

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

February 13, 2026

Agenda Item 3a

Overview of the Governor's Proposed Fiscal Year 2026-27 State Budget

Subject:

Update on transportation, housing, and other regional priorities.

Summary:

In January, Governor Newsom released his proposed fiscal year (FY) 2026-27 state budget amid continued fiscal constraints and lower-than-anticipated revenues from the Greenhouse Gas Reduction Fund (GGRF). While the budget does not propose major new investments, it includes several items of relevance to the San Francisco Bay Area.

Bay Area Transit Loan

On January 30, 2026, Governor Newsom, the Department of Finance (DOF) and MTC reached an agreement on a \$590 million loan for Bay Area transit agencies that will avert major service cuts at AC Transit, BART, Caltrain, and SF Muni (while also protecting funding for the Bay Area's priority capital projects). Consistent with Senate Bill 105 enacted last year, the loan agreement includes a clearly defined repayment structure, a guaranteed revenue source to secure the loan and an agreed-upon interest rate, as follows:

- 12-year repayment term, with interest-only payments during the first two years.
- Repayment secured by AC Transit, BART, Caltrain and SF Muni's "revenue-based" portion of State Transit Assistance.
- Variable interest rate tied to the state's Surplus Money Investment Fund, ensuring the state is repaid at the same rate it would have earned had the funds remained in state accounts.

This agreement followed months of negotiations between state partners and MTC, in close coordination with AC Transit, BART, Caltrain, SF Muni and VTA. As a reminder, DOF in December proposed to authorize MTC to loan funds from capital projects located in the Bay Area to Bay Area transit agencies to fund near-term operations. MTC and Bay Area transit partners raised concerns that the proposal could put major capital projects, and related federal matching funds, at risk. Bay Area partners worked closely with the administration to advocate

for a solution that addresses near-term operating needs, avoids an impact on the state General Fund, and does not put major capital projects or related funding at risk. A letter signed by 19 Bay Area state legislators supporting this effort is included as Attachment A, and a copy of the trailer bill language is included as Attachment B

Cap and Invest (GGRF) Expenditure Plan

The Governor's budget includes a Cap-and-Invest Expenditure Plan for FY 2026–27. The Budget projects GGRF proceeds of approximately \$3.8 billion – about \$500 million below the roughly \$4.3 billion that would be needed to fully fund the dollar amounts contemplated in Senate Bill (SB) 840 (the 2025 Cap-and-Invest expenditure plan) across all Cap-and-Invest programs and other commitments, including backfilling for the state responsibility area fee, manufacturing tax credit, and state operations.

Under SB 840, several commitments are taken “off the top” before funding flows to transit, housing and other programmatic investments, including \$1 billion for high-speed rail and \$1 billion in discretionary funds. The Administration's January budget proposes a multi-year expenditure plan for the discretionary \$1 billion, including the following line items for FY 2026-27:

- \$750 million for CAL FIRE; and
- \$250 million for the SB 840's FY 2026-27 commitments, as follows:
- \$125 million for transit passes, which the MTC-ABAG 2026 Legislative Advocacy Program recommends be used to expand Clipper® BayPass access to Bay Area community college students;
- \$25 million for a UC climate research center;
- \$15 million for Topanga State Park; and
- \$85 million for climate innovation.

Notably absent from this list is SB 125 transit funds, the multi-year transit funding package approved in the 2023 State Budget, which provided funding to public transit agencies across the state, and of which, the Bay Area is supposed to receive \$1.1 billion. Of the \$5.1 billion multi-year SB 125 transit package, nearly \$700 million depends on future GGRF appropriations, including \$230 million in FY 2026-27 (including \$80 million for the Bay Area) and another

\$460 million in FY 2027-28), but the January Budget does not propose to fund these commitments.

Also of note, the Governor’s budget does not propose to use any of the \$1 billion in discretionary GGRF funds to make the transit, housing and SB 840 Cap-and-Invest programs “whole.” SB 840 prescribed annual funding targets for the Affordable Housing and Sustainable Communities (AHSC) program (\$800 million), the Transit and Intercity Rail Capital Program (TIRCP) (\$400 million), the Low Carbon Transit Operations Program (LCTOP) (\$200 million), Assembly Bill 617 community air protection (\$250 million), fire prevention (\$200 million) and safe drinking water (\$130 million). However, if GGRF proceeds are insufficient to meet the “off the top” obligations, fully fund those statutory targets, and fund state operations costs (proposed at \$120 million in the budget), SB 840 applies a proportional reduction to the listed programs. With GGRF proceeds forecast to fall below the target of \$4.3 billion, the Governor’s budget proposes a nearly 30 percent cut to AHSC, TIRCP, LCTOP, and other listed programs relative to the amounts in SB 840.

Proposed Changes to the AHSC Program

Finally, the Administration proposes to restructure the AHSC program into two components: a housing capital component administered by the recently-created California Housing Development and Finance Committee (approximately 70 percent of funds), and a Strategic Growth Council–administered component focused on sustainable communities and conservation investments to support “regional priorities” (approximately 30 percent). The Governor’s budget frames this proposal as a way to better coordinate the state’s housing funding and financing programs, streamline administration, accelerate project delivery, and “maximize the impact of limited ongoing resources in advancing climate-aligned housing, land-use, and transportation outcomes.” See agenda Item 3a for an overview of how this restructuring could provide a vehicle for funding a regional Sustainable Communities Strategies implementation program (i.e., “Regional Early Action Planning Grant Program 3”).

Other Housing and Homelessness

The Governor's budget doesn't propose investing any new funding in affordable housing production or preservation or to prevent/address homelessness. Two items of note, however:

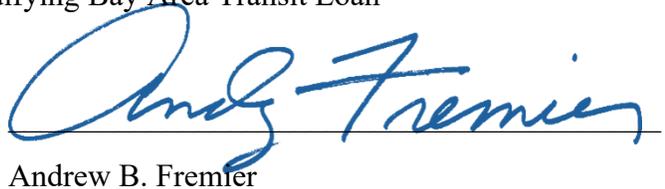
- The budget alludes to the soft commitment made last year to fund the Homeless Housing, Assistance and Prevention program at \$500 million in the FY 2026-27 budget, subject to new accountability measures, but does not actually include funding for it.
- It also mentions that the May Revise may include "creative financing mechanisms" to support rebuilding homes damaged/destroyed in 2025 Los Angeles wildfires.

Recommendation:

Information

Attachments:

- Attachment A: Bay Area Caucus Letter on State Transit Loan for Bay Area Transit
- Attachment B: Draft Trailer Bill Codifying Bay Area Transit Loan



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