
MEMORANDUM

To: Orange County Sanitation District
From: Townsend Public Affairs
Date: September 30, 2024
Subject: 2024 Legislative End of Session Overview

2024 STATE LEGISLATIVE WRAP UP

Overview

The 2024 legislative session came to a dramatic close just after midnight on Saturday, August 31, as both chambers were engulfed in a flurry of last-minute proposals, political maneuvering, and power plays among leadership in both houses and the Governor's Administration. This adjournment marked the end of the two-year 2023-24 Legislative Session, which saw over 4,000 bills introduced during its cycle.

While last-minute policy introductions are a common feature of California's legislative process, this session was notable for the unusually high number of bills and amendments introduced in the final 72 hours. These last-ditch efforts aimed to make sweeping changes in key areas such as energy policy, industrial land use regulations, and gas pricing, among others.

Adding to the usual end-of-session frenzy, Governor Newsom called a special session just hours before the regular session's end to address new mandates on oil refineries aimed at reducing gas prices. This unexpected move effectively pushes the Legislature into overtime, forcing lawmakers to grapple with the complex and politically sensitive issue of energy affordability just as the campaign season kicks into high gear ahead of the November 5 election. In response, the Assembly convened the special session on August 31, as directed by the Governor, while the Senate chose to defy the Governor's order.

As for the legislative output of the 2024 session, of the 2,525 total bill vehicles introduced this year, nearly 1,500 were passed by the Legislature. As of September 5, Governor Newsom has signed 550 bills into law, vetoed 5, and has 1001 bills still awaiting his decision before the September 31 deadline. In his first four years in office, Governor Newsom has vetoed between 7.9 percent and 16.5 percent of the bills presented to him annually, often citing insufficient state resources to implement the proposed measures. It is expected that his vetoes from the 2024 session will follow a similar pattern, particularly given the current budget deficit. Most of the statutes signed into law will take effect on January 1, 2025.

The conclusion of the 2024 legislative session also signals the start of the Interim Recess and the ramp-up to the November 2024 General Election. At least 23 State Assembly seats and 12 State Senate seats are set to change hands, representing over 25 percent of each house. When the Legislature reconvenes in January 2025 for the start of the 2025-26 session, a wave of freshman legislators will bring new priorities, leadership styles, and political dynamics to Sacramento.

Below is a detailed overview of priority measures and key events from the 2024 legislative session, organized by issue area:

Water and Sanitation

Due to California's storied history of drought and coinciding water management practices, water related policy is always a prominent topic in Sacramento regardless of current drought or reservoir conditions. 2024 was no different, with significant legislation being introduced at the beginning of the legislative session on water rights, implementation on the Making Conservation a Way of Life regulation, implementation of the Advanced Clean Fleet regulation, water conservation, contamination source control, and water rates.

Furthermore, coalitions of water and sanitation districts and other local government advocates continued the fight to protect revenue and cost-recovery streams such as connection and capacity fees from a multitude of housing bills seeking to lower the overall cost of housing. Pre-development costs, including mitigation and impact fees, have long been a target of affordable housing advocates due to the upfront costs on new developments. Much of the legislative session was dedicated toward reminding the Legislature about existing laws and deals to protect these critical sources of revenue as well as educating new members of the Legislature about their benefits. Despite some setbacks on the timing of payments of some of these impact fees, most of the problematic language introduced at the beginning of the year was amended out of bills prior to their final passage on the Floors.

Additionally, considerable time was spent negotiating details on SB 1255 (Durazo), which required a retail water supplier that serves over 3,300 residential connections to establish a water rate assistance program (WRAP) to help eligible low-income customers pay their water and wastewater bills. This WRAP was thought to be paid for from voluntary contributions paid by other customers through charges on water bills in a first of its kind opt-out program. This concept was met with significant opposition from local government advocacy groups who argued that billing systems were not ready to implement policy changes such as this, in addition to a lack of understanding about the actual need that exists and the amount of money an opt-in program could generate. SB 1255 died on the Assembly Appropriation's Suspense File in August; however, it is possible that additional legislation to help lower the cost of water and wastewater bills will be introduced in 2025.

Revenue and Taxation

In 2024, revenue and taxation policy took center stage, with various significant developments, including the looming threat of the Taxpayer Protection and Government Accountability Act, ongoing legislative efforts such as [ACA 1](#) (Aguiar-Curry) to provide local governments with more financing tools for housing production, and proposals aimed at reducing impact fees.

