

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

May 8, 2026

Agenda Item 3a – 26-0556

**Fiscal Year 2026–27 State Budget Update**

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**Subject:**

Status update on state budget negotiations and overview of MTC-ABAG’s budget priorities.

**Summary:**

Governor Newsom is expected to release his May Revision to the state budget by May 14, 2026, as required by the California Constitution. The Governor releases the May Revision to reflect changes from the January Fiscal Year (FY) 2026-27 Budget based on the latest economic forecasts. The Legislative Analyst’s Office (LAO) projects an almost \$18 billion budget deficit in FY 2026-27, and a roughly \$35 billion annual structural deficit beginning in FY 2027-28, due to spending continuing to outpace revenue growth. The Governor projected \$3 billion deficit in January, which is lower than the LAO’s projections due to different underlying assumptions.

The State’s Cap-and-Invest program, which funds the Greenhouse Gas Reduction Fund (GGRF), is another important revenue source for MTC-ABAG transportation and housing priorities. The Governor’s January GGRF expenditure plan projects significant funding decreases in FY 2026-27 due to lower-than-anticipated auction revenues. This shortfall materially reduces available funding for key transit programs, including the Transit and Intercity Rail Capital Program (TIRCP), the Low Carbon Transit Operations Program (LCTOP), the SB 125 program which includes the Zero-Emission Transit Capital Program (ZETCP) as well as the Affordable Housing and Sustainable Communities (AHSC) Program.

The May Revision will be important to tell us what the most recent budget projections are and how much funding might be available for our budget priorities.

**Implications for MTC-ABAG State Budget and Cap-and-Invest Priorities**

Consistent with our 2026 MTC-ABAG Advocacy Program, our top budget priorities include:

***Protecting Transit and Housing Funding in the Fiscal Year 2026-27 State Budget***

- Fund the Transit Intercity Rail and Capital Program, Affordable Housing and Sustainable Communities program, and Low Carbon Transit Operations Program at the statutory funding targets identified in SB 840 (2025).

- Fulfill prior year SB 125 transit funding commitments. Nearly \$700 million statewide in FY 2026-27 and FY 2027-28 appropriations are outstanding, including approximately \$250 million for BART to Silicon Valley Phase II and BART Transbay Core Capacity.
- Should the Legislature proceed with funding the SB 840 \$125 million transit pass set-aside, direct the Bay Area's share to expand Clipper® BayPass access for the region's more than 400,000 community college students. (See Attachment A).

***Advancing Housing Innovation at the Bay Area Housing Finance Authority (BAHFA)***

- Secure \$15 million in one-time funding to sustain successful BAHFA programs that are improving housing affordability across the Bay Area, enable it to become self-sustaining by 2030 and position the agency for a potential 2028 housing ballot measure.

Staff are working closely with the Bay Area delegation to secure legislative support to advance these priorities. Senator Jesse Arreguín, Senator Scott Wiener, and Assemblymember Alex Lee led support letters in their respective houses advocating for critical statewide transit funding priorities, with a total of 19 members signing on (See Attachments B and C). On housing, Senate Housing Chair Jesse Arreguín, Assemblymember Buffy Wicks, and four other members signed a support letter for \$30 million in funding for Regional Housing Finance Authorities across the state, including \$15 million for the BAHFA to sustain operations and launch a regional lending program (See Attachments D and E).

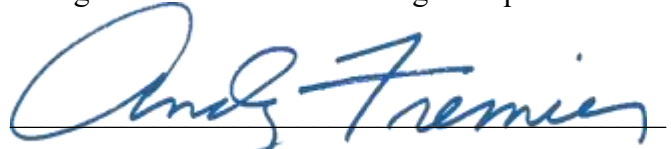
Staff will provide a verbal update at your meeting on any news about the Governor's May Revise to the FY 2026-27 State Budget.

**Recommendation:**

Information

**Attachments:**

- Attachment A: MTC-ABAG FY 2026-27 State Budget Priorities Letter
- Attachment B: Senate Transportation Funding Support Letter
- Attachment C: Assembly Transportation Funding Support Letter
- Attachment D: Senate Regional Housing Finance Authorities Budget Request Letter
- Attachment E: Statewide Regional Housing Finance Authorities Budget Request Letter



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