Metropolitan Transportation Commission and Association of Bay Area Governments

Joint MTC ABAG Legislation Committee

August 14, 2026 **Agenda Item 3a-26-0851**

Fiscal Year 2026-27 State Budget Update

Subject:

Update on negotiations related to Cap-and-Invest expenditures and other outstanding budget items, including an overview of the status of MTC-ABAG budget priorities.

Background:

On June 29, 2026, Governor Newsom signed the fiscal year (FY) 2026-27 state budget ahead of the constitutional deadline. The broader budget package includes related trailer bills addressing major policy areas, including housing and transportation. The enacted budget provides $352 billion in total state spending – including significant new resources for affordable housing – and includes more than $35 billion in reserves and related holding accounts. Notably, the June budget appropriated a portion of the Cap-and-Invest Greenhouse Gas Reduction Fund (GGRF) revenues – including $1.25 billion to CalFire and $115 million for light-duty zero-emission vehicle incentives – but deferred remaining appropriations to later.

The Legislature is expected to consider additional budget legislation in August, including appropriations from the remaining GGRF resources and earmark requests.

Those discussions will take place against a modestly improved revenue picture. Preliminary tax data show that personal and corporate income tax collections from April through June exceeded the May Revision forecast by $1.3 billion. The enacted budget incorporated approximately $400 million of that gain, leaving approximately $900 million that was not reflected in the June budget assumptions. However, a sizable portion of those funds are likely to be needed to fulfill state funding obligations for education and reserves.

As of the writing of this memo, the following MTC-ABAG priorities remain unresolved:

- **Bay Area Housing Finance Authority Earmark:** $15 million request for BAHFA; $32 million statewide request, including funding for San Diego and Los Angeles housing finance agencies
- **SB 125 formula commitment:** $230 million in FY 2026-27 and $460 million in FY 2027-28, for a total of $690 million. The Bay Area’s share of SB 125 funds awaiting

state appropriation is $252 million. Of that, the BART to Silicon Valley, Phase 2 project is slated to receive $133 million, and $119 million is committed to the BART Transbay Core Capacity project.

- **Cap-and-Invest Tier 3 programs:** Approximately $1.8 billion in statutory funding targets, including:
  - Affordable Housing and Sustainable Communities Program: $800 million.
  - Transit and Intercity Rail Capital Program: $400 million.
  - Low Carbon Transit Operations Program: $200 million.
  - Community Air Protection Program: $100 million in remaining need.[1]
- Cap-and-Invest Tier 2 Commitment for California High Speed Rail: $1 billion

Taken together, the outstanding SB 125 commitments and Cap-and-Invest targets exceed the estimated remaining FY 2026-27 GGRF resources by approximately $1.8 billion. The August agreement will therefore require the Administration and Legislature to identify additional resources, fund programs at levels lower than the targets, or otherwise adjust expenditures. Staff will provide a verbal update on new developments at your meeting.

Recommendation:

Information

Attachments:

- Attachment A: FY 2026-27 State Budget Summary
- Attachment B: MTC-ABAG Budget Letter

[1] The enacted budget provided a one-time $150 million General Fund appropriation for the Community Air Protection Program, commonly referred to as AB 617. According to the Bay Area Air Quality Management District (BAAQMD), this reduces its effective FY 2026-27 GGRF funding target to $100 million from $250 million.

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