

**MTC Staff Analysis & Overview of FY 2025-26 May Revise
and Governor Newsom’s “Cap and Invest” Proposal**

Date: May 28, 2025

On May 14, Governor Newsom released the May Revision to his January budget for Fiscal Year 2025-26. Below is staff’s high-level overview of the transit and housing-related proposals, reflecting the administration’s written proposals and additional details shared by the Legislative Analyst’s Office (LAO) and the legislature’s budget committees.

Overview: The Governor proposes nearly \$12 billion in “budget actions” to close an estimated FY 2025-26 deficit (\$7.5 billion) and build up the state’s discretionary reserve (\$4.5 billion). The actions include program cuts, fund shifts, borrowing, and Medi-Cal premium increases. Most significant from our agencies’ perspective is the proposed defunding of the remaining SB 125 commitments that were provided in the 2023 state budget to avert major transit service cuts. (Details below.)

In his press conference, Newsom leaned heavily into the impact of federal tariffs on the state budget, attributing a projected \$16 billion revenue drop over the next two years due to the tariffs.

Legislators may decide to draw down some of the state’s “rainy day fund” to avoid some of the cuts proposed by Newsom or to make appropriations for high priorities like housing and transit programs.

Transit and Cap & Trade in FY 2025-26: In recent years, the Newsom Administration and Legislature began committing future-year *discretionary* Cap and Trade revenues – those Greenhouse Gas Reduction Fund (GGRF) revenues not continuously appropriated – to more than 30 programs across a dozen state departments, including SB 125 transit funding. These future commitments average roughly \$1.5 billion/year from FY2025-26 through FY 2028-29.

The May Revise proposes to eliminate all those future commitments and redirect discretionary GGRF to support CalFire – shifting what is currently a General Fund obligation into the GGRF.

For transit, the proposed cuts are significant. The May Revise would eliminate more than \$1 billion in commitments to transit from future GGRF allocations made in prior year budgets to avert major transit service cuts and invest in transit capital projects. These include:

- SB 125 GGRF commitments to Transit and Intercity Rail Capital Program (TIRCP) and Zero Emission Transit Capital Program, totaling \$878 million across FY 2025-26 – FY 2027-28.
- Competitive TIRCP augmentations from prior year state budgets (TIRCP Cycle 6), totaling \$200 million across FY 2025-26 and FY 2026-27. These are described [as SB 125 competitive TIRCP in the hearing agenda](#).

In addition to proposing the elimination of discretionary GGRF funding to transit that had been expected in FY 2025-26 and future years, the Administration is silent on continuous

appropriations from Cap and Trade in FY 2025-26 to FY 2028-29 in their proposed extension of Cap and Trade funding, which is proposed as a trailer bill to the FY 2025-26 budget, as discussed in further detail below. As a reminder, by statute, transit and affordable housing currently receive the following share of GGRF funds each year:

- 5% for Low Carbon Transit Operations Program (LCTOP) – *eligible for transit operations*
- 10% for TIRCP
- 20% for Affordable Housing and Sustainable Communities Program (AHSC)

In short, the continuously appropriated TIRCP, AHSC and LCTOP are considered “at risk” as part of the Cap and Trade negotiations.

The attachment provides a detailed summary of “what’s at risk” in the May Revise, as well as a Bay Area impact analysis.

Cap and Trade Reauthorization: The Administration has introduced their proposal for extending the Cap and Trade program as a trailer bill to the budget. The proposal extends the program through 2045 and renames it "Cap and Invest." For the GGRF – which receives the bulk of the program’s auction proceeds – the Administration’s extension proposal would guarantee a minimum of \$1 billion/year for high-speed rail (currently receiving 25%, which has been roughly equivalent to \$1 billion/year based on recent auction results), as well as fund CalFIRE at a rate of at least \$1.5 billion/year.

The extension proposal is silent on how the remaining \$2 billion (roughly) in annual GGRF revenue would be allocated post 2030. The Administration has stated Newsom is “open to negotiations” with the Legislature on retaining existing continuous appropriations beyond high speed rail. Notably, the LAO is quoted in the Assembly Budget Committee agenda recommending that the Legislature “minimize the use of continuous appropriations.” The LAO also recommends the Legislature take their time on the Cap and Trade extension proposal rather than attempting to adopt it as part of the June budget action.