Taxpayer Protection Act

After years of opposition, the California Supreme Court ruled unanimously in June, barring the Taxpayer Protection Act from appearing on the November General Election ballot. The measure would have restricted the ability of state and local governments to implement or maintain taxes and fees by retroactively nullifying recently passed tax measures, raising voter approval thresholds, and creating challenges for taxes and fees.

The Court's decision was based on the initiative's far-reaching scope, which it deemed exceeded a simple constitutional amendment and instead represented a fundamental revision of state and local governance, requiring a constitutional convention.

ACA 1 / ACA 10 / Proposition 5

The Legislature passed ACA 1 (Aguiar-Curry), which, pending voter approval, would allow local governments to incur bonded indebtedness or impose special taxes for housing and infrastructure projects with 55 percent voter approval. Initially set for the March primary ballot, ACA 1 was moved to the November 2024 election due to political calculations surrounding the passage of Proposition 1.

Concerns from stakeholders like the California Association of Realtors, which sought to exclude smaller properties from the measure's financing eligibility, led to the introduction of [ACA 10](#) and [AB 2810](#) in 2024. ACA 10 stripped the special tax provisions from ACA 1, leaving only the 55 percent threshold for bond approval intact. AB 2810 included the compromise with the realtors to exclude the application of bond financing housing projects under 5 units. The revised measure now appears on the November ballot as Proposition 5, which, if approved, would empower local agencies to pass revenue bond measures for affordable housing and public infrastructure projects with a reduced voter threshold.

Impact Fees

Housing affordability remained a central legislative theme in 2024, with impact fees and exactions targeted as contributors to high development costs. A critical decision from the U.S. Supreme Court this year mandated that local governments establish a clear "essential nexus" between development projects and the fees they impose, ensuring that fees are "roughly proportional" to the actual impact of the development. This ruling has the potential to significantly affect local government revenue streams.

In addition, the Legislature advanced several measures aimed at limiting or deferring impact fees, including:

[SB 937](#) (Wiener), which defers certain development fees until a certificate of occupancy is issued. It also locks in impact fees before a building permit is granted and prohibits indexing fees for inflation or charging interest on deferred fees. While local governments opposed the measure, it passed and may see further refinement in future sessions.

[AB 1820](#) (Schiavo), which creates a framework for developers to receive preliminary and final estimates of project-related fees and exactions within specific timeframes.

Both bills passed the Legislature and are currently awaiting action from the Governor.

Labor and Employee Relations

At the outset of the legislative session, several bills were introduced by progressive lawmakers, with backing from major labor organizations, including the American Federation of State, County, and Municipal Employees (AFSCME), the California Labor Federation, and the California State Council of the Service Employees International Union (SEIU).

These labor groups, alongside numerous employee advocacy organizations, have recently prioritized addressing the reported labor shortages in the public sector. According to a recent study by the UC Berkeley Labor Center, vacancy rates in county job positions within three of California's most populous counties are now 1.5 to 2 times higher than they were prior to the COVID-19 pandemic.

In response to these vacancy rates and workforce gaps, several pieces of legislation were introduced, seeking to increase transparency in public sector bargaining unit vacancies and to promote the hiring of internal labor over consultants. These measures also included substantial data reporting requirements for existing consultants and contractors in the public sector, aiming to support arguments in favor of using internal labor groups for essential tasks.

The principal bills—[AB 2557](#) (Ortega) and [AB 2651](#) (McKinnor)—faced significant opposition from local governments and business interests during the legislative process. Despite this resistance, both bills successfully advanced through policy committees, largely along party lines, due to robust support from labor advocates among committee members. However, AB 2557 (Ortega), which would have required extensive reporting and auditing on public sector contracting, failed to pass the Senate Appropriations Committee before the legislative deadline and was shelved for the year. In contrast, AB 2561 (McKinnor), mandating that local public agencies with more than a 20 percent vacancy rate in any bargaining unit publicly present updates on vacancies, recruitment, and retention efforts at least once per fiscal year, passed the Legislature in the final days of the session and now awaits action by the Governor.

