

Metropolitan Transportation Commission and Association of Bay Area Governments**Joint MTC ABAG Legislation Committee****January 9, 2026****Agenda Item 4a****Fiscal Year 2026-27 State Budget****Subject:**

Overview of the state's fiscal condition and update on the Governor's Fiscal Year 2026-27 State Budget (if released by meeting date).

Background:

California's fiscal year (FY) 2026-27 budget negotiations will kick into high gear this month, with Governor Newsom's budget proposal expected before January 10, 2026. This is widely anticipated to be a challenging budget year; despite higher-than-projected income taxes, the Legislative Analyst's Office (LAO) in November 2025 projected California will face a nearly \$18 billion deficit in FY 2026-27. LAO further projects a roughly \$35 billion annual structural deficit beginning in FY 2027-28 due to spending continuing to outpace revenue growth.

Given the constrained budget outlook, many Sacramento stakeholders are closely examining the Cap and Invest program (formerly "Cap and Trade") as a potential revenue source for their funding requests. As a reminder, the legislature in 2025 extended California's Cap and Invest program through 2045 and restructured the Greenhouse Gas Reduction Fund (GGRF) expenditure plan. The revised plan prioritizes \$1 billion "off the top" for California High Speed Rail and another \$1 billion for legislative priorities. After these appropriations, the plan prescribes statutory funding targets for a range of programs supporting transit, housing, air quality, wildfire prevention, and safe drinking water. If GGRF revenues are insufficient to fulfill those statutory targets, funding for each program is reduced proportionately.

MTC-ABAG Budget and Cap and Trade Priorities

Consistent with our draft 2026 MTC-ABAG Draft Advocacy Program, staff anticipates major MTC-ABAG budget priorities this year will include:

- Supporting an up-to \$750 million state loan for Bay Area transit agencies to sustain service after June 2026.

- Ensuring the \$5.1 billion SB 125 transit package adopted as part of the FY 2023-24 state budget remains intact. State funding commitments subject to future appropriation are:
 - FY 2026-27: \$230 million from the GGRF
 - FY 2027-28: \$460 million from the GGRF
- Note: The Bay Area's share of outstanding state appropriations is \$252 million. The Commission has committed these funds to BART for the Silicon Valley Phase II and BART Transbay Core Capacity.
- Advocating that the Legislature fulfill the statutory dollar amounts for programs prescribed in the Cap and Invest expenditure plan (SB 849, 2025), including:
 - \$800 million for the Affordable Housing and Sustainable Communities Program
 - \$400 million for the Transit and Intercity Rail Capital Program
 - \$200 million for the Low Carbon Transit Operations Program
- If the Legislature advances its 2025 proposal for a \$125 million set-aside of GGRF funds for transit passes, advocate that funding for the Bay Area be directed towards expanding Clipper® BayPass access for Bay Area community college students, which could significantly grow transit ridership and improve mobility for low-income students.
- Explore opportunities for funding to enable the Bay Area Housing Finance Authority to sustain its current programs and support the launch of a self-sustaining lending program.
- Explore funding opportunities for REAP 3.0.

Staff will provide a verbal update at your meeting if information on the Governor's FY 2026-27 State Budget proposal is available at that time.

Recommendations:

Information

Attachments:

- None



A handwritten signature in blue ink, appearing to read "Andrew B. Fremier". The signature is fluid and cursive, with a long, sweeping line for the first name and a more compact, vertical line for the last name.

Andrew B. Fremier