MTC and ABAG and other supporters of TIRCP, AHSC and LCTOP will need to vocally defend continuous appropriations funding for these programs. For TIRCP, in particular, since the state has made awards that depend on future year GGRF funding, specific project funding plans are now at risk. The attached Bay Area impact summary includes an overview of how these continuously appropriated programs benefit the Bay Area, a link to TIRCP Cycle 7 awards and a copy of MTC-ABAG’s Cap and Trade reauthorization principles.

A high-level outline of the “Cap and Invest” proposal is summarized in the [May 20th hearing agenda for Assembly Budget Subcommittee 4](#).

Housing and homelessness: The May Revise contains no new money for housing or homelessness programs. It also proposes clawing back \$31.7 million in prior year's appropriations to the Infill Infrastructure Grant Program. To fund housing production and

preservation, Newsom supports Assemblymember Wicks' and Senator Cabaldon's \$10 billion state housing bonds proposed for the June 2026 ballot.

Given budget constraints, securing the MTC-ABAG request of \$30 million in funding for the Bay Area Housing Finance Authority (BAHFA) will be a tall order. That said, we are encouraged by the groundswell of support from members of the Bay Area delegation, housing partners, and local elected officials, including a recent support letter signed by more than 80 Bay Area local elected officials. MTC-ABAG intend to keep pressing the case, particularly to extend BAHFA's existing programs.

Finally, the May Revise proposes to incorporate three housing/transportation policy bills into budget trailer bills: AB 604 (Wicks) and SB 607 (Wiener), which would streamline housing and other infill development, and AB 1244 (Wicks), which would create a state vehicle miles traveled (VMT) mitigation bank that would fund transit-oriented development. Incorporation into trailer bills would allow the bills to bypass the remaining policy and fiscal committees and take effect immediately upon signature.

Attachment: Potential Bay Area Impacts from the May Revise and “Cap and Invest” Reauthorization Proposal

Potential Bay Area Impacts from the May Revise and “Cap and Invest” Reauthorization Proposal

Summary: What’s at Risk and Why

Governor Newsom’s May Revision and related Cap and Trade reauthorization proposal introduce significant funding uncertainties for the Bay Area’s transit and housing priorities. In the near term, the May Revise would eliminate discretionary Greenhouse Gas Reduction Fund (GGRF) commitments for fiscal years 2025–26 through 2028–29 – including the remaining SB 125 allocations and prior-year augmentations for competitive Transit and Intercity Rail Capital Program (TIRCP), which impacts Cycle 6. These cuts are part of this year’s budget proposal, with the redirected funds proposed to cover CalFIRE operations.

Separately, the Administration’s “Cap-and-Invest” proposal would extend the Cap and Trade program through 2045. While the proposal guarantees future revenues for high-speed rail and CalFIRE, it is silent on whether continuous appropriations for programs like TIRCP, Affordable Housing and Sustainable Communities (AHSC), and Low Carbon Transit Operations Program (LCTOP) will be maintained. The Governor has not explicitly proposed eliminating these continuous appropriations; he has confirmed they are now subject to negotiation and thus cannot be assumed secure. For TIRCP grant recipients that rely on future GGRF continuous appropriations (e.g. TIRCP Cycle 7) this creates real risk.

The remainder of this document summarizes the specific Bay Area impacts under each proposal –what’s at stake, what’s already been awarded, and where future funding remains uncertain.

SB 125 Transit Funding Commitments

MTC has approved a \$1.5 billion package of capital and operating investments funded through SB 125 and regional contributions (contributing \$300 million towards the total). The resources are committed to sustaining transit operations through FY 2025–26 and delivering two major capital projects – BART to Silicon Valley Phase II and BART Transbay Core Capacity.

