Attachment B

Legislative & Regulatory Program
Annual Report

Contents

State Legislative & Regulatory Affairs

2025 State Summary

State policymakers in 2025 responded to three primary challenges: a budget deficit of $15 billion (in addition to roughly $28 billion in proactive budget-balancing actions taken the year before); response to the January 2025 Los Angeles Fires; and federal policy changes enacted by the Trump Administration resulting in the cancellation or clawback of federal grant, project, and program funding.

2025-26 Budget Package

The Governor's May Revision for the 2025-2026 Budget package addressed a budget deficit of approximately $14 billion.[1] By time of passage of the final budget package, the deficit rose to about $15 billion, a result of the inability of higher tax receipts (by $1.1 billion) to fully offset higher discretionary spending ($4 billion final, compared to $1.6 billion in the May Revision).[2] This $15 billion final budget deficit addressed is in addition to about $28 billion in proactive

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[1] Hollingshead, Ann. "The 2025-26 Budget: Overview of the Spending Plan." California Legislative Analyst's Office, October 16, 2025. https://lao.ca.gov/Publications/Report/5079.

[2] *Id*.

budget solutions from 2024-25, including a $7.1 billion withdrawal from the State's rainy-day fund.[3] According to LAO, increased discretionary spending is attributable in part to General Fund spending on recovery from the 2025 Los Angeles Fires, which represented a bit less than 10% of discretionary spending.[4]

The State's solution to the budget deficit is primarily through borrowing, which accounts for about $9.6 billion of the $15 billion total deficit solutions.[5] This is in addition to existing borrowing for 2025-26 of $12 billion, bringing the State's total budgetary borrowing for 2025-26 to $21.6 billion. LAO notes that these maneuvers resemble similar actions taken to defer liabilities during the Great Recession in the late 2000s and early 2010s.[6]

Spending-related solutions accounted for $5.5 billion, with $2.5 billion coming from reductions, though many of the budget solutions enacted will increase over time, such that spending reductions grow to $10.5 billion ongoing by 2028-29.[7] This included a freeze on new enrollments in Medi-Cal for persons with unsatisfactory immigration status now in effect and a reduction in the scope of Medi-Cal coverage for enrollees.

Your Board conducted substantial advocacy on the 2025-26 Budget, including on the funding formula for In-Home Supportive Services and on key housing and homelessness programs like Bringing Families Home, CalWORKs, the Housing Support Program, and the Housing and Disability Advocacy Program.

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[3] *Id*.

[4] *Id*.

[5] *Id*. A breakdown of the most significant sources of borrowing is as follows:

- **$4.4 billion** is attributable to a Medi-Cal maneuver to cover unanticipated cost increases in Medi-Cal not recognized in the budget over a single year, but rather spread over the next nine years;
- **$2.1 billion** is attributable to loans from special funds, of which $1.5 billion is unallocated;
- **$1.9 billion** is attributable to appropriating less than the estimated requirement to fully fund schools and community colleges, and will have to be settled over the next two years to reflect the actual requirement;
- **$1 billion** is attributable to deferring recognition of Middle Class Scholarship program costs to 2026-27, a maneuver the administration will continue, shifting 2026-27 costs to 2027-28; and
- **$274 million** is attributable to deferral of payments to the University of California and California State University systems, requiring future one-time payments.

[6] *Id*.

[7] *Id*.

Wildfire Response & Property Insurance Legislation and Regulation

Legislators in 2025 passed significant reforms increasing consumer protections after wildfires, requiring more frequent "Safer from Wildfires" regulatory updates[8], and allowing the FAIR Plan to access catastrophe bonds, loans, and lines of credit.[9] Specific to consumer protection, the Legislature established a new grant program for homeowners to offset the costs of home hardening and defensible space[10], insurer minimum payouts for personal property claims without a detailed inventory after a total loss due to a declared state of emergency increased from 30% to 60% of the policy limit, or up to $350,000[11]; and lenders will now be required to pay homeowners the interest earned on insurance payouts held in escrow after a disaster.[12] Commercial and nonprofit entities will now benefit from mandatory one-year moratoriums on coverage cancellations in areas within or adjacent to fire perimeters after a statutory expansion from prior applicability only to residential properties to also include commercial properties, homeowners' associations, and nonprofits.[13] In the regulatory sphere, the Insurance Commissioner's Sustainable Insurance Strategy proceeded, with the Department completing reviews of reforms allowing insurers to use forward-looking catastrophe models, rather than limiting rate-setters to use of only historical data, a change that will allow for the incorporation of parcel-level and landscape-level mitigation measures to rate-setting decisions.[14] The Department of Insurance's 2025 Annual Notice also clarified that after a state of emergency, insurers must provide at least 24 months of Additional Living Expenses coverage, with potential

[8] Assembly Bill 1 (Asm. Connolly, D-San Rafael), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB1.