Additionally, two weeks before the legislative session's close, [SB 399](#) (Wahab) was amended. Originally introduced in 2023, the bill pertains to employee intimidation and aims to prevent employers from retaliating against or threatening employees who refuse to attend mandatory meetings where the employer communicates political or religious opinions. A key concern for local governments is the broad definition of "political," which encompasses issues related to elections, political parties, legislation, regulation, and decisions to join or support political or labor organizations. While the bill's intent—to prohibit employers from expressing inappropriate political opinions during mandatory meetings—is laudable, its broad language could inadvertently encompass routine job duties of local government employees, such as analyzing state or federal regulations or attending board meetings where legislation is discussed. Despite only being reintroduced late in the session and facing strong opposition from local government advocates, SB 399 (Wahab) passed and now awaits the Governor's signature.

Artificial Intelligence

Artificial intelligence (AI) has emerged as a complex and pressing issue for lawmakers, prompting deliberations on the appropriate scope and extent of its regulation. The state has been grappling with the challenge of understanding AI in its entirety, including its potential benefits and the risks it may pose. Until July, the California Privacy Protection Agency had been considering advancing formal rulemaking to regulate automated decision-making technologies—a subset of AI that utilizes inputs to replace human discretionary judgment.

Both the Senate and Assembly have also undertaken efforts to legislate AI through individual bills and hearings. The Senate Judiciary Committee convened a hearing in December focused on the "Importance of Journalism in the Digital Age," examining the interactions between AI and news reporting.

Additionally, three of the four Assembly Informational Hearings held this year centered on AI-related topics. Several lawmakers have introduced legislation addressing various aspects of AI regulation, reflecting growing concern and interest in ensuring responsible governance of this rapidly evolving technology. Those proposals included:

- [AB 1831](#) by Assemblymember Marc Berman (D-Menlo Park) criminalizes the creation, distribution, and possession of AI-generated Child Sexual Abuse Material.
- [AB 2877](#) by Assemblymember Rebecca Bauer-Kahan (D-Orinda) would have prohibited AI systems from using the personal information of children to train AI systems without affirmative authorization.
- [AB 2930](#) by Assemblymember Bauer-Kahan would have imposed various regulations on the use of “automated decision systems.”
- [SB 1047](#) by Senator Scott Wiener (D-San Francisco) requires developers and trainers of powerful artificial intelligence models to put appropriate safeguards and policies into place to prevent harms.

In August, a deal was cut between tech companies and Assemblymember Buffy Wicks (D-Oakland) that would dedicate more funding to local journalists and AI developers. The impetus for this deal was a piece of Assemblymember Wicks’s legislation, [AB 886](#), which would have required large internet platforms to pay a portion of their revenues to journalists as compensation for using the journalists’ content on their own platforms and collecting advertising revenue. The deal includes \$300 million allocated over five years to fund in-state newsrooms, but the settlement also funds an “AI Innovation Accelerator” program to develop artificial intelligence initiatives. So far, the deal has received mixed reviews from the journalism world, some of whom are concerned about advancing AI that could replace journalism jobs in the future. Others are grateful for the additional funding to in-state journalism.

Bonds

Pivoting away from impacting the state budget, ten different legislators introduced bills that would place general obligation (GO) bonds on the ballot to be approved or rejected by voters. [AB 247](#) by Assemblymember Al Muratsuchi (D-Torrance) and [SB 867](#) by Senator Ben Allen (D-Santa Monica) were the only two measures to make it out of the fray and are now Propositions 2 and 4, respectively, on the ballot. Prop 2 dedicates \$10 billion for public school and community college facilities and Prop 4 issues \$10 billion for various climate and environmental protection projects.

The deficit strained the Legislature’s capacity to authorize multiple bonds, so state lawmakers were forced to prioritize which bonds were to advance and how much should be financed by each proposed bond. By approving bonds for school facilities and environmental protection projects, initiatives that would have funded higher education facilities, flood control, fentanyl prevention, and housing were put on hold. While housing is a top priority for the state, many were disappointed that a housing bond was not approved for the ballot.

The two bonds that will be on the November ballot, Propositions (Prop) 2 and 4, would still have a significant impact on the state’s budget. The Legislative Analyst’s Office estimates the cost to pay off Prop 2 would be \$500 million per year for 35 years, and \$400 million per year for 40 years for Prop 4 totaling \$33.5 billion over the life of both bonds. Currently, the state is paying about \$6 billion per year on debt service for existing bonds, so the drawdown on resources is substantial when weighing which bonds to approve each year.