MTC has a detailed funding plan for the entire \$1.5 billion, which consists of \$776 for operating expenses and \$725 in capital funding for the projects referenced above. To date, \$183 million in operating funding has been allocated. MTC has an additional \$856 million either in hand or approved by CalSTA. The remaining \$452 million – including \$288 million in GGRF funds – is comprised from the state’s prior year commitments of FY2025-26 – FY2027-28 GGRF and General Fund revenues as well as interest earned.

The May Revise proposal would eliminate that \$288 million in GGRF commitments and put at least a portion of the interest-funded investments at risk. In summary, of the total \$1.2 billion in state funds that comprise the region’s SB 125 plan, about 25 percent depends on funds that have been proposed to be eliminated.

Bay Area Priorities at Risk

In addition to the SB 125 risks noted above, the region has significant risk exposure from the Governor’s Cap and Trade proposal as relates to TIRCP, AHSC and LCTOP.

Transit Capital Funding - TIRCP Cycle 6 & Cycle 7 Awards:

The nearly \$4 billion TIRCP Cycle 6 awards assumed \$200 million in future GGRF resources (\$180 million in FY 2025-26 and \$20 million in FY 2026-27). Many important Bay Area projects

Attachment to Attachment A

Agenda Item 3b

Page 2 of 7

received [Cycle 6 awards](#) (see Reference Material, Cycles 1-6). Additionally, [TIRCP Cycle 7](#) included \$1.3 billion in awarded projects that assumed GGRF funding through 2028-29. The Bay Area received nearly \$400 million for six Bay Area projects.

Affordable Housing and Transit Operating Funding Threatened

- In addition to transit capital, the Bay Area has long relied on continuous appropriations from Cap-and-Trade to fund affordable housing and transit operations. These include the AHSC and LCTOP. MTC-ABAG's adopted Cap-and-Trade reauthorization principles strongly support maintaining, at a minimum, current levels of continuous appropriations for these core programs.

Housing and Homelessness

Aside from the Cap and Trade proposal, the May Revise contains no new money for housing or homelessness programs. It also proposes clawing back \$31.7 million in prior year funding for the Infill Infrastructure Grant Program. To fund housing production and preservation, Newsom supports Assemblymember Wicks' and Senator Cabaldon's \$10 billion state housing bonds proposed for the June 2026 ballot.

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Attachments for Reference

- Attachment A: Summary of SB 125 investments and outstanding funding needs
- Attachment B: Historical chart of Cap-and-Trade revenues and benefits to the Bay Area
- Attachment C: MTC-ABAG Cap and Trade reauthorization principles

Bay Area SB 125 + Regional Contribution Allocation Status by Fund Source (in millions)				
Fund Source	Allocated	Available for Allocation (Funds In-Hand or Approved by CalSTA on May 6, 2025)	Future Year Funds (FY 2025-26 through FY 2027-28)	Total
SB 125				
ZETCP	\$148	\$2	\$252	\$402
ZETCP - PTA	\$68	\$2	\$0	\$69
ZETCP - GGRF	\$80	\$0	\$252	\$332
TIRCP	\$12	\$566	\$193	\$771
TIRCP - General Fund	\$12	\$455	\$157	\$624
TIRCP - GGRF	\$0	\$111	\$36	\$148
Interest Earned	\$0	\$11	\$18	\$29
MTC Regional Contribution				
Regional Funds	\$23	\$277	\$0	\$300
Total	\$183	\$856	\$462	\$1,501
Total GGRF + Interest Earned	\$80	\$122	\$306	\$508

Sums may not total due to rounding

Notes: FY26 TIRCP disbursements will be funded by \$188M in GGRF and \$812M in General Fund. TIRCP funds from the two sources are distributed proportionately.

Future interest earnings are considered at risk, because delayed or canceled disbursements from the state reduce MTC's future interest earning potential by lowering the balance that is generating interest.