[9] Assembly Bill 226 (Asm. Calderon, D-Whittier), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB226.

[10] Assembly Bill 888 (Asm. Calderon, D-Whittier), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB888.

[11] Senate Bill 495, (Sen. Allen, D-El Segundo), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260SB495.

[12] Assembly Bill 493 (Asm. Harabedian D-Pasadena), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB493.

[13] Senate Bill 547 (Sen. Perez, D-Pasadena), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260SB547.

[14] California Department of Insurance, Press Release, July 24, 2025. https://www.insurance.ca.gov/0400-news/0100-press-releases/2025/release052-2025.cfm.

extensions for delays beyond the policyholder's control, like delays in construction permitting or lack of availability of materials.[15]

Your Board and the County conducted substantial in-person and written legislative and regulatory advocacy on the topics of wildfire mitigation and property insurance issues in California and in Washington, D.C., throughout 2025, including in-person legislative testimony, the transmission of a five-signature letter to Insurance Commissioner Lara, and support for a bill from Senator Cabaldon that passed into law enabling new training and certification programs within the Office of the State Fire Marshal for commercial contractors and builders who conduct defensible space and home hardening.

Carrier of Last Resort Obligations

As in 2024, AT&T again pursued legislation that would relieve it of its carrier of last resort obligations in 2025. AT&T is currently required by the CPUC to act as the carrier of last resort for millions of Californians, a mandate which requires AT&T to provide affordable and reliable copper line service to any household in their service area.[16] For Napa County, AT&T provides copper line service to 3,195 households.

Your Board conducted significant legislative and regulatory advocacy on behalf of county residents in this area, including in-person California Public Utilities Commission testimony in March. Throughout the summer, County staff worked with Marin County counterparts, meeting with key legislative staff and representatives from AT&T to share county concerns. This effort culminated in a coalition opposition letter, sent in late August, with Napa, Marin, and Humboldt Counties represented.

2026 State Outlook

Governor Gavin Newsom will term out at the end of 2026, and the gubernatorial election is expected to occupy an outsized role in policy deliberations in Sacramento during the 2026 Legislative Session. The Legislature is additionally in the second year of its regular two-year bill cycle, meaning that outstanding legislation must advance on an accelerated schedule, in addition to the introduction of new bills on the regular legislative calendar.

[15] California Department of Insurance, 2025 Annual Notice, January 9, 2025 (p. 3 of 9). https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/2025Notice-SigCALaw-ResIns-DeclSOE.pdf.

[16] A map of carrier of last resort service obligations, including AT&T's service areas, is available on the CPUC's website: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/communications-division/documents/high-cost-support-and-surcharges/chcf-a-1/ilec-territories-2023_230412.pdf. Napa County is entirely within AT&T's designated service area.

Structural Budget Deficits Grow

Over the course of the first and second quarters of Fiscal Year (FY) 2025-26 (July 2025 through December 2025), the expected budget deficit for FU 2026-27 grew by nearly 40%, from a June administration estimate of $13 billion to a November LAO estimate of $18 billion.[17] The increase in deficit is due to constitutionally-required spending under Proposition 98 (1988) (schools and community colleges) and Proposition 2 (2014) (requires deposits into the rainy day fund and payment of half of revenues toward state debts).[18] The LAO additionally estimates that costs for other programs will be about $6 billion higher than expected in June, and beginning in FY 2027-28, a structural deficit of about $35 billion annually due to the growth in the Legislature's spending outstripping revenue growth.[19] If estimates hold, the Legislature will face a fourth consecutive year of budget *deficits* – all of which have occurred during a period of revenue *growth*.

Medi-Cal Spending Increases

The 2025-26 Annual Budget provided Medi-Cal a total of $44.9 billion in General Fund support, a high-water mark for the program.[20] Expenses are expected to continue to rise, and the total General Fund commitment is projected to reach $51.6 billion by 2029-30 (a remarkable rate of growth that is nonetheless outpaced by the growth rate in the rest of the state budget).

