

On May 28, the White House Office of Management and Budget (OMB) published a [Proposed Rule](#) in the Federal Register making changes to the administration of all federal grants. The Proposed Rule broadly seeks to codify the Administration's ability to cancel or claw back awarded funds, exert significant policy control over discretionary programs, and restrict the types of recipients and subrecipients who can receive federal funding based on ancillary activities. It follows prior actions and court decisions against the Department of Government Efficiency (DOGE) and Executive Order (EO) [14332](#), titled Improving Oversight of Federal Grantmaking.

Section [200.205](#) requires all proposed grant awards to pass through senior political appointees, requiring them to verify the proposed project advances the President's policy priorities, and codifies that peer-reviewed scientific studies are advisory in nature and should not be determinative in a senior political appointee's decision to allow an award to proceed. Section [200.340](#) seeks to codify the ability of agencies to unilaterally cancel grant awards, including "when the award "no longer advances agency priorities or the national interest." Section [200.206](#) would allow agencies to cancel awards to recipients and subrecipients who are members of or participate in activities that "undermine public safety or national security," the Administration has [sought](#) to significantly expand that [definition](#) previously to encompass a number of political activities typically associated with the Democratic party.

The proposed rule has a public comment period open through the middle of July, at which point OMB will begin to respond to comments with additional justification before implementing a final rule in the fall. The legality of the proposed rule is unclear, given previous DOGE-related court decisions governing the Administration's control over congressionally appropriated funding and the Administrative Procedure Act's general limitations on political appointees intervening in federal grantmaking.

House Transportation and Infrastructure Committee Releases Draft 2026 Surface Transportation Reauthorization Act

On May 17, the House Committee on Transportation and Infrastructure [released](#) a bipartisan draft of the 2026 Surface Transportation Reauthorization Act, titled "The Building Unrivaled Infrastructure and Long-term Development for America's 250th Act" or the "BUILD America 250 Act." The bill sets surface transportation policy covering roads, bridges, rail, trucking, and mass transit for federal programs for five years, including maximum funding levels for transportation programs including Surface Transportation Block Grants (STBG), Congestion Mitigation and Air Quality Improvement Program (CMAQ), the Bridge Investment Program (BIP), Safe Streets and Roads for All (SS4A) and other discretionary and formula grants.

This year's draft significantly [increases](#) local control over surface transportation dollars following concerted efforts by the US Conference of Mayors, National League of Cities (NLC), and National Association of Counties' Local Officials in Transportation (LOT) Coalition and the introduction of [HR 7437](#), the BASICS Act.

The bill has a \$580 billion topline number, higher than originally discussed by Senate Environment and Public Works Committee Chairwoman Shelly Moore Capito last fall, and early [estimates](#) indicate 22% of the funding would be guaranteed to flow to local communities. The last Surface Transportation Reauthorization Act, the [2021 Infrastructure Investment and Jobs Act](#) (IIJA), had a roughly \$1.2 trillion topline with \$550 billion for transportation, to be expended through September 30, 2026, and created a large number of programs intended to be a one-time investment in infrastructure nationwide. The BUILD America 250 Act would allow large numbers of those programs to expire and return the reauthorization process to its baseline.

HUD Releases FY26 Continuum of Care NOFO with Significant Modifications

On June 1, the Department of Housing and Urban Development (HUD) [released](#) the Fiscal Year 2026 (FY26) Notice of Funding Opportunity (NOFO) for the Continuum of Care (CoC) program. The [FY26 CoC NOFO](#) provides a little over \$4 billion in funding for permanent supportive housing, rapid rehousing, and youth homelessness demonstration grants nationwide.

In November 2025, HUD [attempted](#) to significantly alter the FY25 NOFO, reducing the percentage of the funding to be used for annual renewal demand (ARD/automatic renewals), to continue housing Permanent Supportive Housing recipients, from 90% to 30%. This change, along with others in the FY25 NOFO, led to several delays and lawsuits.

Congress effectively resolved the lawsuits through the FY26 Transportation, Housing and Urban Development (THUD) appropriations bill [HR 7148](#), which required the FY25 NOFO to follow previous NOFOs and allocate 90% of the funding to ARD. In a compromise, it also allowed future NOFOs, including the FY26 version, to reduce the amount of funding for ARD to 60%, and allowed HUD Secretary Scott Turner to make other discretionary programmatic changes.

The FY26 NOFO makes significant changes beyond reducing the amount of funding for permanent supportive housing, including allowing faith-based organizations to access the funding, and prioritizing projects that require sobriety and work, only provide supportive services, and provide time-limited transitional housing or rapid rehousing. Historically, the program has provided close to 90% of its funding to permanent supportive housing recipients.

FAA Proposes Rule Allowing Critical Infrastructure Facilities to Restrict Private Drone Usage

On May 6, the Department of Transportation's (DOT) Federal Aviation Administration (FAA) [released](#) a [proposed rule](#) to establish a process for operators and proprietors of certain fixed-site critical infrastructure facilities to request and maintain an unmanned aircraft flight restriction. Operators of unmanned aerial systems (UAS), also known as drones, would be prohibited from flying in the area immediately surrounding designated sites, and would be required to follow remote identification [regulations](#) in a broader zone.

Under the proposed rule, government, transportation system, water and wastewater, energy, communications, and information technology facilities could all be designated at the request of the operator. Applicants would have to show that the restriction is necessary for aviation safety, protecting people and property on the ground, national security, or homeland security in order to be granted the unmanned aircraft flight restriction (UAFR).

The proposed rule is open for public comment through July 5 of this year. Violators of an established UAFR could face civil or criminal penalties. The rule would also allow site operators to contact law enforcement if a drone flew in a restricted area, after which authorities could use Remote ID to locate the control station or operator. Pilots could face license suspensions, revocations, fines, and criminal charges for entering the no-fly zone. The proposed rule would not permit local law enforcement to use counter-UAS technology to disable the drone without overlapping authorization connected to a major event or other regulatory allowance.

FEMA Review Council Releases Final Report, Recommends Shifting Disaster Response to States

On May 7, the Federal Emergency Management Agency (FEMA) Review Council, established in January 2025 by Executive Order (EO) [14180](#), held its [final meeting](#) and [released](#) its final report, making recommendations to the President and Congress on reforming the agency responsible for federal disaster response.

The [report](#) recommends significant reforms to FEMA with the goal of repositioning the agency as more of a technical assistance provider supporting disaster response than an active participant, and calls for the consolidation of a number of grant programs into a direct payment system to both individuals and local governments, reducing administrative requirements. It also proposes changing the criteria used to determine the need for federal intervention to reduce the amount of resources expended by FEMA responding to disasters within state and local capacity.

A significant portion of the Council's recommended actions would require Congress to enact legislation. Last year, the House Committee on Transportation and Infrastructure advanced [HR 4669](#), the FEMA Act, on a bipartisan basis. The bill encompasses some of the Council's recommendations, though would make FEMA an independent, cabinet level agency. Other recommendations made by the Council, including changes to the threshold for federal support following a disaster, could likely be made via the agency rulemaking process. The White House has not formally adopted the report as its policy.