

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

January 10, 2025

Agenda Item 3b

Overview of Governor Newsom's Fiscal Year 2025-26 State Budget Proposal

Subject:

Highlights of Governor's proposed Fiscal Year 2025-26 budget, including planned transit investments.

Summary:

California's fiscal year (FY) 2025-26 budget negotiations will kick into high gear this month with the anticipated January 10 release of Governor Newsom's budget request. (As of the writing of this memo, the budget request has not been made public). The state's fiscal outlook is significantly better than last year; the Legislative Analyst's Office (LAO) in early November 2024 projected California would have a roughly balanced budget for FY 2025-26. This is in part because the Legislature took proactive steps last year to address what was then an anticipated deficit for FY 2025-26. (The Legislature in 2024 implemented approximately \$26 billion in budget solutions – \$11 billion in spending cuts and \$15 billion in other measures like deferrals and funding shifts – intended to balance the FY 2025-26 budget.) However, the LAO has indicated that tax receipts are coming in at higher-than-expected rates and that state budget costs are increasing; on net, the LAO projects a roughly \$2 billion deficit for next year (about 1 percent of General Fund expenditures in a \$450 billion total budget, including special funds and federal funds).

Staff anticipates a major budget priority this year will be ensuring the \$5.1 billion transit package, adopted in the FY 2023-24 budget remains intact. Specific funding commitments for FY 2025-26 and future years are described below.

Staff will provide a verbal update at your meeting on the Governor's FY 2025-26 State Budget proposal.

Recap of Transit Funding Commitments for FY 2025-26 and Out-Years from Prior Budgets

As a reminder, the FY 2023-24 budget agreement included a four-year, \$5.1 billion transit package (referred to as “SB 125”), with \$4 billion committed through a regional Transit and Intercity Rail Capital Program (TIRCP) and \$1.1 billion to be distributed through a new Zero Emission Transit Capital Program (ZETCP), with the flexibility to use all funds for either capital or operating purposes. Last year, thanks to strong advocacy by MTC, the California Transit Association and transit agencies statewide, the Legislature and Administration maintained that \$5.1 billion multi-year transit funding commitment despite facing a massive budget deficit. However, the funding is now proposed to be distributed over five years, including \$1 billion in TIRCP funds anticipated for FY 2025-26 and \$690 million in ZETCP funds anticipated for FY 2025-26 through FY 2027-28 (\$0 in FY 2025-26, \$230 million in FY 2026-27 and \$460 million in FY 2027-28). The remaining TIRCP allocation is slated to be funded from a combination of General Fund and Cap and Trade-funded Greenhouse Gas Reduction Fund (GGRF) resources while ZETCP is funded solely from the GGRF.

The Bay Area's \$1.2 billion share of these SB 125 funds (\$770 million from TIRCP and \$400 million from ZETCP) flows to MTC. In 2023, the Commission committed the funds as follows:

TIRCP (\$770 million)

- BART Core Capacity Program (\$350 million)
- VTA’s BART to Silicon Valley, Phase 2 (\$375 million)
- Transit Operations Reserve (\$45 million)

ZETCP (\$400 million)

- [MTC Resolution 4619](https://www.google.com/url?client=internal-element-cse&cx=605ecbce1cf9808d9&q=https://mtc.ca.gov/sites/default/files/meetings/attachments/5841/11c_23_1333_MTC_Resolution_4619_Updated_2.pdf&sa=U&ved=2ahUKEwjqsq9uHmr-KAxVpKkQIHVKxK7oQFnoECAQQAQ&usg=AOvVaw2PpFr6dqLWCxYPwPd4QQT) (https://www.google.com/url?client=internal-element-cse&cx=605ecbce1cf9808d9&q=https://mtc.ca.gov/sites/default/files/meetings/attachments/5841/11c_23_1333_MTC_Resolution_4619_Updated_2.pdf&sa=U&ved=2ahUKEwjqsq9uHmr-KAxVpKkQIHVKxK7oQFnoECAQQAQ&usg=AOvVaw2PpFr6dqLWCxYPwPd4QQT) commits the ZETCP funds for transit emergency operating assistance. Consistent with the requirements of Senate Bill 125, the FY 2023-24 transportation

trailer bill, the Commission also identified additional resources – including TIRCP resources committed through the 2023 transit package, a contribution of regional discretionary funds, and interest-earned on the SB 125 resources – to address Bay Area transit operator’s three-year standardized operating shortfalls (\$776 million).

Notably, last year’s budget deal resulted in a one year delay of a portion of the SB 125 funds, which will reduce interest earnings. Even with this delay, MTC still estimates that, in combination with a \$300 million commitment of regional funds, state funding should be sufficient to cover Bay Area operators’ standardized transit operating shortfalls through FY 2025-26. This could change if there are further funding delays or if the capital project cash flow needs arise earlier than anticipated. That said, MTC received the first installment of SB 125 funding (almost \$535 million) in August 2024 and has invested those resources in interest-bearing funds.

Issues:

None identified.

Recommendations:

Information

Attachments:

- None



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