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**A Year in Review:
2025 Federal Policy Impacts on California's Labor Market**

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1021 O Street, Room 2200

Background Paper

Introduction

Although California boasts the fourth largest economy in the world and is home to several influential industries, many Californians experience economic insecurity. Over the past five years, economic disruptions from COVID-19, inflation, technological changes, foreign conflicts, and shifting federal policies have heightened this insecurity. A recent survey conducted by the Public Policy Institute of California (PPIC) found that vast majority of Californians expect bad times financially in the State and nation.¹ This economic pessimism has a direct impact on the everyday lives of Californians. The same PPIC survey also found that three in ten respondents cut back on food to save money, with Latinos, African Americans, women, and younger residents most likely to say this. Furthermore, more than two in ten respondents reported delaying medical care or being unable to pay a monthly bill.

Today, a pathway into the middle class is difficult to find. While high-wage and low-wage occupations have grown especially fast, middle-wage occupations have stagnated.² Across the State, low-wage occupations comprise 43% of all jobs. At the same time, the cost of basic necessities has risen significantly, with food and

¹ Baldassare, Mark, et al. *PPIC Statewide Survey: Californians and Their Economic Well-Being*. PPIC. November 2025. <https://www.ppic.org/publication/ppic-statewide-survey-californians-and-their-economic-well-being-november-2025/>

² Bohn, Sarah, et al. *Work and Economic Insecurity in California*. PPIC. December 2025. <https://www.ppic.org/publication/work-and-economic-insecurity-in-california/>

rent up 25% and utilities and gas up 40%.³ This trend has contributed to severe levels of income and wealth inequality. Workers employed in low-wage fields have greater difficulty sustaining themselves, starting a family, purchasing a home, and saving for the future. California’s status as an economic powerhouse would not exist without the hard work and dedication of its most vulnerable residents. As policymakers tackle the affordability crisis, they must develop policies that support economic mobility and provide a decent standard of living for all.

Economic Stressors

Recently enacted federal policies have deeply impacted workers, businesses, and families across California. Below is a brief overview of a few of the federal policies that have had the greatest impact on the State’s labor market.

H.R. 1

In July 2025, the President signed H.R. 1— also known as the ‘One Big Beautiful Bill Act’ —which introduced significant changes to Medi-Cal and CalFresh. Medi-Cal is California’s Medicaid program, and it provides health care for more than 14 million low-income people (around one-third of all Californians). CalFresh is California’s version of the Supplemental Nutrition Assistance Program (SNAP), and it provides federally funded food assistance to about 5.4 million low-income Californians. The State provides state-funded food assistance to about 60,000 additional low-income legally present noncitizens who do not qualify for federal CalFresh benefits. Most CalFresh enrollees (about 90%) are also enrolled in Medi-Cal.⁴ The changes made by H.R. 1 are being phased in, although some changes are already in effect.

The Legislative Analyst’s Office (LAO) prepared a report to the Legislature, “Key Impacts of H.R.1 on Medi-Cal and CalFresh,” in February 2026. The report highlights that currently, Medi-Cal does not require beneficiaries to work in order to be eligible for coverage but beginning January 2027, H.R. 1 requires most able-bodied, childless adults in Medicaid (generally 19-64 year olds who received coverage through the 2014 Affordable Care Act expansion) to complete at least 80 hours per month of work, education, or community service.⁵ This requirement does not apply to certain exempt groups, and states can provide additional exceptions for short-term hardship such as living in high-unemployment counties. According to the LAO, after exemptions, the requirement is estimated to apply to around 3.5 million people and they estimate this policy could result in disenrollments of around 1 to 2 million people, both from insufficient hours of engagement as well as administrative burden.

Additionally, for CalFresh benefits, able-bodied adults without dependents generally are limited to three months of CalFresh assistance in a three-year period unless they work or participate in qualifying activities for at least 20 hours per week. According to the LAO, until recently, California has had a statewide waiver exempting all CalFresh enrollees from the requirement based on economic conditions in the state. H.R. 1 expands the work requirement by applying it to adults through age 64, rather than 54; limiting a dependent-child exemption to adults caring for children under 14, rather than under 18; eliminating exemptions for former foster youth, veterans, and homeless individuals; and tightening rules for waivers based on economic

³ Ibid.