The following is a breakdown of Props 2 and 4:

Proposition 2: Bonds for Public School and Community College Facilities

- \$4 billion for the modernization of school facilities, with at least 10 percent being reserved for small schools and \$115 million for testing/remediation of lead in water
- \$3 billion for new construction of school facilities, with at least 10 percent being reserved for small school districts
- \$1.5 billion for community college facilities
- \$600 million for charter school facilities
- \$600 million for career technical education programs

Proposition 4: Bonds for Safe Drinking Water, Wildfire Prevention, and Protecting Communities and Natural Lands From Climate Risks

- \$3.8 billion for safe drinking water, drought, flood, and water resilience programs
- \$1.5 billion for wildfire and forest resilience
- \$450 million for extreme heat mitigation
- \$1.2 billion for biodiversity programs
- \$300 million for sustainable, climate-smart farms and working lands programs
- \$1.2 billion for coastal resilience programs
- \$700 million for park creation and outdoor access
- \$850 million for clean air programs
- <\$20 million for administrative costs
- Up to 10 percent of funds within each funding pot must be allocated to severely disadvantaged communities

Budget

Following a couple of years of record surpluses driven by an infusion of federal funding, the state took a turn and started 2024 in a deficit to the tune of approximately \$37.8 billion. This immediately put the state legislature on notice of difficult decisions to come, and the Governor directed state agencies to freeze any new spending. After the tax filing deadline in April, the deficit continued to grow as tax revenues came in lower than anticipated bringing the deficit to \$46.8 billion. To balance the budget, the state largely leaned on reserves, deferrals, funding delays, and borrowing, and took Early Action in April to adjust spending levels.

In June, the state passed a preliminary version of the budget after the Governor, Senate, and Assembly agreed on an overall budget plan that compiled input from the Department of Finance and Legislative Budget Subcommittees. At stake over the course of the budget negotiations was funding for core local government programs like Homeless Housing, Assistance and Prevention (HHAP), Regional Early Action Planning (REAP), Active Transportation Program (ATP), and Multifamily Housing Program (MHP). These programs received some adjustments or cuts, however, were overall still maintained in the final budget, due in large part to the advocacy of local agencies.

Based on updated revenue estimates and potential impacts on future spending that came in after the budget was passed, the Legislature put together several trailer bills and budget bill “juniors” for routine implementation of the budget. These additional bills ranged in subject area from healthcare, energy, education, and natural resources, and some were passed as late as the last day of Session. Despite revenue fluctuations and overall volatility, the state still met its constitutional obligation to pass a balanced budget.

Energy

Income-Tiered Rate Policies and Regulations

The 2024 Legislative Session began with a focus on energy reform, including several proposals to repeal provisions of [AB 205](#) (2022). AB 205 had directed the California Public Utilities Commission (CPUC) to develop income-graduated fixed charges for energy bills for customers of Investor-Owned Utilities (IOUs). Under this measure, the CPUC was tasked with working alongside IOUs to establish income-based rates, which were initially proposed to range from \$24 per month for low-income earners to \$128 per month for households earning \$180,000 or more annually.

The implementation of AB 205's provisions faced criticism from a range of stakeholders. Environmental groups argued that the proposed joint IOU plan did not sufficiently charge high-income earners their fair share. The solar industry, which relies on high electricity rates to justify the cost of rooftop solar installations, advocated for a shift toward time-differentiated rates to encourage flexible demand. Meanwhile, local agencies called for fixed rates to remain low, with substantial rebates offered to those who electrify by certain deadlines.

These concerns led to multiple legislative proposals aimed at repealing AB 205 or introducing oversight measures to prevent future cost shifts. Among these were [AB 1999](#) (Irwin), which sought to repeal the income-based rate escalator, and [AB 1912](#) (Pacheco), which would have mandated a third-party actuarial review of all legislative proposals affecting energy ratepayers. These reviews would have needed to be completed and considered before any final vote.

Despite the momentum, both legislative proposals were set aside by leadership amid ongoing internal negotiations involving the Legislature, the Administration, and the CPUC. Concerns over high costs for ratepayers, passthrough provisions, and the potential need for IOUs to access sensitive tax information to determine income levels ultimately led the CPUC to reject the original income-escalated charge proposal. Instead, a new structure was adopted, charging residential customers a flat rate of \$24.15 per month, with a reduced rate of \$6 to \$12 for those enrolled in low-income programs. This new rate was implemented by the CPUC in July.

Last Minute Rate Reduction and Clean Energy Bill Proposals

As previously mentioned, the final days of the 2024 Legislative Session featured the introduction of numerous late-breaking amendments that inserted new policy proposals into existing bill vehicles. Among these were six measures focused on addressing California's clean energy challenges, specifically meeting mandates for clean, carbon-free energy and reducing some of the nation's highest electric bills.

