
MONTHLY LEGISLATIVE UPDATE

To: Orange County Sanitation District

From: Townsend Public Affairs

Date: June 19, 2026

Subject: June 2026 Legislative Monthly Report

STATE UPDATE

May and June represent one of the most consequential periods in California's legislative calendar, marked by major policy deadlines and the budget process. It serves as both the deadline for bills to pass their House of Origin and the point at which the Governor releases the annual "May Revise" budget proposal. It also precedes the constitutional deadline of June 15th by which the Legislature must pass a state budget. Under the provisions of Proposition 25, approved by voters in 2010, Members of the Legislature permanently forfeit their daily salaries for each day the budget remains overdue after June 15. As a result, it has become common practice for the Legislature to approve and transmit a framework budget to the Governor by the constitutional deadline, allowing negotiations on remaining details to continue.

The budget approved on June 15 serves as a broad fiscal framework rather than a final spending plan. Following its passage, the Senate, Assembly, and Governor continue negotiations over outstanding policy and fiscal issues. Once an agreement is reached, the Governor must sign the finalized budget package before the start of the new fiscal year on July 1. Additional details and implementation provisions are then negotiated and enacted through a series of budget trailer bills throughout the remainder of the legislative session.

As approved, the Legislature's budget framework is projected to remain balanced through Fiscal Year 2027–28 and significantly reduces the state's long-term structural deficit to below \$10 billion. The Legislature's proposal includes \$355.9 billion in total expenditures for Fiscal Year 2026–27, including:

- \$253 billion from the General Fund.
- \$36.5 billion in total reserves, including:
 - \$4.5 billion in the Special Fund for Economic Uncertainties (Regular Reserve);
 - \$15.1 billion in the Budget Stabilization Account (Rainy Day Fund);
 - \$9.5 billion in the Proposition 98 Rainy Day Fund; and
 - \$7.4 billion set aside for Fiscal Year 2027–28.

Revenue Proposals

The Legislature's budget framework also includes several revenue-related proposals, including:

- Fair Share from Large Corporations
 - In response to federal funding reductions included in H.R. 1, the Legislature incorporated budget language requiring the Governor to present fully developed policy options by April 1, 2027, for holding large corporations accountable for a greater share of their employees' healthcare costs. These options will be considered during the next budget cycle. Any implementation of such proposals would require subsequent legislative action.
- A federally compliant Managed Care Organization tax; and
- An expansion of the sales tax to certain prewritten software products. The software proposal would apply the state sales tax to many commonly used software subscriptions, including products such as Slack and Microsoft Office suites, beginning in January 2027.

New revenue sources remain difficult to identify in periods of economic uncertainty. Voter sentiment appears cautious regarding additional taxation, as reflected in the number of local tax measures rejected during the June primary election. However, unlike local tax increases, the revenue proposals contained in the state budget do not require voter approval and may be enacted with a two-thirds vote of each house of the Legislature.

Given the volatility of California's revenue structure—particularly its dependence on capital gains and stock market performance—the Legislature and Governor are also discussing potential changes to the state's reserve policies.

Under current law, state leaders are constitutionally required to make annual deposits into the Budget Stabilization Account; however, the account balance may not exceed 10 percent of General Fund tax revenues. Policymakers are now considering whether that cap should be increased to allow the state to save more revenue during strong economic years and better prepare for future downturns.

Because the reserve cap was established in the California Constitution, any change would require voter approval. Legislative leaders are currently considering a ballot measure for the November election that would authorize a higher reserve limit. To qualify such a measure for the ballot, lawmakers face a June 25 deadline to finalize the proposal.