⁴ *Key Impacts of H.R. 1 on Medi-Cal and CalFresh*. Legislative Analyst’s Office. February 11, 2026. <https://lao.ca.gov/handouts/health/2026/H.-R-1-Key-Impacts-021126.pdf>

⁵ Ibid.

conditions, ending California’s statewide waiver.⁶ With these changes, the administration estimates that about 840,000 individuals will become subject to the work requirement beginning June 2026 and will not qualify for an exemption. Of these, about 660,000 are estimated to not meet the requirement, thus becoming at risk of losing food assistance.

The changes made to California’s essential safety net programs by H.R. 1 are likely to put millions of households and families at risk of losing some or all their Medi-Cal coverage or food assistance.

Immigration Enforcement

A surge in enforcement activities has disrupted businesses, workers, and communities across the State. The UC Merced Community and Labor Center examined changes in the number of workers before and after escalations in federal immigration enforcement actions in California. The Center found that the greatest decrease in people reporting private sector work coincided with peak escalations in federal immigration enforcement.⁷ In California, between May and September 2025, there was a 2.9% decrease in private sector employment. According to their report, California had an estimated 2,668,903 noncitizen workers in May, but only 2,341,244 by July, a decline of 327,660 workers (or 12.3%). Across the same period, citizens reporting work declined from an estimated 12,551,246 in May to 12,136,414 in July, a loss of 414,832 (or 3.3%). These findings indicate that the federal immigration enforcement had disruptive impacts on California’s economy and to its workforce.

Another key point that the Center highlights is that only two historical cases can compare with the loss of work that occurred over recent federal immigration enforcement, the Great Recession and the COVID-19 pandemic. In fact, according to the report, only during the COVID-19 pandemic did the U.S. experience a greater month-to-month decline in private sector work (a decline of 3.4% from February to March 2020, and a decline of 19.7% from March to April 2020). They point out that the second comparable historical case is the Great Recession, when the U.S.’ decline was 3.2% in the first year. California’s decline of 3.1% of fewer people reporting private sector work in June occurred in the first *month* of escalated immigration enforcement actions, compared to the U.S.’ 3.2% decline in private sector work during the Great Recession’s first *year*.

Businesses and workers have certainly felt the impact of these federal immigration enforcement actions in the last year. A recently released report by the Los Angeles County Economic Development Corporation, found that 82% of businesses reported negative impacts from the immigration enforcement in June 2025.⁸ More than half of the business respondents reported reduced daily sales or revenue and reported decreased customer traffic. Additionally, more than two-thirds of the businesses reported that they made operational adjustments, including reducing hours, closing on certain days, and delaying expansion plans. These findings demonstrate the substantial economic costs that extend into the community and impact workers and businesses across all sectors.

⁶ According to the LAO, the state is seeking waivers under the tighter rules on a county-by-county basis and has obtained waivers in some counties.

⁷ Orozco Flores, Edward, et al. *The Effects of Recent Federal Immigration and Enforcement on Private Sector Employment in California and Washington, D.C.* University of California, Merced Community and Labor Center. December 2025. https://clc.ucmerced.edu/sites/g/files/ufvvh626/f/page/documents/effects_of_federal_immigration_enforcement_dec.pdf

⁸ Sedgwick, Shannon M., et al. *Economic Impacts of Federal Immigration Enforcement in Los Angeles County.* Los Angeles County Economic Development Corporation. January 2026. <https://opportunity.lacounty.gov/wp-content/uploads/2026/02/LAEDCxDEO-Economic-Impacts-of-Federal-Immigration-Enforcement.pdf>

