
MEMORANDUM

To: **The Honorable Greer Stone and Members of the Palo Alto City Council**
CC: Ed Shikada, City Manager
Chantal Cotton Gaines, Deputy City Manager
Christine Prior, Deputy City Clerk

From: **Townsend Public Affairs**
Christopher Townsend, President
Niccolo De Luca, Vice President
Alex Gibbs, Grants Director
Carlin Shelby, Senior Associate
Joseph Melo, Senior Federal Associate

Date: **December 30, 2024**

Subject: **State and Federal Legislative Updates**

Townsend Public Affairs, Inc. (TPA) has prepared this report for the City of Palo Alto to provide a summary of State, Federal, and funding efforts and highlight the current status of the legislative process.

STATE LEGISLATIVE UPDATES

Legislature Commences 2025-26 Session

On December 3, the California State Assembly and Senate reconvened for an Organizational Session to welcome new legislators, adopt house rules, and elect their respective leadership teams. Overall, 29 newly elected Senators and Assembly Members were sworn in during the convening of the 2025-26 Legislative Session. This number is slightly less than the 37 new lawmakers that were sworn in at the beginning of the 2023-24 Session. This means that over half of the state's 120 legislators began their tenures on or after 2023.

One notable change to the Standing Rules in each house is a reduction in how many bills legislators may introduce during a two-year Session. Assemblymembers and Senators are now only permitted to introduce 35 bills, a change from 50 in the Assembly and 40 in the Senate, in order to allow more time for consideration of measures and improve the deliberative process. So far, approximately 140 bills, resolutions, and constitutional amendments have been introduced since December 2nd.

Assemblymember Robert Rivas and Senator Mike McGuire were re-elected as Assembly Speaker and Senate pro Tempore, respectively, and both addressed their chambers kicking off their Regular and Special Sessions. Members from both houses introduced bills in the Special Session related to shoring up resources for the Department of Justice (DOJ) to pay for federal litigation expenses, one of which appropriates \$500,000 to the Department. More details on the Special Session and funding to DOJ are anticipated to coincide with the Governor's January

Budget. Next, we can expect changes to committee chairs and membership as members and staff get settled in.

Key issues TPA looks forward to advocating on behalf of the City during the 2025 Legislative Session include:

- *Ensuring grade separation funding rescinded in last year's budget is reinstated and the City's projects can move forward:* In 2022, the Budget Act allocated \$113,790,000 from the Transit and Intercity Rail Capital Program (TIRCP) for critical grade separation initiatives in Burlingame, Mountain View, and Palo Alto. The City of Palo Alto was specifically awarded \$23.79 million for the Connecting Palo Alto project, which focuses on grade separation at Churchill Avenue, Meadow Drive, and Charleston Road.

In response to the proposed funding cuts, the City, TPA, and other stakeholders worked to craft budget trailer bill language (contained within AB/SB 173) that requires transportation funding agencies to coordinate and identify available funding in state transportation programs to supplement the funds eliminated under the TIRCP and other grade separation programs. The funding plan is required to be finalized by April 30, 2025 and will prioritize and directly allocate funding to projects that are at risk of losing or failing to secure federal and local funding commitments, or that are at risk of approved project delays. According to CalSTA program administrators, this funding strategy has already been finalized and will be included as part of the January budget proposal.

- *Protecting Locally Contracted Artists from Litigation:* Local agencies, including the City of Palo Alto, have encountered difficulties in contracting with local artists using local funds due to different interpretations of state contracting law and the standards governing who is and is not a licensed artist. TPA will be working with the legislature and other local agencies to create clarity and allow the City to move forward with its robust local art program without the threat of costly litigation.
- *Brown Act Flexibility extension:* Several statutes associated with remote meeting flexibilities for elected officials during times of emergency or other extenuating circumstances are set to expire during the 2025-26 legislative session. TPA will be working with the legislature and other local stakeholders to extend and/or expand these flexibilities to accommodate the needs of elected officials, public transparency, and even the cities non decision making bodies, such as subcommittees.
- *Proposition 36 Implementation:* In the November 2024 election, voters overwhelmingly passed Proposition 36, which overturned certain provisions associated with penalizing serial theft offenses within Proposition 47 (2014). TPA will work with the legislature and local stakeholders on legislation aimed at the seamless implementation of some of the provisions contained within Proposition 36, including diversion programs and resources for repeat offenders with behavioral health or substance use disorders.

State Budget Update: November Income Tax Withholdings Below Projections; 2025-26 Fiscal Outlook Highlights Budget Challenges

November Personal Income Tax (PIT) withholdings came in \$806 million, or about 10%, below projections, though year-to-date PIT withholdings for fiscal year 2024-25 remain roughly aligned with expectations. The shortfall largely reflects a shift in bonus and stock option remittances,

delayed from November to December due to the later Thanksgiving holiday. Encouragingly, the week following Thanksgiving saw collections rise approximately 20% over the same period last year, with this uptick likely bolstering December's totals.