Bay Area SB 125 + Regional Contribution Funding Plan and Allocation Status by Project (in millions)			
Project	MTC-Approved Funding Plan	Allocated	Unallocated*
Capital - BART to Silicon Valley Phase II	\$375	\$0	\$375
Capital - BART Transbay Core Capacity	\$350	\$0	\$350
Operations - SFMTA	\$309	\$99	\$209
Operations - BART	\$352	\$58	\$294
Operations - AC Transit	\$33	\$11	\$21
Operations - Caltrain	\$25	\$0	\$25
Operations - Golden Gate Transit	\$41	\$4	\$37
Operations - ACE	\$4	\$2	\$2
Operations - ECCTA	\$1	\$1	\$0
Operations - LAVTA	\$2	\$2	\$1
Operations - NVTA	\$2	\$1	\$1
Operations - SolTrans	\$2	\$1	\$1
Operations - WestCAT	\$3	\$3	\$1
Operations - MTC (RNM)	\$2	\$0	\$2
Total - SB 125 (TIRCP, ZETCP, TIRCP Interest)	\$1,201	\$160	\$1,041
Total - Regional	\$300	\$23	\$277
Total	\$1,501	\$183	\$1,319

Sums may not total due to rounding

*Of the "Unallocated" funds, \$856 million are either "in hand" or have already been approved to be transferred to MTC. The remaining \$462 million is dependent on FY2025-26 - FY 2027-28 state budget appropriations. This includes \$288 million in GGRF expenditures for SB 125 TIRCP and ZETCP, \$157 million in General Fund allocations for SB 125 TIRCP and \$17 million in interest earned.

Bay Area's Cap and Trade Funding History

Cap and Trade funds play an important role in supporting transit and affordable housing in the Bay Area. Since 2015, the Bay Area has secured over \$5 billion from the \$16 billion available under the continuously appropriated Transit and Intercity Rail Capital Program (TIRCP), Affordable Housing and Sustainable Communities (AHSC) program, and Low Carbon Transit Operations Program (LCTOP). More recently, SB 125 created the \$1.1 billion Zero-Emission Transit Capital Program (ZETCP), which is primarily funded through the GGRTF. As shown in the chart below, the Bay Area's share of statewide funds averages 32 percent and 37 percent, depending on the program. While this exceeds the Bay Area's 20 percent population share, it reflects the Bay Area's high transit usage and strong demand for transit-oriented development.

Bay Area Cap and Trade Funding History

Programs	Statewide Funding	Bay Area Awards	Bay Area Share	Notes
TIRCP (2015-2029)	\$10.8 billion	\$3.4 billion	32%	TIRCP helps fund major Bay Area transit expansion and modernization projects, including Caltrain Electrification, SMART to Windsor, San Francisco Bay Ferry electrification, the Portal, Valley Link, BART Transbay Core Capacity, and BART to Silicon Valley Phase 2.
AHSC (2015-2024)	\$4 billion	\$1.5 billion	36%	Approximately 2/3 of the Bay Area's AHSC funds support new transit-oriented affordable housing and the remaining 1/3 improves bicycle, pedestrian and transit access for residents of affordable housing.
LCTOP (2015-2024)	\$1.2 billion	\$440 million	37%	LCTOP provides funds for expanded bus or rail service, Bay Area zero emission bus and ferry fleet transitions, and free or reduced transit fare programs.
ZETCP (2024-2028)	\$1.1 billion	\$400 million	37%	ZETCP serves as emergency transit operating funds to mitigate dire service cuts.

Notes:

- TIRCP is distributed competitively by the California State Transportation Agency (CalSTA). Because CalSTA's practice includes committing future year funds, the figures in the chart reflect TIRCP funding commitments through 2029. Totals include continuously appropriated revenues from the Greenhouse Gas Reduction Fund (GGRF) and SB1 as well as a \$3 billion in state general funds distributed via the competitive TIRCP program.
- AHSC is distributed competitively to affordable housing projects with connected transportation improvements.
- LCTOP is distributed via the State Transit Assistance (STA) formula, with 50% statewide distributed to transit operators on revenue basis and 50% distributed to regional transportation planning agencies (RTPAs) on a population basis.
- ZETCP is distributed to RTPAs via the STA formula, described above. Of the \$1.1 billion in total ZETCP, \$910 million is funded through the GGRF and the remainder is funded from the state's Public Transportation Account.
- Not included in table is 25% continuous appropriation for High Speed Rail (totaling \$6.7 billion through Feb 2024), 5% (up to \$130 million) for Safe and Affordable Drinking Water, and \$200 million for forests and wildfire protection that are continuously appropriated each year.



