
MONTHLY LEGISLATIVE UPDATE

To: Orange County Sanitation District
From: Townsend Public Affairs
Date: May 15, 2026
Subject: May Legislative Monthly Report

From mid-April through mid-May, legislative activity accelerated significantly as the Legislature moved through several major procedural and fiscal deadlines that helped shape the trajectory of the 2026 legislative session. During this period, lawmakers advanced priority measures, amended proposals in response to stakeholder concerns, and set aside bills that lacked sufficient policy or fiscal support to continue moving forward.

A substantial portion of legislative activity during this timeframe was driven by the April 24 deadline for fiscal bills to pass out of policy committees. In the weeks leading up to that deadline, policy committees held extensive hearings to process large volumes of legislation, resulting in hundreds of measures advancing to the Assembly and Senate Appropriations Committees for fiscal consideration. Following the May 1 deadline for non-fiscal bills to advance out of policy committees, the Legislature's focus shifted increasingly toward fiscal review, budget impacts, and floor preparation.

The most significant legislative milestone of the period occurred on May 14, when the Assembly and Senate Appropriations Committees held their annual Suspense File hearings. The Suspense File process serves as the Legislature's primary fiscal screening mechanism for bills with substantial state costs, allowing committees to evaluate measures collectively within the broader context of the State's fiscal outlook and budget priorities. The hearings significantly narrowed the field of active legislation, determining which bills would advance to floor consideration and which measures would remain inactive for the remainder of the year.

At the same time, budget negotiations intensified as legislative budget committees and subcommittees continued reviewing departmental proposals and funding priorities in response to the Governor's January budget proposal. Earlier in the process, the Senate released its "Foundation for the Future" budget framework, outlining a fiscally cautious approach emphasizing reserve preservation, limited ongoing spending commitments, and long-term deficit reduction strategies.

Budget discussions reached a critical turning point on May 14 with Governor Gavin Newsom's release of the 2026–27 May Revision. The updated budget proposal reflected stronger-than-anticipated revenues while also incorporating revised spending obligations, updated Medi-Cal expenditures, and additional education funding requirements tied to Proposition 98.

The May Revision now serves as the foundation for final negotiations between the Legislature and the Administration ahead of the June 15 constitutional deadline for the Legislature to pass the Budget Bill.

Looking ahead, legislative activity will shift primarily to floor deliberations as both houses work toward the May 29 house-of-origin deadline for bills to pass their respective chambers. Measures that advance will then move to the opposite house for continued policy and fiscal review, where many bills will again face fiscal scrutiny through the second-house Appropriations Committee process later in the session.

The following summarizes key legislation considered this session, including measures that have recently been amended, advanced, or held in committee in recent weeks.

GOVERNOR RELEASES REVISED MAY BUDGET

Governor Newsom's 2026–27 May Revision reflects a significantly improved revenue picture compared to January, but the Administration continues to take a cautious fiscal approach centered on reserve-building and long-term structural balance rather than major new programmatic expansions.

The May Revision proposes approximately \$246.6 billion in General Fund expenditures, roughly \$1.8 billion lower than the January proposal, while achieving what the Administration characterizes as:

- No operating deficit in 2026–27
- No operating deficit in 2027–28
- No projected structural deficit through mid-2028

At the same time, the Governor emphasized that the state is not operating with a traditional surplus. Rather, the May Revision attempts to stabilize the state's longer-term fiscal outlook following several years of projected structural imbalance. The Administration projects approximately \$16.5 billion in additional General Fund revenues over the three-year budget window compared to January, driven primarily by higher-than-expected personal income tax receipts and capital gains activity.

However, much of this improved revenue picture is automatically absorbed by constitutional obligations, reserve requirements, and mandatory education spending increases under Proposition 98. As a result, the Administration continues to frame the state's fiscal position as constrained despite stronger revenues.

To reinforce this message, the Governor proposes depositing \$9.7 billion into the Projected Surplus Temporary Holding Account, a mechanism created to effectively reserve anticipated revenues for future fiscal years rather than committing them to new ongoing expenditures. This is the first time the account has been utilized.

The May Revision also maintains historically large reserve balances totaling approximately \$29.9 billion, including:

- \$15.1 billion in the Budget Stabilization Account (Rainy Day Fund)
- \$10.3 billion in the Public School System Stabilization Account
- \$4.5 billion in the Special Fund for Economic Uncertainties

Natural Resources and Environmental Protection Agencies

The Governor's May Revision includes proposed funding for programs administered through the California Natural Resources Agency and the California Environmental Protection Agency (CalEPA), including activities related to water management, water quality, ecosystem restoration, climate programs, and environmental regulatory oversight. Together, these agencies oversee a broad range of statewide programs tied to natural resource management, environmental protection, and implementation of the state's climate and infrastructure priorities.

The proposal allocates approximately **\$10.5 billion** for programs within the Natural Resources Agency, including \$4.9 billion from the General Fund, \$3.2 billion in special funds, \$1.9 billion in bond funds, and \$530 million in federal funds. These investments support statewide resource management, conservation, and environmental infrastructure activities.

The May Revision also includes approximately **\$5.8 billion** for CalEPA programs focused on advancing the state's environmental and climate objectives, including regulatory oversight, emissions reduction efforts, and water and air quality programs. Proposed funding includes \$117 million from the General Fund, \$4.7 billion in special funds, \$634 million in federal funds, and \$329 million in bond funds.