Despite the immediate revenue dip, the state's broader fiscal condition remains under evaluation. In late November, the Legislative Analyst's Office (LAO) released its Fiscal Outlook Report for the 2025-26 budget cycle, forecasting a small deficit of \$2 billion. The report attributes this near-term stability to increased state revenues, particularly from high-income earners and stock market performance. However, significant challenges loom, with spending growth in health and human services programs driving projected deficits in subsequent years.

The LAO highlights a concerning trend: revenue growth over the forecast window (2025-26 to 2028-29) is estimated at just over 4%, below its historical average, while spending growth is projected at 5.8%. Much of this imbalance stems from rising obligations, particularly in education, outpacing revenue improvements. Without policy changes, the state faces the risk of growing structural deficits.

Legislative leaders are urging caution in the upcoming budget process. Assembly Speaker Rivas emphasized the importance of maintaining essential services while avoiding program expansions, stating, "It's not a moment for expanding programs, but for protecting and preserving services that truly benefit all Californians."

Looking ahead, the Governor and Department of Finance will incorporate these findings into the January Budget Proposal, set to be released by January 10, 2025. As always, the state's fiscal outlook remains subject to adjustments, particularly as additional tax return filings are collected throughout the year.

FEDERAL UPDATES

Congressionally Directed Spending Submittal

For the FY 2024 Federal Appropriations Process, The City/TPA team worked in partnership to draft, fine-tune, and submit congressionally directed spending requests for funding to complete the Fire Station No. 4 Project and the Palo Alto Intermodal Station Project.

Both projects were determined to meet the required criteria to be eligible for federal community project request funding, including that they were shovel-ready and near completion, and had previous state and local community support.

Congresswoman Eshoo put forward the Fire Station No. 4 project funding in the amount of \$3,000,000. Her office did not choose the Palo Alto Intermodal Station as a priority project. Following her selection of the project and advocacy with federal appropriators, the House Transportation Housing and Urban Development (THUD) Committee included the request in its markup of the appropriations package for **\$1,250,000**. This funding amount is reflective of bipartisan negotiations, budget topline numbers, and requests among all 50 states. It is anticipated that this funding will remain stabilized as the FY 25 Federal Appropriations process continues. TPA advocates will continue to advocate for its inclusion in subsequent appropriations process actions and will monitor the progress of the Senate.

Federal Appropriations Update

After a week of rollercoaster negotiations, Congress has approved a legislative package to avert a government shutdown and extend current government funding levels until March 14, 2025. The bill, H.R.10545 also includes provisions providing more than \$100 billion in disaster relief and several extensions of health care and agriculture programs.

This final package comes after two previous attempts failed earlier in the week. The first proposal, which Republicans negotiated with Democrats, included measures to regulate pharmacy benefit managers, limit trade with China, and allow year-round sales of certain ethanol-blended fuels. However, this proposal was withdrawn after President-elect Donald Trump opposed it, urging Republican leaders to address the debt limit first.

A second plan, which removed most of the provisions from the first, aimed to suspend the debt limit until January 2027. This plan was rejected on December 19, with a vote of 174-235, as 38 Republicans opposed it and only two Democrats supported it.

The latest plan resembled the second but excluded the debt limit suspension and extensions for the Stephanie Tubbs Jones Child Welfare Services Program and the MaryLee Allen Promoting Safe and Stable Families Program. The House approved this plan by a vote of 366-34 with one member voting present.

Relevance to Palo Alto:

As a result of negotiations, the package was narrowly focused on four main provisions:

1. Extending current government funding until March 14, 2025.
2. Enacting supplemental appropriations for disaster relief efforts.
3. Extending certain expiring health care programs.

As a result, impacts on the City are limited to avoiding the impacts of expiring programs and a lapse in funding.

Summary of H.R. 10545, the American Relief Act, 2025

Spending Provisions

- The legislative package included a continuing resolution (CR) extending current funding from Fiscal Year 2024 appropriations through March 14, 2025.
- Anomalies (adjustments to funding that differ from FY24 appropriations) include:
 - Allocate an annualized \$625 million to the National Oceanic and Atmospheric Administration to maintain the acquisition schedule for the Geostationary Earth Orbit weather satellite program.
 - Permit the Federal Aviation Administration to use funds necessary for air traffic operations, aviation safety oversight, and the hiring and training of air traffic controllers.
 - Authorize the Energy Department to utilize funds required for specialized security activities.
 - Grant the Education Department the flexibility to allocate funds needed to administer federal student loan and aid programs.
- The bill blocks an automatic cost of living pay increase for Members of Congress, the Vice President, and other executive and senior-level government officials.