Federal changes to Medicaid drive a substantial portion of this increase, a net $3.2 billion in new state costs through 2029-30, particularly a periodic stepdown in permissible provider tax rate and increased federal cost sharing ($5.1 billion total cost). The total cost is offset by a reduction in Medi-Cal enrollees, estimated at 1.6 million fewer people than current levels, reducing costs by $1.9 billion.

County Indigent Care Funding Required Above Pre-Affordable Care Act Levels

The 1.6 million people expected to be administratively disenrolled from Medi-Cal are exceedingly unlikely to be able to afford other insurance. As a result, their care will fall to counties under California Welfare and Institutions Code 17000, which requires that "[e]very county and every city and county shall relieve and support all incompetent, poor, indigent

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[17] Hollingshead, Ann. "The 2026-27 Budget: California's Fiscal Outlook" California Legislative Analyst's Office, November 19, 2025. https://lao.ca.gov/Publications/Report/5091.

Note: The Governor's January Budget proposal is expected to be released after the publishing deadline for this annual report.

[18] *Id*.

[19] *Id*.

[20] Constantinouros, Jason, *et al.* "The 2026-27 Budget: Medi-Cal Fiscal Outlook, November 19, 2025. https://lao.ca.gov/Publications/Report/5092.

persons, and those incapacitated by age, disease, or accident, lawfully resident therein....” through the provision of basic, life-saving medical care.

Napa is part of a thirty five county coalition, mostly in Northern California and the Sierra Foothills, that provided indigent services prior to the enactment of the Affordable Care Act (ACA) called the County Medical Services Program (CMSP).[21] The primary state funding source that previously provided approximately $300 million per year for county indigent services was redirected entirely to the state in 2019.[22] CMSP estimates that, accounting for inflation in costs since the enactment of the ACA in 2010, annual costs for the program will be between $800 – 850 million.

Indigent care is substantially more limited than care under Medi-Cal: it does not include preventative or specialty care; it includes only life-saving measures for US citizens. Enrollment in CMSP prior to the ACA was approximately 61,000; CMSP expects enrollment because of loss of Medi-Cal coverage and ACA subsidies to reach more than 125,000.

Local Public Agency Liability Reform

Counties and cities across California in 2025 faced substantial liability stemming from the passage in 2019 of a law (AB 218) that significantly extended statutes of limitations for childhood abuse claims.[23] Notably, the County of Los Angeles agreed to a $4 billion global settlement in 2025, and as of December, 2025, public school districts in California have paid about $700 million since 2020 to settle about one-third of pending cases, and have paid millions more in trial verdicts, with total liability for school districts alone expected to exceed $3 billion. This is a substantial factor driving increases in costs of liability insurance coverage for local governments and the California State Association of Counties has indicated that liability reform is a top priority for 2026 following the stalling of Senate Bill 577 on the Assembly Floor in 2025.[24]

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[21] County Medical Services Program Participating County Map, https://cmspcounties.org/cmsp-map/.

[22] A secondary funding source, which is not currently available because CMSP’s fund balance exceeds a threshold amount in operating reserves, may become available once CMSP expenditures cause the fund balance to drop below that threshold, but will be inadequate to meet expected expenditures.

[23] “Childhood Sexual Assault: Fiscal Implications for California Public Agencies.” Fiscal Crisis & Management Assistance Team, January 31, 2025. https://www.fcmat.org/PublicationsReports/child-sexual-assault-fiscal-implications-report.pdf

[24] Senate Bill 577 (Sen. Laird, D-Santa Cruz). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260SB577.

Cap-and-Invest Statutory Allocations Outstrip Actual Revenues

The Legislature reauthorized the State's cap-and-trade carbon trading and Greenhouse Gas Reduction Fund program, now called "cap-and-invest," through 2045.[25] The program generated $844 million in November 2025 quarterly auction revenue, similar to the August 2025 figure, with all state-owned allowances for sale purchased.[26] Actual revenues remain slightly below the assumptions contained in the 2025-26 Budget Act.[27] The reauthorization alters the uses and orders of priority for revenues: roughly $4.3 billion in annual revenues are required to fully fund the statutory allocations.[28] At a consistent level of revenue, the State will fall about $1 billion short of that required figure.

