

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

May 9, 2025

Agenda Item 3a

Fiscal Year 2025–26 State Budget Update

Subject:

Overview of California’s fiscal year (FY) 2025-26 state budget and implications for Bay Area Housing Finance Authority (BAHFA) and Cap-and-Trade Extension.

Summary:

Governor Newsom is expected to release his May Revision to the state budget by May 14, 2025, as required by the California Constitution. Due to extended tax filing deadlines for wildfire-affected counties, including Los Angeles, it is highly likely the Legislature will adopt two budgets this year: a placeholder budget by the June 15 constitutional deadline and a more comprehensive version later this summer once full revenue data becomes available.

The Legislative Analyst’s Office (LAO) projects a \$2 billion deficit for fiscal year (FY) 2025-26, approximately 1 percent of General Fund expenditures. This follows a larger gap addressed in the prior budget cycle and reflects both weaker-than-expected tax receipts and increased cost pressures. Lawmakers are expected to rely on reserves, spending deferrals, and targeted cuts to close the gap, continuing a pattern of difficult budget choices.

Federal Context and Risk

A major concern in this year’s budget is the threat of federal entitlement cuts, particularly to Medicaid (known in California as Medi-Cal), as part of broader federal tax and spending negotiations. According the LAO’s California Spending Plan from September 2024, Medi-Cal accounted for 36 percent of the state’s \$450 billion FY 2024-25 budget, with nearly \$100 billion in federal funds supporting the program. The Governor’s January budget for the Department of Health Care Services projects the federal contribution to Medi-Cal increases to nearly \$120 billion in FY 2025-26. As of February 2025, that level of federal partnership sustains health coverage for nearly 15 million Californians.

Reducing the federal cost-sharing rate for Medicaid expansion populations under the Affordable Care Act (ACA), from 90 percent to 50 percent is among the most widely discussed Congressional proposals to reduce federal spending on Medicaid. In California, 5 million adults are covered through the ACA expansion. A rollback in federal cost sharing could either result in loss of coverage for millions of Californians or shift a significant financial burden to the state.

Implications for Earmarks and BAHFA Advocacy

Amid a constrained budget environment, earmarks will be subject to a very high degree of scrutiny this year. That makes it especially significant that 16 members of our state delegation submitted a strong letter in support of MTC/ABAG’s budget request for the Bay Area Housing Finance Authority (BAHFA). The letter – included as Attachment A – reinforces our request for \$30 million in one-time state funding to sustain BAHFA operations and launch a regional lending program.

Cap and Trade Extension Outlook

In parallel to budget negotiations, state leaders are widely expected to propose a multi-year extension of California’s Cap and Trade program, which is currently authorized through 2030. This comes amid increased uncertainty at the federal level over the future of climate regulation and emissions trading. As a reminder, MTC and ABAG have adopted a set of Cap and Trade advocacy principles, included as Attachment B.

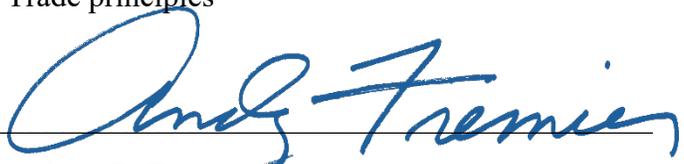
Staff will provide a verbal update at your meeting on any news about the Governor’s May Revise to the FY 2025-26 State Budget.

Recommendation:

Information

Attachments:

- Attachment A: Bay Area Delegation BAHFA Budget Request Letter
- Attachment B: MTC/ABAG Cap and Trade principles



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