Extensions

- Several programs that were set to expire are extended through March 14, 2025, these include:
 - The CFTC Whistleblower Program
 - The Domestic Trafficking Victims Fund
 - Temporary Assistance for Needy Families program.
 - Federal Emergency Management Agency's National Flood Insurance Program.
 - DHS' and the Justice Department's authority to counter uncrewed aircraft systems that pose a credible threat.
 - The Homeland Security Department's National Cybersecurity Protection System.
 - US Agency for International Development's Food for Peace program.

Disaster Aid

The measure provides \$100.4 billion in supplemental emergency assistance for federal disaster relief programs to address recent natural disasters, plus an additional \$10 billion for economic aid to farmers.

The total includes \$29 billion to replenish the Federal Emergency Management Agency's Disaster Relief Fund. The measure appropriates an additional \$2.2 billion for the Small Business Administration's Disaster Loan Program.

In summary:

- The measure provides \$12 billion for the Housing and Urban Development Department's Community Development Block Grant-Disaster Recovery program to support long-term recovery efforts in communities affected by major disasters in 2023 and 2024.
- It provides \$8.1 billion for the Federal Highway Administration's Emergency Relief Program.
- It authorizes the use of funds to cover 100% of the costs associated with rebuilding the Francis Scott Key Bridge in Baltimore, which collapsed after being hit by a cargo ship in March. Any funds obtained by state and local authorities in Maryland from insurance or lawsuits related to the Key Bridge are used to reduce the federal government's liability for the cost of reconstruction.
- The measure provides \$1.5 billion for the Army Corps of Engineers to address emergency situations and repair damage to Corps flood control projects, including \$745 million to prepare for floods and hurricanes.
- It allocates \$3.3 billion for Environmental Protection Agency state and tribal assistance grants, including \$3 billion for capitalization grants to help repair wastewater and drinking water infrastructure damaged by hurricanes or wildfires.
- It provides \$3.1 billion to the Interior Department for expenses related to natural disasters in 2024 and previous years, including \$2.3 billion for the National Park Service.
- The measure allocates \$1 billion for the National Oceanic and Atmospheric Administration, including \$399 million to acquire hurricane hunter aircraft, \$344 million to replace or repair damaged property and equipment, and \$300 million for fisheries disaster relief.

- It provides \$1.5 billion for the Commerce Department's Economic Development Administration to aid areas that received a major disaster designation in 2023 and 2024.
- The bill allows recipients of FEMA disaster relief and preparedness grants to retain unspent administrative funds for up to five years. It also permits them to repurpose these funds to assist with other declared disasters or to enhance their capacity to respond to future emergencies.

Health Programs

The funding package includes several extensions and flexibilities for health programs, including:

- An extension of flexibilities allowing for greater Medicare coverage of virtual telehealth services until March 31, 2025. These were set to expire at the end of 2024.
- \$1.1 billion from January 1 to March 31, 2025 for the Community Health Center Fund which provides federal funding for community health centers. Funding was set to expire on December 31, 2024.
- The measure extends several expiring provisions through March 31, 2025 including:
 - Increased Medicare payments to low-volume hospitals.
 - Add-on payments for ground ambulances.
 - A floor on the geographic index used to calculate provider payment rates under Medicare.
 - The Medicare-dependent hospital program.
- Other health programs extended through March 31, 2025 include:
 - The National Health Service Corps, which provides scholarships and loans to medical students.
 - The Teaching Health Center Graduate Medical Education Program.
 - The Special Diabetes Program and Special Diabetes Program for Indians.
 - The Personal Responsibility Education Program and Sexual Risk Avoidance Education Program.

GRANT FUNDING UPDATES

The TPA team works directly with City staff and department heads to discuss funding needs and match them with available priorities. Each month, TPA provides the City with a grant opportunities memo, which details upcoming funding opportunities with a focus on transportation and infrastructure, environmental sustainability, public safety, community services, and clean energy needs. Further, the TPA team regularly meets with City staff to discuss these opportunities in greater detail, along with other local/regional programs.

TPA's efforts in crafting, editing, and submitting competitive grant applications on behalf of the City include:

Program	Request Amount	Description
California Business, Consumer Services and Housing Agency – Encampment Resolution Fund	\$5,427,000 – PENDING (evaluating if the changed circumstances impact eligibility)	Funding to be used for encampment clean up and connecting homeless individuals to supportive services.

Program	Request Amount	Description
MTC – Transit Oriented Communities	\$3,100,000 – PENDING	Application for additional electric vehicle charging stations to be installed within the City.
CalRecycle Beverage Container Recycling Grant	\$165,000 – PENDING	Application to install publicly accessible water refill stations throughout the City's public spaces.
CalOES State and Local Cyber Security Grant Program	\$250,000 – NOT AWARDED	Funding to be used to improve local cybersecurity infrastructure capabilities to prevent fraud and attacks.
Bureau of State and Community Corrections – Organized Retail Theft Grant	\$5,176,812 – AWARDED	Successfully awarded to assist the City in combatting organized retail theft occurrences through increased public safety resource coordination.