The primary proposal targeting California's escalating electric bills, [AB 3121](#) (Petrie Norris), sought to provide each household with a modest, one-time credit ranging from \$30 to \$70. The estimated \$500 million in savings would have been drawn from cuts to utility programs benefiting low-income residents and schools. Advocates for these programs argued that the proposed cuts would disproportionately harm low-income Californians and children while offering only a minimal reduction in ratepayers' utility bills. This measure ultimately failed to pass before the end-of-session deadline.

Another significant proposal, [AB 3264](#) (Petrie Norris), mandates that the Public Utilities Commission study ways to reduce the costs associated with expanding transmission capacity and report on energy efficiency programs funded through consumers' utility bills. This bill successfully passed through the legislature under the tight deadline and is now awaiting the Governor's decision.

Other proposals within the late-breaking package that passed the legislative process included [SB 1420](#) (Caballero), which aims to streamline hydrogen facility permitting, and [SB 1142](#) (Menjivar), which seeks to prevent power shutoffs for ratepayers with active payment plans. Two additional bills did not survive the legislative process, including [SB 1003](#) (Dodd), which would have increased oversight of utility wildfire costs. In a statement to the press following the session's close, Senate Pro Tem Mike McGuire expressed his commitment to reintroducing more energy-related proposals next year to build upon the efforts of this package.

Housing and Land Use

RHNA Reform

As is typical of the Legislature in recent years, the 2024 Legislative Session was keenly focused on housing production and compliance with state housing laws. This included an analysis of the regional housing needs allocation (RHNA) process and improvements that could be implemented prior to the start of Cycle 7. In April, the California Department of Housing and Community Development (HCD) released its entitled [California's Housing Future 2040: The Next Regional Housing Needs Allocation \(RHNA\)](#), outlining dozens of suggested reforms to improve the RHNA methodology, regional determination, and compliance process.

A series of bill proposals emerged during the session that aligned with the suggested reforms in the report. This included:

- [AB 3093](#) (Ward), which creates two new income categories - Acutely Low Income (ALI) and Extremely Low Income (ELI) - in the Regional Housing Needs Determination (RHND), Regional Housing Needs Allocation (RHNA), and Housing Element Law. Creating the ELI and ALI categories will require regions and local governments to develop targeted programs and strategies in their housing elements that cater to the needs of Californians at the lowest end of the income spectrum, including homeless individuals and those at risk of homelessness. This bill drew strong support from the Governor. It passed the Legislature and is awaiting final action.
- [SB 7](#) (Blakespear) makes several technical changes to the regional housing needs determination (RHND) process conducted by HCD and the regional housing needs allocation process conducted by HCD or Councils of Governments (COGs). This measure passed the Legislature and is awaiting final action from the Governor.

Other proposals geared toward reforming the RHNA process included [AB 2485](#) (Carrillo), which would require HCD to convene and engage specified stakeholders to consider improvements to the process of determining the housing needs for each region. The bill would also require HCD to publish specified data and information on its website regarding the decision-making process used to determine regional housing needs. While this bill drew a wide array of support from local stakeholders, it was ultimately held in the second house appropriations committee.

Builder's Remedy

In addition to RHNA reforms, the Legislature this year turned its attention to refining the Builder's Remedy, a provision within the 1982 Housing Accountability Act (HAA) that prevents local governments from denying housing developments that include 20 percent lower-income units, even if the project does not conform to local zoning laws—provided the jurisdiction has not adopted a compliant housing element. Although several developers have attempted to invoke the Builder's Remedy in recent years, they have largely been unsuccessful.

During the session, lawmakers introduced several proposals aimed at clarifying and refining the Builder's Remedy, focusing on legal interpretation, timing, and specific parameters for development projects. These proposals include:

- [AB 1886](#) (Alvarez): Clarifies that the Builder's Remedy is triggered by a determination of noncompliance from the Department of Housing and Community Development (HCD). It also specifies that development standards apply only if the city is in compliance, and projects remain eligible if the application was submitted while the city was non-compliant.
- [AB 1893](#) (Wicks): Establishes guidelines regarding density, underlying zoning, and objective standards that a development must meet to qualify for the Builder's Remedy. It also reduces the required amount of affordable housing for a project to be eligible.
- [AB 2023](#) (Quirk-Silva): Introduces a rebuttable presumption of invalidity for housing elements deemed noncompliant by HCD, raising the burden of proof for jurisdictions seeking to challenge or dismiss HCD's noncompliance determination.