In addition to the statutorily allocated uses above, the Legislature in 2025 also expressed its intent to use discretionary cap-and-invest revenues to fund up to a combined total of $1.5 billion to support CalFire costs ($1.25 billion); transit passes ($125 million); climate-focused technical innovation ($85 million); seed funding for a University of California Climate Research Center ($25 million); and funding to rebuild Topanga State Park between Calabasas and the Pacific Palisades, where the 2025 Palisade fire started ($15 million).[29]

In total, then, prior commitments exceed likely revenues by a substantial margin of roughly $2.5 billion. The $18 billion deficit figure already assumes payment of $1.25 billion in CalFire costs from cap-and-invest revenues rather than the State's General Fund and may grow to a figure in excess of $20 billion if cap-and-invest revenues do not substantially increase from current levels.

Federal Legislative & Regulatory Affairs

2025 Federal Summary

President Trump signed 225 executive orders in the first year of his second term, an exercise of executive power not seen since Franklin Delano Roosevelt's New Deal-era rebuilding of the country. The administration's primary points of focus, stepping up immigration enforcement and budgetary reform, each had substantial local impacts.

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[25] Senate Bill 840 (Sen. Limon, D-Santa Barbara), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260SB840.

[26] Kerstein, Helen. "Cap-and-Invest: November 2025 Auction Update and 2026-27 Budget Context." Legislative Analyst's Office, December 9, 2025. https://lao.ca.gov/Publications/Report/5096.

[27] *Id*.

[28] *Id*.

[29] *Id.*

Anticipating the administration's immigration enforcement efforts, your Board in December, 2024 adopted a resolution on valuing, supporting, and protecting marginalized communities in Napa County. Your Board then in January took concrete action in furtherance of this resolution, creating an ad-hoc committee to address community affairs as needed and injecting county funds into the local nonprofit community. Departments stepped up to follow the lead of your Board, with nonprofit communications and coordination and resources posted to the County website facilitated through the Office of the County Executive and extensive training to support clients and staff through the Health and Human Services Agency.

The administration exercised substantial control over the budgetary process in Congress, first enacting a discretionary spending bill enacting substantial increases to defense and homeland security spending, offset by substantial cuts to international aid, disaster mitigation, and scientific research programs. The administration next turned to mandatory spending, setting as its priority the extension of 2017 tax cuts. To achieve a partial offset of the foregone revenue from the tax cuts, the administration and Congress enacted significant reforms to Medicaid and the Supplemental Nutrition Assistance Program (SNAP). These reforms are intended to shift costs to the states and reduce the enrolled populations in the programs through new administrative requirements, including work requirements for both programs. In California, as noted above, these reforms to mandatory spending will increase state costs by about 10%, or $5.1 billion, and decrease enrollment by about 10%, or about 1.6 million.

Your Board conducted substantial federal advocacy this year, centered on the February cancellation of a $35 million wildfire mitigation grant funding landscape-level vegetation management and fire break projects and a parcel-level home-hardening and defensible space local grant program. County officials conducted advocacy meetings at the very highest levels of government to emphasize the value of and need for federal mitigation programs, which unlock substantial state, local, and private capital and save money in disaster response and recovery.

Your Board also responded swiftly and decisively to the October 1 federal government shutdown, in which Democrats declined to support continued appropriations absent an extension of healthcare subsidies that save older enrollees and poorer enrollees thousands per month. Your Board responded to uncertainty around the issuance of SNAP benefits, declaring a local state of emergency to allow the use of local funds to mitigate the disruption. Democrats later agreed to reopen the government without a guarantee of ACA subsidy extensions, which subsequently expired on December 31, 2025. Congress enacted an Agricultural Appropriations Act effective through September 30, 2026, which will ensure that SNAP and WIC (special supplemental nutrition program for Women Infants and Children) are funded through the end of the federal fiscal year.

2026 Federal Outlook

The first order of business for Congress and the President will be averting another government shutdown when the current appropriations bills expire on January 30, 2026. Following these negotiations, the midterm elections will come into sharp focus. Multiple states, including California, redistricted on partisan lines, a form of gerrymandering previously upheld by the Supreme Court in *Rucho* (2019).

The primary executive branch focus appears to be coalescing around an affordability message, while the primary legislative points of focus are likely to be enacting an affordability agenda in light of expired ACA subsidies through pro-carbon energy policy, technology policies, and immigration enforcement. Pro-carbon energy policy includes proposals for new offshore drilling, a topic on which other North Bay coastal counties have adopted resolutions and which your Board may decide to consider. Legislative proposals to be addressed will be the FEMA reform bill, surface transportation reauthorization act, the Farm Bill, the National Flood Insurance Program, and discretionary spending for Temporary Assistance for Needy Families.