

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

June 13, 2025

Agenda Item 3b

Fiscal Year (FY) 2025–26 State Budget and Cap and Trade Reauthorization

Subject:

Update on FY 2025-26 State Budget and Cap and Trade reauthorization negotiations.

Summary:

Negotiations over the FY 2025–26 state budget are well underway, with key decisions expected in the coming days. The Governor’s May Revision, released on May 10, 2025, proposed deeper cuts than anticipated in response to a growing General Fund (GF) shortfall. Among the reductions were the elimination of key transit investments previously committed from the Greenhouse Gas Reduction Fund (GGRF). The Governor also proposed reauthorizing Cap and Trade through 2045 as part of this year’s budget process. Detailed overviews are provided in Attachment A.

Against this challenging fiscal backdrop, the Legislature is working to meet the June 15 constitutional deadline to adopt a balanced budget. The June budget is expected to address two critical Bay Area priorities: restoring proposed transit funding cuts and MTC-ABAG’s request for a \$30 million earmark for Bay Area Housing Finance Authority (BAHFA). As in previous years with delayed tax receipts, a second budget package is expected later this summer to address unresolved fiscal issues.

Transit Funding Outlook

The Governor’s May Revision proposed eliminating over \$1 billion in discretionary GGRF commitments to transit, including Senate Bill 125 funding and competitive Transit and Intercity Rail Capital Program (TIRCP) Cycle 6 awards. For the Bay Area, these cuts would eliminate \$288 million in anticipated funding for transit operations and capital projects under a regionally coordinated \$1.5 billion investment plan. It could also jeopardize funding for 13 Bay Area projects that received a combined \$1.3 billion in TIRCP Cycle 6 awards. Statewide, TIRCP Cycle 6 totaled nearly \$4 billion, \$200 million of which the Governor’s May Revision proposes to cut. As described in MTC-ABAG’s budget letter (Attachment B), proposed cuts would hinder operators’ ability to sustain service and deliver capital projects.

MTC has coordinated with local, regional and statewide partners to advocate for retention of these funds. MTC has also supported the Senator Arreguín-led request for an additional \$2 billion in statewide flexible transit funding. In the Bay Area, advocacy has focused on the need to bridge the gap between the exhaustion of committed SB 125 funds and the availability of new self-help revenue.

Encouragingly, on Monday, June 9, Senate and Assembly leadership announced an agreement to reject the Governor’s proposed cuts to transit and provide up to \$750 million in emergency loans to Bay Area transit agencies to address short-term fiscal challenges. This agreement is still subject to negotiation with the Governor as part of the final budget deliberations.

BAHFA Budget Request

MTC and ABAG continue to advocate for \$30 million in state funding to enable BAHFA to extend existing programs for three years and launch a regional lending program. The request has received strong support from more than a dozen Bay Area state legislators, more than 50 leading affordable housing partners, and over 80 local elected officials (see Attachment C for support letters). While this is an exceptionally difficult budget year, the strength of the advocacy effort has ensured the request is as well-positioned as possible. Given the constrained fiscal environment, it’s possible the Legislature may provide a smaller amount; securing funding to extend BAHFA’s programs for a shorter duration would still represent a significant win.

Cap and Trade Extension Outlook

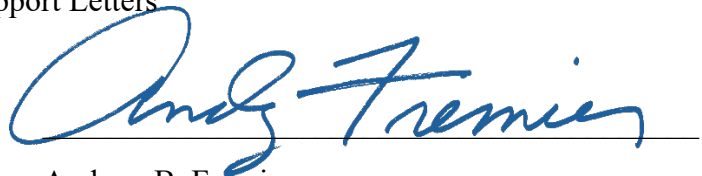
The Governor’s May Revision includes a proposal to extend Cap and Trade through 2045 via a budget trailer bill. While the proposal would guarantee future revenues for CalFIRE and high-speed rail, it is silent on retaining current continuous appropriations for TIRCP, Affordable Housing and Sustainable Communities, and Low Carbon Transit Operations Program, thereby putting ongoing funding for these programs at risk.

Encouragingly, the Legislative Analyst’s Office has recommended that Cap and Trade reauthorization not be rushed through the budget and instead be considered through a separate legislative process. This approach provides valuable time for stakeholders to make the case for preserving continuous appropriations, which are vital to the Bay Area’s transit network,

affordable housing goals, and climate commitments. MTC and ABAG are working with a broad coalition of transportation and housing partners to protect these funding streams.

Attachments:

- Attachment A: Overview of May Revise and “Cap-and-Invest” Proposal
- Attachment B: MTC-ABAG Budget and Cap and Trade Letter
- Attachment C: BAHFA Budget Support Letters

A handwritten signature in blue ink, reading "Andrew B. Fremier", is written over a horizontal line.

Andrew B. Fremier