Despite facing opposition from local agencies, all three bills successfully passed the Legislature and are now awaiting action from the Governor.

Coastal Land Use

Coastal land use became a central focus during the 2024 Legislative Session, particularly around addressing regulatory misalignment between the Department of Housing and Community Development (HCD) and the California Coastal Commission (CC) regarding housing development in coastal areas. The Coastal Commission, working closely with coastal cities and counties, is responsible for planning and regulating land and water use in the Coastal Zone. Development in these areas typically requires a special coastal development permit (CDP), either from the Commission or from local governments that have a certified Local Coastal Program (LCP). Currently, 73 percent of the Coastal Zone is governed by LCPs, allowing local governments to issue CDPs according to detailed planning and design standards. In jurisdictions with certified LCPs, permitting decisions can be appealed to the Coastal Commission under specific circumstances.

This year, the Legislature sought to address tensions between housing production and coastal preservation, with both HCD and the Coastal Commission representing differing priorities. A key legislative goal was to align housing development efforts with the preservation values overseen by the Coastal Commission. Proposals included measures to increase housing density, synchronize housing element updates with local coastal plans, and clarify which agency holds ultimate regulatory authority in the development process.

[AB 2560](#) (Alvarez) addressed the intersection of the state’s Housing Density Bonus Law and coastal protections. The bill aimed to exempt projects taking advantage of Density Bonus incentives, which allow developers to increase housing units in exchange for affordable housing, from Coastal Act requirements. This measure sparked significant debate around balancing housing needs with coastal environmental protections. A series of amendments from environmental groups that authorized the Coastal Commission unilateral authority over developments within the coastal zone made the bill untenable. At the request of the author and with significant input from local agencies, the bill was held.

[SB 1077](#) (Blakespear) focused on simplifying the development of accessory dwelling units (ADUs) in coastal areas. The bill initially required the Coastal Commission to assist cities and counties in updating their LCPs to streamline the permitting process for ADUs and junior ADUs, thereby promoting housing production while ensuring compliance with coastal regulations. However, significant cost concerns were raised by local governments related to the constant need to update LCPs to accommodate the bill’s goals. Ultimately, the bill was amended to require HCD to provide technical guidance to local governments on how to streamline ADU permitting within the coastal zone.

In addition, [SB 951](#) (Wiener) sought to improve the process of appealing local jurisdiction approvals of coastal development permits. The bill clarifies the grounds for appealing local CDP decisions to the Coastal Commission and authorizes local governments to notify the Commission of final permit actions electronically, among other provisions aimed at enhancing transparency and efficiency.

These legislative efforts underscore the complexity of managing coastal land use in California, as policymakers strive to balance the state’s urgent need for housing with the imperative to protect its valuable coastal resources. It is anticipated that coastal land use issues will continue to emerge as a priority topic next session.

Fire Insurance

At the conclusion of the 2023 Legislative Session, the Governor and the Insurance Commissioner took significant action through an executive order and regulatory proceedings to enact changes aimed at stabilizing California’s insurance market and retaining insurance companies in the state. This initiative focused on four key objectives: (1) Expanding insurance coverage in high-risk areas, (2) Modernizing the FAIR Plan to reintegrate members into the standard insurance market, (3) Updating rate review and filing timelines, and (4) Allowing the use of advanced catastrophic modeling tools.

The latest draft regulations, last revised at the beginning of the year, specify the requirements for insurance companies wishing to use forward-looking catastrophe models for setting rates. Under these draft regulations, insurers must either offer policies in high-risk areas that represent at least 85 percent of their statewide market share or increase the number of plans in these areas by 5 percent. Additionally, insurers are required to consider wildfire mitigation efforts implemented by policyholders.

A policy qualifies as being in a high-risk area if it is located in a county or ZIP code designated as distressed, undermarketed, and high-risk. A county is classified as "distressed" if more than 20 percent of its residential properties with fewer than five units are rated as “high” or “very high” risk by CAL FIRE. These designations will be reviewed and updated annually.

The designated counties currently include Alpine, Amador, Butte, Calaveras, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Modoc, Mono, Monterey, Napa, Nevada, Placer, Plumas, San Luis Obispo, Santa Cruz, Shasta, Sierra, Siskiyou, Tehama, Trinity, Tuolumne, and Ventura.