Tariffs

In his second inaugural address, President Trump promised to “tariff and tax foreign countries to enrich our citizens.”⁹ Since that address, tariffs have been a central component of the President’s economic agenda. For many employers, employees, and consumers, the onslaught of tariffs has been difficult to grapple with. These new surcharges have caused businesses to speed up, delay and cancel purchases, or find new countries to source products from. While tariffs have raised a significant amount of revenue for the U.S. government, they have also caused the price of goods to skyrocket.¹⁰ Complicating matters, tariffs have been imposed erratically, sometimes changing within a single day. On February 20th, 2026, the Supreme Court issued a ruling limiting the President’s tariff power. In doing so, the Court cast further uncertainty on the economy by throwing into doubt a series of trade deals the U.S. had struck with countries around the world.¹¹ California, which is the nation’s largest importer and second-largest exporter of goods, has been particularly impacted by the shifting trade policies.¹²

Employment Development Department Recession Plan

The Great Recession (2008-2010) and the COVID-19 pandemic (2019-2022) created crises in the labor market that led to unprecedented numbers of unemployed individuals needing government aid. Among other things, the Employment Development Department (EDD) is the state entity tasked with administering the Unemployment Insurance (UI) program which provides temporary income for eligible workers who have lost their jobs through no fault of their own. During both of these economic downturns, EDD faced an overwhelming increase in UI benefits claims, which the Department struggled to quickly respond to.

According to EDD, as severe as the Great Recession was, the economic decline, the rise in unemployment claims, and the overall impact on EDD resources unfolded over many months, which allowed EDD time to enhance resources to meet the increased demand for services. By contrast, the COVID-19 pandemic was both extreme and sudden and overwhelmed EDD’s available resources.¹³ Several legislative proposals were adopted to attempt to mitigate the impact of the pandemic and streamline EDD’s response. Among those, SB 390 (Laird, Chapter 543, Statutes of 2021) required EDD to develop and, upon appropriation by the Legislature, implement a recession plan to prepare for an increase in UI benefits claims caused by an economic recession.

SB 390 required EDD’s recession plan to detail how the Department will use a predetermined strategy to respond to economic downturns, including, but not limited to, identifying lessons learned from previous economic downturns; identifying ways to improve self-service options so that EDD customers will not experience long wait times to speak with staff; and enhancing claims-processing tools to ensure that the Department’s identity verification processes are as “robust as possible.”¹⁴ SB 390 further required EDD to provide a copy of its recession plan to specified legislative committees and the Department of Finance (DOF)

⁹ Grantham-Philips, Wyatt. “A Timeline of Trump’s Tariff Actions so Far,” PBS News. May 26, 2025.

<https://www.pbs.org/newshour/economy/a-timeline-of-trumps-tariff-actions-so-far>

¹⁰ Swanson, Ana. “The Effects of Tariffs, One Year Into Trump’s Trade Experiment.” New York Times. February 2, 2026.

<https://www.nytimes.com/2026/02/02/business/trump-tariffs-one-year-later.html>

¹¹ Marimow, Ann. “Supreme Court’s Tariff Ruling and Trump’s Immediate New Levies Add New Uncertainty in Global Trade,” New York Times. February 20th, 2026. <https://www.nytimes.com/live/2026/02/20/us/trump-tariffs-supreme-court>

¹² Payares-Montoya, Daniel. “The Role of Trade in California’s Economy as Tariffs Loom,” PPIC. February 26, 2025.

<https://www.ppic.org/blog/the-role-of-trade-in-californias-economy-as-tariffs-loom/>

¹³ *Employment Development Department Recession Plan*, March 2024. https://edd.ca.gov/siteassets/files/about_edd/pdf/edd-recession-plan-2024.pdf

¹⁴ Ibid.

by March 1, 2022, and to update the recession plan and provide a copy to specified legislative committees and the DOF every second year thereafter. The most recent update to the plan was submitted in March 2024.¹⁵

Resources Available to Impacted Workers

Unemployment Insurance (UI)

The Unemployment Insurance (UI) program provides temporary benefits for eligible workers who have lost their job (or had hours reduced) through no fault of their own. Workers may receive from \$40 to \$450 each week, depending on how much they earned in the past 18 months. Federal workers that are laid off, furloughed, or affected by the federal government shutdown may be eligible for UI benefits provided they meet the eligibility criteria. The most current data (December 2025) shows an Unemployment Rate of 5.5% for California.

