
MEMORANDUM

To: Orange County Sanitation District
From: Townsend Public Affairs
Date: June 23, 2025
Subject: June 2025 State Legislative Monthly Report

STATE UPDATES

State Budget

On June 9, Senate and Assembly leadership announced a joint agreement on a state budget framework responding to the Governor's May Revision. The Senate Budget and Fiscal Review Committee released a [24-page budget summary](#) detailing the agreement, followed shortly by a corresponding [report](#) from the Assembly Budget Committee.

According to the Legislature's summary, California's fiscal outlook has deteriorated since January, primarily due to weaker economic growth linked to federal tariff policies. This decline has resulted in an estimated \$16 billion reduction in projected revenues. The state is also facing added fiscal pressure from rising Medi-Cal costs and emergency spending associated with recent wildfires in Los Angeles County.

In response, the Legislature's newly released budget framework outlines key priorities, including significant investments in housing, homelessness response, local government support, and transportation infrastructure.

The plan proposes a **\$232 billion** General Fund spending package focused on fiscal stability, the preservation of core services, and support for local implementation. It includes **\$3.5 billion** in reductions for 2025–26, with ongoing savings expected to exceed \$12 billion. The agreement also incorporates **\$7.8 billion** in revenue and borrowing strategies, along with **\$1 billion** in savings from fund shifts, deferrals, and other adjustments.

These priorities were amended into the main budget bill vehicle [AB/SB 101](#)—which were passed before the constitutional deadline of June 15.

Following adoption of the main budget bill, negotiations will shift toward budget trailer bills, which provide statutory authority to implement specific policy and funding provisions—particularly in areas like housing, homelessness, infrastructure, and climate resilience. These trailer bills may continue to be developed and passed through July and even into the fall, depending on negotiations with the Governor's office.

The Legislature may also introduce “budget bill juniors” later in the year to respond to evolving revenue conditions, changes in federal law, or economic shifts.

Of most relevance to OC San, the final budget is not expected to include state earmarks or budget requests from individual members of the Legislature.

Cap and Trade Auction Revenue Declines Amid Market Uncertainty

California’s Cap and Trade program, a key tool in the state’s climate strategy, is facing growing fiscal and policy pressures. The latest joint auction with Québec, held on May 21, generated approximately \$595 million for California’s Greenhouse Gas Reduction Fund (GGRF), marking a significant drop from the \$851 million raised in February and well below the \$1.1 billion brought in during the same auction last year.

The auction sold 43.9 million current vintage allowances at a settlement price of \$25.87, just above the program’s price floor, while 6.8 million future vintage allowances (usable in 2028) cleared at \$26.15. The reduced revenue and lower prices are widely viewed as signs of market uncertainty, driven by questions surrounding the long-term direction of the program.

Prior to the auction, Governor Gavin Newsom proposed extending the Cap and Trade program through 2045 to help stabilize the market and secure ongoing funding for major climate initiatives, including the state’s High-Speed Rail project. However, legislative negotiations remain in progress, and a lack of near-term clarity has continued to dampen investor confidence. The lower than anticipated auction revenues dampen stakeholders’ hopes for a stable investment in key programs. As a part of the Governor’s May Revision, he proposes a dedicated \$1 billion annually to the High-Speed Rail from the GGRF as opposed to the historical 25 percent of the fund.

Additionally, in April 2025 President Trump issued an executive order directing legal challenges to state-level climate programs such as California’s. While state officials argue the order lacks enforceability, it has contributed to the cautious outlook among stakeholders. With the state facing a projected \$12 billion budget deficit, the decline in auction revenue heightens pressure on lawmakers to solidify the program’s future and protect the state’s broader climate investments.

The conversations around the Cap and Trade or Cap and Invest program are particularly relevant given the advocacy efforts of OC San board and staff for funding a new biosolids management program. It is expected that ongoing conversations surrounding the fate of the program and the expenditure plan of the billions of dollars per year will continue into the summer.