Following the release of these draft regulations, the Insurance Commissioner announced additional amendments to the FAIR Plan, California's insurance program designed to provide coverage to residents and businesses in both urban and rural areas who cannot secure insurance through the standard market. These changes, part of an agreement between the Department of Insurance and the California FAIR Plan, include provisions for recouping losses by imposing surcharges on residential and commercial insurance policies across the state in "extreme worst-case scenarios."

Under the current framework, the FAIR Plan is responsible for paying claims once its reserves, reinsurance, and catastrophe bonds are depleted. The new agreement stipulates that, should these funds be exhausted, insurers will be required to cover up to \$2 billion in FAIR Plan claims—\$1 billion for residential and \$1 billion for commercial policies. Insurers can then, with the insurance commissioner's approval, temporarily surcharge their policyholders for up to half of the amount assessed. It is important to note that homeowners will not be surcharged for commercial losses; only commercial policyholders will bear those costs. Additionally, insurers may surcharge policyholders for 100 percent of claims exceeding these amounts, pending the insurance commissioner's approval.

This restructuring of the FAIR Plan is a component of Commissioner Lara's broader Sustainable Insurance Strategy, a series of executive actions designed to stabilize California's insurance market. These actions come in response to the growing reluctance of insurers to issue new policies or renew existing ones, particularly in areas with high wildfire risks, due to the surge in wildfire-related claims.

As insurers have withdrawn from high-risk areas, the number of residential FAIR Plan policies has more than doubled since 2019, reaching approximately 408,000 as of June. Similarly, the number of commercial policies under the FAIR Plan has increased to 11,026.

The FAIR Plan will implement a Plan of Operation that includes the following:

- Expanded Coverage: Introducing a new "high-value" commercial coverage option with limits up to \$20 million per building, alongside past increases for residential policies.
- Financial Stability: Establishing a sound financial formula to protect policyholders in extreme loss scenarios.
- Improved Transparency: Requiring enhanced public reporting on FAIR Plan activities and customer service metrics.

In alignment with the Administration's and Legislature's objectives, this regulatory process has advanced without intervening legislation during the 2024 Session. Various legislative proposals, including those seeking to increase oversight of insurance modeling tools and mandate consideration of home hardening practices for rate reductions, did not pass due to concerns that they might disrupt market conditions and the ongoing regulatory process. This includes Senator Becker's [SB 1060](#), which would have required insurers using risk models for underwriting to account for wildfire risk reductions achieved through hazardous fuel reduction, home hardening, and defensible space. The bill would have also authorized the Department of Insurance to examine underwriting models for compliance and issue necessary orders.

The Department of Insurance plans to adopt these regulations by the end of 2024. Issues concerning coverage affordability and availability will likely be addressed through legislation in the coming year.

LOOKING FORWARD

The 2025-26 legislative session marks the start of a new two-year cycle, introducing a fresh slate of bills and policy initiatives when lawmakers reconvene in January. This session will be particularly notable for significant leadership transitions, with over 25 percent of both legislative houses turning over as new freshman members take office. Additionally, the session will coincide with the final two years of Governor Gavin Newsom's administration, as his term concludes in 2026. Senate President Pro Tem Mike McGuire will also serve his final term under the same limits, initially expected to provide continuity until a longer-serving successor takes the reins. Below is an overview of the key issues and policy debates anticipated to dominate the 2025 session.

Budget Outlook

Leading into this year's budget deficit, the Legislative Analyst's Office (LAO) anticipated future structural shortfalls of about \$30 billion per year until 2028. The LAO identified spending reductions and revenue (tax) increases as difficult decisions on the horizon. In an election year, tax increases were immediately off the table but could be considered in the future as a component of larger reforms or solutions. To increase state revenue without directly raising taxes, one tool the state used was a suspension of the net operating loss (NOL) deduction for California businesses until 2027. The business community has rallied to reinstate the NOL deduction, or at least guarantee the suspension is not extended even more.

Another target of reform is the State Appropriations Limit, colloquially known as the Gann Limit, which institutes a cap on state and local spending intended to control the growth in year over year spending. Between the 2021-22 and 2022-23 budget years, the state faced issues with the Gann Limit as its spending plan exceeded the set limits, which resulted in additional qualified capital outlay spending and taxpayer rebates as a solution to exclude spending from the appropriations limit. The Gann Limit has been considered a constraint on the state's ability to make investments in its top priorities, so there have been minor reforms suggested by lawmakers and stakeholders. A recent reform counted realignment revenues to local government against local governments' limits, which freed up billions of dollars under the state's limit. Broader reforms would have to go back to the ballot because the Gann Limit was created by Proposition 4 in 1979 and is enshrined in the state's Constitution.