MTC-ABAG Cap and Trade Extension Advocacy Principles

1. Support Long-Term Extension of Cap and Trade Program

The Cap and Trade program is one of California's most effective tools for reducing greenhouse gas (GHG) emissions and meeting the state's climate goals. By capping emissions and creating financial incentives for GHG reductions, the program drives long-term decarbonization while generating critical funding for climate friendly projects, including sustainable transportation and transit-oriented affordable housing. A long-term extension will provide the certainty needed to sustain emissions reductions, stabilize the market, ensure continued funding certainty for projects and programs that support a more sustainable and equitable future.

2. Sustained Investment in Transportation and Affordable Housing

Maintain at least the current 60 percent continuous appropriation for transportation and transit-accessible affordable housing. Given that transportation remains the largest contributor to GHG emissions in California, it is essential for our climate goals to sustain and expand clean transportation options, support high levels of transit ridership and increase availability of affordable housing located near transit.

3. Fair Share for the Bay Area

Any updates to the structure of the Cap and Trade program should maintain the Bay Area's ability to compete effectively for funding and strengthen Bay Area competitiveness. If formula-based approaches are considered for existing or new programs, formulas must ensure the Bay Area continues to receive a fair share – consistent with historical allocations – so that it can continue to meet high levels of transit ridership demand, expand transit options, build more affordable housing near transit and implement Plan Bay Area, the region's sustainable communities strategy (SCS). Additionally, ongoing investment in California High-Speed Rail should include connecting to the Bay Area and investing within the region to lay the groundwork for high-speed rail in Northern California, including critical path items north of Gilroy and a fair share towards Northern California's high-speed rail joint benefit projects. A seamless and safe connection into the Bay Area is essential for maximizing high-speed rail's transformational potential, and advancing these investments now is an efficient and effective way to ensure the region is ready when high-speed rail service reaches Northern California.

4. Equitable Distribution of Resources

Support policies intended to ensure Cap and Trade funds benefit into the state's low-income and historically marginalized communities who are disproportionately impacted by GHG emissions and vulnerable to the effects of climate change. Additionally, advocate that such policies are inclusive of the Bay Area's Equity Priority Communities, which reflect the region's disproportionately high cost of housing.

5. Ensure Efficient and Effective Use of Cap-and-Trade Revenues

Cap and Trade revenues should be deployed efficiently to advance California's climate goals. Minimizing administrative burdens will ensure funds are put to work on high-impact projects that deliver real climate benefits. Retaining and expanding program flexibility will allow investments to be prioritized based on the highest needs, which may vary by region over time, ensuring the responsive and effective use of resources to meet the state's climate and resilience goals.

6. Increased Funding for Transit Operations

Advocate for formula-based funding from Cap and Trade to support sustaining service for existing transit riders and attracting new riders through SB 125's Zero-Emission Transit Capital Program model. This funding would serve as a complement and a potential backstop to a Bay Area regional transportation measure.

7. Protect Affordable Housing Production Funding Levels

Ensure Cap and Trade continues to provide funding for affordable housing, including through maintaining (at a minimum) the share of Cap and Trade funds that currently support affordable housing.

8. Assist with Implementation of Sustainable Communities Strategies

Sustain and enhance Cap and Trade resources as a tool to implement Plan Bay Area 2050 and other region's SCSs, California's framework for reducing greenhouse gas emissions from transportation by requiring the state's metro areas to plan for a future in which transit, walking and biking are convenient, affordable and reliable options. Accelerate GHG reduction by providing a formula-based, continuous allocation of Cap and Trade funds to regions for SCS implementation; funds could be used to advance each region's unique approach to meeting its SCS goals, be that investing in improvements to expand transit service, sustaining transit operations in high-ridership corridors, and/or advancing zero-emission transit fleet transitions.

9. Enhancing Resilience to Climate-Fueled Natural Hazards

Support investments in planning and projects that support the Bay Area and California in adapting to a changing climate, including, but not limited to, sea level rise, wildfires and heat. Prioritize funding to protect critical infrastructure and surrounding communities.