



**Congress Secures FY26 Funding Deal, Allowing Weekend Shutdown.** On January 30, Republican and Democratic Senate leadership agreed to a pathway to fund the government, allowing for a partial weekend shutdown after the Friday, January 30, deadline. The deal recouples five appropriations bills into one package and separates a two-week Homeland Security Continuing Resolution, amid controversy regarding immigration officials. White House and Congressional leaders are hopeful that the arrangement will pass the Senate on Friday and the House of Representatives on Monday, but hurdles remain. The deal must be approved by at least 60 Senators and then by at least 218 Representatives. The first three appropriations bills, funding for programs and earmark projects in the Departments of Agriculture, Veterans Affairs, and the Legislative Branch, were signed into law in November 2025. The next three appropriations bills, which fund programs and earmark projects for the Departments of Commerce, Justice, Energy, and Interior, as well as the Environmental Protection Agency (EPA) and the Army Corps of Engineers, were signed into law on January 23, 2026. Aside from the Homeland Security CR, the final and largest package funds programs and earmark projects for the Departments of Transportation, Housing and Urban Development, Labor, Health and Human Services, Education, Defense, Treasury, and State. Over the weekend and into Monday, these agencies will begin shutting down procedurally, although if the President signs the bills on Monday, the effect will be minimal. Then, Congress has until February 13 to negotiate and pass the Homeland Security bill, which also contains FEMA, CISA, and earmark projects, finishing off the FY2026 appropriations process.

**Congress Faces Crowded Agenda in 2026.** Once Congress finishes work on federal funding for FY 2026, it will immediately turn to the FY 2027 appropriations bills. President Trump's 2026 State of the Union Address is set for February 24th, after which, he could be expected to send Congress his budget request for FY 2027 officially kicking off the budget and appropriations process for the next fiscal year beginning October 1. Congressional offices have begun announcing their processes for accepting Congressionally-Directed Spending and Community Projects Funding requests – with deadlines expected to be late March/early April. As in recent years, project submissions must be accompanied by several examples of community support. Beyond budget and appropriations issues, lawmakers still need to tackle rising healthcare costs with the expiration of enhanced ACA tax credits, expiring surface transportation authorization, expiring Water Resources Development Act, permitting reform, trade policy questions tied to ongoing tariff litigation, and AI and tech regulation, all on a compressed timeline because of the highly competitive midterm election in November. This ambitious legislative agenda will unfold against a much broader foreign policy backdrop - the U.S. invasion in Venezuela, the ongoing war between Russia and Ukraine, uprisings in Iran and the Trump Administration's interest in Greenland – that could ultimately prevent Congress from addressing many of the domestic policy issues on the agenda.

**Focus Returns to Transportation Reauthorization.** With the FY 26 appropriations process mostly complete, attention is expected to shift back to the surface transportation reauthorization process. The current surface transportation authorization is set to expire at the end of the fiscal year on September 30, 2026. While there is still time for Congress to act, both chambers are behind schedule following last year's extended government shutdown. The House Committee on Transportation and Infrastructure has held a series of "Member Day" hearings to establish a "back to basics" agenda. This approach, championed by Chairman Sam Graves (R-MO) and supported by the Trump administration, prioritizes less emphasis on creating new programs and greater reliance on formula funding to provide predictability and flexibility, streamlining environmental reviews (NEPA reform), increasing state flexibility, and addressing the looming insolvency of the Highway Trust Fund, which is projected to run out of money by 2028. This back-to-basics approach could result in funding reductions for certain discretionary programs, but Chairman Graves has also emphasized adherence to the user-pays principle, and proposals such as annual registration fees for electric and hybrid vehicles—approved by the House during last year's budget reconciliation debate—are expected to be revisited as potential revenue sources. While leaders aim to move a bill through the House by late summer, the Senate is not as far along in their process. This makes the outlook for final passage later this year uncertain. If either chamber fails to advance legislation, consideration could slip into the lame-duck session, or Congress could extend current programs into 2027 to allow additional time to complete a new bill.