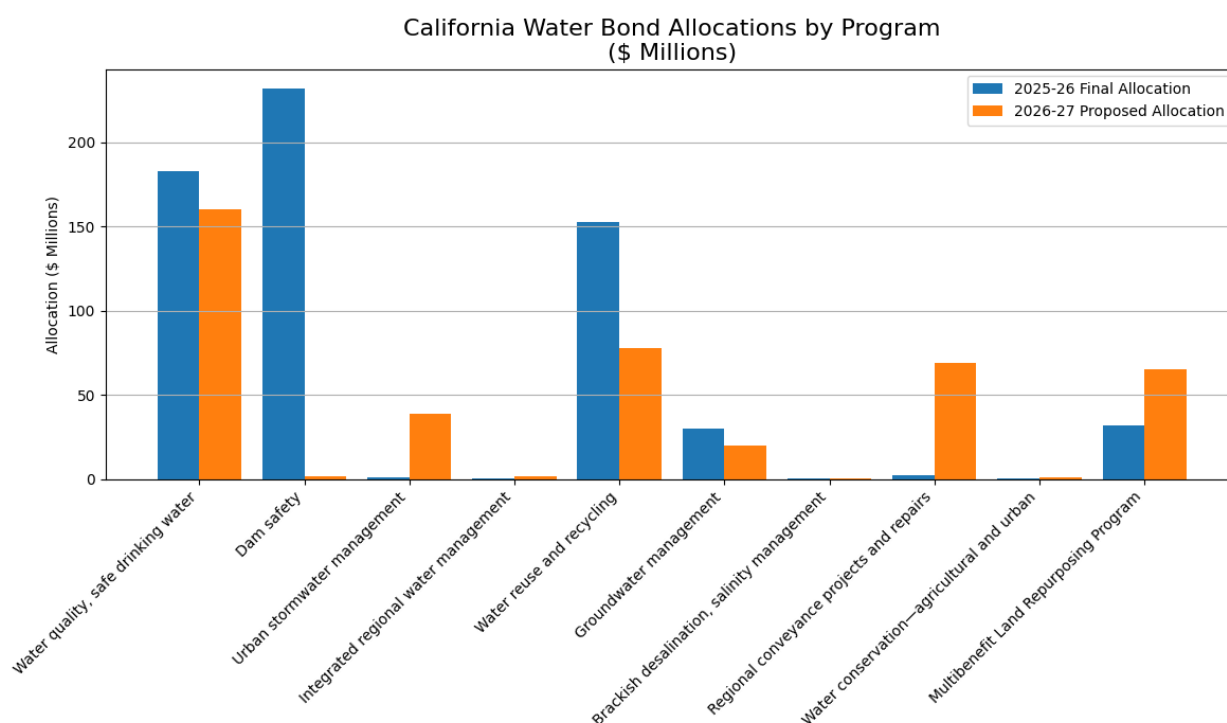
CAP AND INVEST

Beyond the budget, one of the most significant developments this month was major regulatory changes to the state's Cap-and-Invest Program. The California Air Resources Board (CARB) proposed and adopted sweeping changes to the program, despite it having been negotiated and codified in SB 840 last year.

In 2024, CARB determined that it had underestimated the amount of greenhouse gas reductions required of regulated industries by approximately 118 million metric tons. Rather than requiring emitters to achieve those additional reductions, CARB adopted regulations that effectively provide the equivalent of 118 million metric tons in free allowances to regulated entities. Consequently, 118 million fewer allowances will be available for auction.

The implications of CARB’s Cap-and-Invest changes extend well beyond climate policy and could have significant consequences for water and sanitation infrastructure funding throughout California, including challenges for opportunities to include new funding for programs such as innovative biosolids management, of importance of OC San.

This growing uncertainty places increased importance on other available state funding sources, particularly Proposition 4. As traditional funding streams come under pressure, Proposition 4 may represent one of the Legislature’s most significant remaining tools to support water infrastructure, drinking water reliability, groundwater sustainability, and climate resilience projects. Legislative leaders are expected to begin substantive discussions regarding Proposition 4 implementation following their return from Summer Recess in August, making the coming months particularly important for water agencies seeking clarity on future funding opportunities.



While details of Proposition 4 are still outstanding, the Governor has asked the State Legislature to allocate \$2.1 billion in funding, including \$792 million for water-related programs and \$326 million for clean energy programs. Unlike the Governor’s initial 2025-26 proposal, in general, the budget does not propose a multiyear spending plan for Proposition 4. The administration instead indicates that, in response to feedback from the Legislature, it would like to submit programmatic bond funding proposals on a year-by-year basis. Final details on funding and funding mechanisms, though, will be decided in August.

TPA continues to advocate for funding opportunities that would benefit OC San.

KEY STATE LEGISLATION

The following summarizes key legislation that OC San has taken positions on:

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:

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 has been referred to the Assembly Housing Committee

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 do 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 Senate and will be heard next on the Senate Floor.

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 WateReuse, 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 will be heard in the Senate Environmental Safety and Toxic Materials Committee on June 17.

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 has been referred to the Assembly Local Government Committee.

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