The most recent cash receipts are 10 percent above the Budget Act forecast for July, and since April, General Fund agency cash receipts have been \$4.2 billion above projections. The summer is not a particularly busy time for revenue collection, and with future deficits still anticipated the state will need more fiscal prudence over the next few years.

Cap-and-Trade Reauthorization

California's Cap-and-Trade Program will reduce greenhouse gas (GHG) emissions by setting a firm cap on statewide GHG emissions from major sources, which is measured in metric tons of carbon dioxide equivalent (MTCO_{2e}). This cap will decline over time.

Each covered entity (major polluter) is required to surrender one “permit to emit” for each ton of GHG emissions they emit. Some covered entities will be allocated some allowances and will be able to buy additional allowances at auction, purchase allowances from others, or purchase offset credits.

The “cap” on GHG emissions that drive global warming is a firm limit on pollution. The cap gets stricter over time. The “trade” part is a market for companies to buy and sell allowances that let them emit only a certain amount, as supply and demand set the price. Trading gives companies a strong incentive to save money by cutting emissions in the most cost-effective ways.

Money secured through the Cap-and-Trade Program goes to fund several programs, including large transportation programs. One of these programs is the Transit and Intercity Rail Capital Program (TIRCP), which is the state’s most significant source of funding for large-scale public transit projects. Many transit operations and authorities are reliant on TIRCP for State Funding to help build their climate-friendly transit projects. Furthermore, many of these same operators and authorities NEED future funding commitments from TIRCP in the coming years to meet their Non-Federal cost share obligations, allowing them to stay in major federal funding programs such as the Federal Transit Administration’s New Starts Program.

Large transportation projects need reliable funding over many years as they take years (and sometimes decades) to complete. TIRCP is a five-year program in which the state estimates revenues over the next five years and plans how much each of those years it will be able to provide for each project. The out years comprise the new capacity for the program, so in 2026 the TIRCP program will have limited out-year revenues if Cap-and-Trade does extend beyond 2030.

If the Legislature and Governor’s Administration do not reauthorize the Cap-and-Trade program this year, there is the very real possibility of California losing out on tens of billions of federal dollars. The Governor has committed to tackling the reauthorization before the end of his term in 2026. It is likely the conversations will begin next year as the negotiations may take some time to reach a compromise.

Community Reinvestment

Pending official scheduling, the Assembly Committee on Community Reinvestment, Chaired by Assembly Member Papan (D-San Mateo), will hold an informational hearing during the Legislature’s interim recess to discuss the dissolution of redevelopment, existing local revenue financing tools, and ideas to build upon efforts to create a more equitable system wherein local governments can keep pace in meeting state housing goals and development needs without relying solely on state subsidies. While the specific details of policy reform proposals are still in the works, the hearing signifies a will from the legislature to create and improve revenue-generating regimes at the local level.

Fire Insurance

The public comment period is officially open for CDI’s proposed regulations to allow insurers to use forward-looking “catastrophe modeling” when setting rates, as opposed to using data from historical losses. This model is intended to provide more accurate pricing for insurance rates and has been advocated by insurance companies and the Insurance Commissioner who both cite climate change as a significant risk for more wildfires.

Another set of [recently implemented reforms](#) for the insurance market will streamline the department's rate approval process that currently lacks clarity and often slows down new rate requests. The new process will bring transparency and consistency in the rate filing process, which will also demand complete rate filings from insurance companies and good faith from intervenors.

Next, CDI will hold a public hearing on the catastrophe modeling regulations on September 17 and plans to enact the new regulations in December. Also on September 17, the Assembly Insurance Committee will hold an Oversight Hearing in Los Angeles for updates on the progress of CDI's Sustainable Insurance Strategy. The Legislature will stay acutely involved in reforming California's insurance market. A proposed trailer bill to expedite insurance rate filings failed to pick up traction and CDI pivoted to the regulatory process, but there will certainly be more legislative action from individual members. So far in 2024, wildfires have burned over 800,000 acres and damaged or destroyed over 1,200 structures. An active wildfire season is a key indicator of legislative activity the following year. Proposals that failed to pass this year will also likely be reintroduced as a starting point for legislative negotiations in early 2025.