Metropolitan Transportation Commission and Association of Bay Area Governments
Joint MTC ABAG Legislation Committee

June 12, 2026 **Agenda Item 4a – 26-0709**

Fiscal Year 2026–27 State Budget

Subject:

Update on fiscal year (FY) 2026-27 state budget negotiations, including an overview of the status of MTC-ABAG budget priorities.

Summary:

Negotiations over the FY 2026–27 state budget are well underway, with key decisions expected in the coming days. The Governor's May Revision, released on May 14, 2026, reflects a modest increase in state revenue outlook, with revenues projected to be $16.5 billion higher over the next three years than estimated in the January budget. However, the improved revenue outlook did not result in proposed spending increases. Instead, the Governor's proposal prioritizes reserves and balancing out-year budgets.

Against this backdrop, the Legislature is working to meet the June 15 deadline to adopt a balanced budget. MTC-ABAG continues to advocate for the transportation and housing priorities outlined in your May Legislation Committee memo, including protecting transit funding and securing MTC-ABAG's $15 million Bay Area Housing Finance Authority (BAHFA) budget request. (See Attachment A.)

Notably, the BAHFA request was listed as the top priority in the Bay Area Caucus' budget letter to state budget leadership, reflecting strong regional support for sustaining BAHFA's housing affordability work. (See Attachment B.) This is a significant endorsement and reflects the advocacy of MTC-ABAG leaders and staff. Staff will provide a verbal update on any new developments at your committee meeting.

While the BAHFA request is moving through the typical budget process, MTC-ABAG's other major budget priorities had been expected to rely on Greenhouse Gas Reduction Fund (GGRF) revenues from the State's Cap-and-Invest program. These priorities include SB 125 commitments to fund BART to Silicon Valley, Phase II and BART Transbay Core Capacity, the proposed transit pass funding set-aside that could support Clipper® BayPass expansion, and funding the Cap-and-Invest statutory targets for the Transit and Intercity Rail Capital Program,

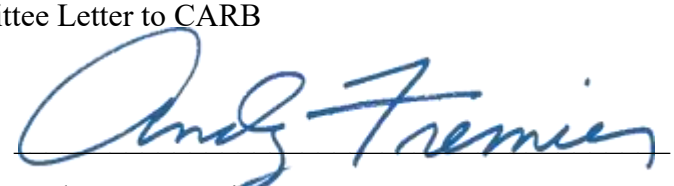
Low Carbon Transit Operations Program, and Affordable Housing and Sustainable Communities Program.

The California Air Resources Board's (CARB) May 29, 2026 adoption of amendments to the Cap-and-Invest program sharply reduces the GGRF revenues available to support these priorities, leaving them at risk absent legislative action to re-prioritize GGRF funding or identify another funding source. The rulemaking generated considerable concern from legislators, transit agencies, metropolitan planning organizations, housing advocates, environmental justice groups, and other stakeholders. MTC was among those that raised concerns, and staff worked with the California Transit Association and other state and regional partners to mitigate potential negative impacts to Bay Area transit and housing funding. (See Attachments C through G.)

With CARB's action now complete, coalition partners are shifting their attention to the state budget process and potential opportunities to backfill funding for programs set to lose funding as a result of the rulemaking. MTC-ABAG are already coordinating with the Bay Area state delegation on next steps and will continue to partner with the California Transit Association and other regional and state allies. Staff will provide a verbal update at the meeting on any developments related to the state budget and Cap-and-Invest negotiations.

Attachments:

- Attachment A: May Legislation Committee Agenda Item 3a_Fiscal Year 2026-27 State Budget Update
- Attachment B: Bay Area Caucus Budget Letter
- Attachment C: Transit and MPO Letter to CARB
- Attachment D: Coalition Letter to CARB
- Attachment E: Legislature Letter to CARB
- Attachment F: Senate Transportation Chair Cortese Letter to CARB
- Attachment G: Senate Oversight Committee Letter to CARB



Andrew B. Fremier