Climate

The May Revision largely maintains the state's existing transportation capital program commitments while providing only limited targeted augmentations for transportation and climate-related activities. Similar to other major policy areas, the Administration avoided proposing substantial new transportation or climate investments despite the improved revenue outlook, reinforcing the overall conservative fiscal posture of this year's budget proposal.

Cap-and-Invest Revenue Uncertainty

One of the most significant emerging budget issues for local governments involves uncertainty surrounding future Cap-and-Invest auction revenues and the long-term stability of the Greenhouse Gas Reduction Fund (GGRF), which supports many of California's major climate, housing, and transportation programs.

Recent analysis from the Legislative Analyst's Office suggests that proposed California Air Resources Board (CARB) regulatory changes could substantially reduce future annual Cap-and-Invest auction revenues available for legislative appropriation. Under CARB's current proposal, annual GGRF revenues could decline to approximately \$2 billion annually, roughly half of recent funding levels.

Much of the concern 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 the proposal could reduce auction participation and lower the amount of revenue generated for state programs.

This issue is particularly important because last year's Senate Bill 840 (Limón) expenditure framework assumed substantially higher ongoing Cap-and-Invest revenues to support a wide range of climate, housing, and transportation priorities. If revenues decline significantly, the Legislature may ultimately need to revisit existing funding assumptions and reprioritize programs supported by the GGRF.

Programs potentially facing 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

Specifically, the Safe and Affordable Drinking Water program has historically served as a funding source for water and sanitation projects in the State of California. TPA continues to advocate for innovative biosolids management funding to be considered as part of these larger Cap-and-Invest negotiations.

Looking Forward

The May Revision now serves as the starting point for final negotiations between the Administration and the Legislature ahead of the June constitutional budget deadline. Despite the improved revenue outlook, this May Revision is widely viewed as one of the Administration's most fiscally conservative budget proposals in recent years. The Governor largely avoided proposing major new ongoing investments and instead prioritized reserve-building, long-term structural balance, and limiting future budget obligations.

Over the next several weeks, the Legislature will hold a series of budget subcommittee hearings to review the Administration's proposals, hear stakeholder concerns, and identify areas where legislative priorities may differ from the Governor's approach. Following these hearings, legislative leadership will begin assembling its own budget priorities and negotiating framework before entering formal negotiations with the Administration. The final budget agreement will ultimately require alignment between the Governor, Senate leadership, and Assembly leadership, with trailer bill negotiations expected to continue beyond the June budget deadline on several major policy issues.

OC SAN LEGISLATIVE POSITIONS

OC San staff and Townsend Public Affairs monitor current and upcoming legislation. Per the Board approved Legislative and Regulatory Plan, OC San has submitted five position letters this year:

Assembly Bill 1621 (Wilson) – Planning and Zoning Law: Housing Accountability Act

Summary: AB 1621 proposes changes to the post-entitlement permitting process for housing development projects. The bill would limit building permit plan check reviews to two rounds, modify review timelines and related provisions, and restrict agencies from requiring changes during inspections that deviate from previously approved plans unless specified findings are met.



Status: AB 1621 is in the Senate and has been referred to the Committee on Local Government and Housing

OC San Position: Oppose Unless Amended. Page 24, section K (H) of Legislative and Regulatory Plan

Assembly Bill 2180 (Ward) - Proposition 218 Omnibus Implementation Act

Summary: AB 2180 clarifies how local governments may demonstrate compliance with the constitutional requirement that fees not exceed the proportional cost of service. The bill allows agencies to use any reasonable method to allocate service costs among parcels, supported by existing or reasonably estimated data. The bill is sponsored by ACWA.

Status: AB 2180 has passed the Assembly and has been referred to the Senate Local Government Committee.

OC San Position: Support. Page 24, section K (h) of the Legislative and Regulatory Plan

Assembly Bill 2381 (Johnson) - Local Agency Public Construction Act: Municipal Water Districts: Sanitation Districts: Lowest Responsible Bidder

Summary: AB 2381 amends the Local Agency Public Construction Act to update competitive bidding requirements for municipal water districts and sanitation districts. Specifically, the measure increases the threshold for public works contracts that must be awarded to the lowest responsive and responsible bidder from \$35,000 to \$220,000.

Status: AB 2381 died in the Assembly and is not moving forward.

OC San Position: Support. Page 23 section J (e) of the Legislative and Regulatory Plan and is consistent with previous bill concepts that TPA has discussed with OC San staff and the Board.

Assembly Bill 2777 (ESTM Committee) – State Water Pollution Control Revolving Fund program: loans: water reuse

Summary: AB 2777, sponsored by CASA and WaterReuse, this bill would provide additional flexibility for the State Water Resources Control Board to modernize the Clean Water State Revolving Fund (CWSRF) loan program. The bill would authorize the state board to assess fees in place of an annual charge for financial assistance and would authorize the fees or annual charge to be assessed at any rate as permitted by federal law.

Status: AB 2777 is on the Assembly Floor.

OC San Position: Support an industry coalition letter. Page 23, section D (A) and section E (c) of the Legislative and Regulatory Plan.

Senate Bill 1117 (Cervantes) - Accessory Dwelling Units and Junior Accessory Dwelling Units

Summary: SB 1117 would restrict how local agencies calculate impact fees for accessory dwelling units (ADUs) by requiring that fees for units exceeding 750 square feet be based only on the

portion of the unit above that threshold, rather than the entire unit.

Status: SB 1117 is on the Senate Floor.

OC San Position: Oppose Unless Amended. Page 24, section K (H) of Legislative and Regulatory Plan