**EPA Begins Process to Rollback Biden Ozone Regulations.** As of January 2026, the Environmental Protection Agency (EPA) has launched a significant effort to roll back Biden-era ozone regulations, primarily focusing on the "Good Neighbor Plan" and the methodology used to justify clean air standards. EPA is essentially working to give states greater authority to set their own pollution limits and to review the National Ambient Air Quality Standards (NAAQS) for ozone and fine particulate matter (PM 2.5). EPA's action related to the Good Neighbor Plan involves approving state-specific plans for Alabama, Arizona, Kentucky, Minnesota, Mississippi, Nevada, New Mexico, and Tennessee. These states' pollution plans had been rejected by the previous EPA under a 2023 rule that found them too weak to prevent smokestack emissions from drifting into neighboring states. EPA's actions, with respect to Michigan's ozone attainment level, involve a separate but similar authority that relates to international versus interstate air transport—in Michigan's case, from Canada. EPA is currently attempting to create a new legal pathway that allows states like Michigan to obtain "attainment" status even if they haven't met every single administrative requirement, provided the "excess" pollution originated across the border or from a natural disaster. Overall, under Administrator Zeldin, the EPA is seeking to harmonize these two rules to reduce regulatory burdens on states.

**President Trump Signs Mental Health Order and Legislation.** Over the past two months, President Trump has fleshed out more of his mental health and addiction initiative. On January 29, the President signed an executive order establishing the White House Great American Recovery Initiative. The Initiative will advise federal agencies on directing grants to support addiction recovery. The Initiative builds on the President signing the SUPPORT for Patients and Communities Reauthorization Act into law on December 1. The bill reauthorizes and expands federal grant programs related to first responder training, opioid recovery centers, youth prevention

and recovery communities, residential treatment programs for pregnant and postpartum women, public health lab fentanyl detection, and Prescription Drug Monitoring Programs (PDMPs). The bill also directs implementing agencies to provide guidance and regulatory certainty on serious mental illness and serious emotional disturbance coverage, protections for state choice in PDMP systems, Community Mental Health Services Block Grant eligibility decisions, telemedicine prescription rules, and recovery-to-work programs. It is certain that the Initiative will oversee the disbursement of the grant programs reauthorized in the bill.

**Housing Legislation Has Bipartisan Support.** Following strong bipartisan support for the ROAD to Housing Act in the Senate, the House Financial Services Committee approved its version of a housing bill, the Housing for the 21st Century Act, at the end of 2025 with a bipartisan vote and is now awaiting action by the full House. Both bills include overlapping provisions directing HUD to develop and publish best practices for state and local zoning and land-use policies to remove production barriers. Each chamber's bill streamlines environmental reviews for small-scale, infill and rehab projects to speed up construction. Both bills update the federal definition of "manufactured home" to include modern modular and prefabricated units not built on a permanent chassis. Both include provisions allowing units that passed inspections for other federal programs (such as LIHTC or HOME) within the last year to automatically satisfy Housing Choice Voucher (HCV) inspection requirements. Each bill proposes to increase the "Public Welfare Investment" cap for banks from 15% to 20%, thereby encouraging greater private capital flows into affordable housing. There are also a number of differences between the House and Senate-passed bills. While both bills include language to modernize the HOME program, the Senate bill includes significant funding increases, while the House bill focuses on reducing red tape and streamlining the program. The Senate bill maintains its focus on low-income households; the House bill expands program eligibility to moderate-income households. The Senate bill proposes tying CDBG funding levels to local housing production. The House bill rejects this approach and preserves existing formulas. The House bill does not include any new programs and instead relies on existing programs. The Senate establishes the RESIDE program to convert commercial buildings into housing and provides incentives for building housing near transit corridors. Most believe a consensus housing bill incorporating aspects of the House and Senate legislation is a high possibility for passage in 2026, since nearly everyone in Congress acknowledges the housing affordability crisis and housing policy proposals enjoy strong bipartisan support in both the House and the Senate.