To receive benefits, eligible workers must meet **all** of the following requirements:

- Have a Social Security number.
- Have authorization to work in the United States (if not a US citizen).
- Have earned enough wages during a specified period of time.
- Totally or partially unemployed through no fault of your own.
- Physically able to and available for work.
- Looking for work each week and ready and willing to accept work right away.

According to the January 2026 UI Fund Forecast, there were 1,043,000 unemployed Californians in 2024. Those levels are projected to be 1,070,000 in 2025, 1,053,000 in 2026, and 942,000 in 2027.¹⁶ The regular UI benefit payments were \$7.1 billion in 2024. Benefits payments are expected to be \$7.1 billion in 2025, \$7.2 billion in 2026, and \$6.6 billion in 2027.

Due to the sudden and immense impact of COVID-19, the UI Fund became temporarily insolvent on April 29, 2020, and fluctuated in and out of solvency until maintaining a deficit starting June 3, 2020. As a result, in 2020, California began borrowing from the federal government to pay regular UI and ended the year with a federal loan balance of \$17.8 billion. The year-end loan balance was \$21.6 billion for 2024, and the balance is projected to be \$21.8 billion for 2025, \$22.1 billion by the end of 2026, and \$21.3 billion by the end of 2027.¹⁷ California continues to make payments to the federal government towards this loan.

Worker Centers

In addition to providing access to UI benefits, California offers other services to assist unemployed individuals in finding a new job. The California Workforce Development Board (CWDB) is the state entity tasked with assisting the Governor in the development, oversight, and continuous improvement of California's workforce investment system. Among other things, the CWDB is tasked with developing, implementing, and modifying California's Unified Strategic State Plan (State Plan) to serve as the comprehensive framework and coordinated plan for the aligned investment of all federal and state workforce training and employment

¹⁵ For more details and the full report on the EDD Recession Plan, please visit: https://edd.ca.gov/siteassets/files/about_edd/pdf/edd-recession-plan-2024.pdf

¹⁶ Employment Development Department, "January 2026 Unemployment Insurance (UI) Fund Forecast." <https://edd.ca.gov/siteassets/files/unemployment/pdf/january-2026-ui-fund-forecast.pdf>

¹⁷ Ibid.

services funding streams and programs. CWDB works closely with Local Workforce Development Boards (LWDBs) to ensure statewide workforce efforts align with regional priorities and community needs

The State has 45 LWDBs, each with their unique local context. Members of private sector business, organized labor, community-based organizations, local government agencies, and local education agencies comprise a LWDB's membership. Together, EDD and LWDBs oversee America's Job Center of California (AJCC). AJCC is a one-stop shop for no-cost job and training services that helps connect employers with job openings to people who are looking for work. The AJCC is a network of local and state organizations, as well as private and public groups, working together to provide these services at no cost. Adults and displaced workers receive an initial assessment, job search and placement assistance, and career counseling at LWDBs. The dislocated worker program assists workers displaced by disasters, mass layoffs, or plant closures to regain economic security.

The online American Job Center Finder, sponsored by the U.S. Department of Labor, is a website that lists local centers that support people with workforce training and offers job search and other employment-related resources. The listings include websites, addresses, and contact information for each center. Job seekers can find the AJCC location nearest to them for access to job-search resources, training programs, and more.¹⁸

Today's Hearing

As workers and businesses continue to navigate economic uncertainty and recent changes in federal policy, it is important to recognize the impact of these volatile times. California has counted on the federal government to be a responsible partner in caring for its residents, regardless of political differences. Unfortunately, times are changing. California must enact policies that withstand the forces threatening our values. California workers deserve to earn a decent living, provide for their families, and safely return home at the end of the day. This is becoming harder to do under the current circumstances.

We must identify the gaps created by this federal administration so that we can effectively respond. Today's hearing is an opportunity to hear from workers and businesses about their experiences and identify policies that will support them.

¹⁸ To find an AJCC, please visit: <https://www.careeronestop.org/LocalHelp/AmericanJobCenters/find-american-job-centers.aspx>