STATE LEGISLATURE

Appropriations Committees Consider the Fate of Hundreds of Bills

On May 23, the Assembly and Senate Appropriations Committees held their respective Suspense File hearings to evaluate legislation from their house of origin with fiscal implications. This process serves as a “fiscal filter” for active bills before they are sent to the floor for final consideration. Typically, any bill with a fiscal impact drawing on state budget resources is placed on the fiscal committee’s “Suspense File.”

The Suspense File is essentially an accumulation of bills that have passed through their policy committee process to assess their fiscal impact to ensure their draw on state resources isn't unbudgeted or duplicative of existing efforts. Pursuant to statutory deadlines, fiscal committees must pass these bills by May 23, before they are passed onto their first house floor for consideration by the entire legislative body by June 6.

Suspense File hearings are known for their brisk pace, with Committee Chairs announcing the outcomes of hundreds of bills in rapid succession. Traditionally, the first suspense hearings of a legislative session happen in May, when lawmakers and their staff have a better idea of the budget picture for that year. Given the recent budget projections of an increasing budget deficit, lawmakers exercised prudence in moving forward bills with big price tags.

Of the 666 bills considered during the Assembly Appropriations Committee's Suspense File hearing, 435 passed, and 231 were held and deemed inactive for the remainder of the Session. Similarly, the Senate Appropriations Committee's Suspense File Agenda featured 432 total bills 307 of which were passed, and 114 were held and deemed inactive, and 11 became "2-Year" measures.

In total, there were **1,098** bills in the Suspense Files between both Committees; **742** passed to their House Floors, with **356** measures held in committee, for a **32.4 percent** hold rate.

EXECUTIVE BRANCH

State Officials Challenge Federal Action on Clean Air Policy

On May 22, Governor Gavin Newsom and Attorney General Rob Bonta [announced](#) plans to challenge a recent U.S. Senate vote aimed at revoking California's longstanding authority to set its own vehicle emissions standards under the Clean Air Act. The Senate, in a 51-44 vote, approved a measure to nullify the Environmental Protection Agency's (EPA) waivers that allow California to enforce stricter emissions regulations, including its requirement that all new vehicles sold be electric by 2035. California's authority to implement its own emissions standards, granted in the 1970s, has played a critical role in the state's efforts to combat air pollution. State officials argue that eliminating this authority could pose significant environmental and public health risks, especially in areas already burdened by poor air quality.

Although the Senate action has not yet become law and is expected to face legal challenges and a potential presidential veto, it marks a notable escalation in federal resistance to state-led clean transportation policies.

If the effort to revoke or limit EPA waiver authority succeeds, it would:

- Invalidate the waiver needed for the private and drayage fleet portions of the Advanced Clean Fleets (ACF) regulation;
- Prevent California from requiring manufacturers to sell ZEV trucks; and
- Potentially stall or unwind similar regulations in other states that follow California's lead.

Public fleets remain subject to ACF regardless of the waiver status. Because local agencies are governed directly by state law, the state retains the authority to require public fleets — cities, counties, special districts, and state departments — to transition to zero-emission vehicles under the ACF timeline.

Local governments, including OC San, should expect the following:

- Continued compliance obligations under the public fleet provisions of ACF (e.g., 50 percent ZEV procurement in 2024; 100 percent by 2027).
- Ongoing reporting, procurement planning, and grant-seeking responsibilities; and
- Potential reprioritization of state incentives and support programs if private sector enforcement is delayed due to federal actions.

At the same time, local agencies may face:

- Supply chain impacts if manufacturer ZEV sales obligations are halted;
- Shifting market dynamics that could increase costs or delay the availability of compliant fleet vehicles; and
- Uncertainty for joint procurement efforts with private sector partners or regional collaboratives.

While the recent Senate vote introduces uncertainty regarding the future of California's zero-emission truck regulations for the private sector, local government fleets remain subject to the ACF regulation and are still expected to comply. Townsend Public Affairs advocates will continue to monitor developments and provide updates as the situation evolves. With the Governor and Attorney General initiating legal action in response to the potential revocation of the state's federal waivers, the matter is now expected to proceed through the courts.