Fiscal Year 2026-27 Budget Summary

Overview

On June 29, 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. Altogether, the enacted budget provides $352 billion in total state spending and includes more than $35 billion in reserves and related holding accounts.

The Legislature is expected to consider additional budget legislation in August, including appropriations from the remaining Greenhouse Gas Reduction Fund (GGRF) resources and any outstanding budget earmarks.

Greenhouse Gas Reduction Fund Expenditures

The June budget package deferred many Cap-and-Invest funding decisions until August because negotiations coincided with the California Air Resources Board's adoption of significant program changes expected to reduce GGRF revenues. With the FY 2026-27 revenue outlook still unsettled, it was unclear whether available revenues would be sufficient to fully implement the Cap-and-Invest expenditure plan approved by the Legislature last year in SB 840 (Limón).

SB 840 established a tiered waterfall for allocating GGRF revenues. The first tier provides "off-the-top" funding for specified backfills and administrative costs, including the State Responsibility Area fee backfill, the manufacturing tax credit, and the Legislative Counsel Bureau. The second tier provides $1 billion each for High-Speed Rail and legislative discretionary spending. Remaining revenues flow to Tier 3 programs, including affordable housing, transit, and air-quality programs with statutory funding targets. State operations are also funded from the GGRF. Although SB 840 does not assign a "tier" for those appropriations, the Administration's budget documents have treated them as Tier 1 costs, and calculations have proceeded on that basis.

Approximately $4.3 billion in annual GGRF revenues would be needed to fully fund the SB 840 framework, including state operations. If revenues fall short, Tier 3 programs receive proportionate reductions. SB 840 does not address a scenario in which revenues are insufficient to fully fund Tiers 1 and 2, which together are estimated to require $2.3- $2.4 billion.

Earlier this year, the Department of Finance (DOF) estimated Cap-and-Invest would generate approximately $3.8 billion in GGRF revenues for FY 2026-27. CARB subsequently estimated that the program changes adopted through a May 29, 2026 rulemaking would reduce annual GGRF revenues to approximately $2 billion. However, because FY 2026-27 is a transition year, the immediate reduction is more modest. DOF's updated estimate for FY2026-27 GGRF revenues is $2.7 billion, which incorporates projections of the impacts from the recently adopted regulations as well as the most recent Cap-and-Invest auctions. Together, with $500 million in interest earnings and $250 million in prior-year carryover, an estimated $3.5 billion is available for GGRF expenditures this fiscal year.

The enacted budget has already committed $1.25 billion to CalFire ($750 million from legislative discretionary and $500 million from interest) and $115 million in carryover for light-duty zero-emission vehicle incentives. After also accounting for approximately $350 million in enacted and anticipated Tier 1 costs, roughly $1.7 billion is committed or expected to be committed, leaving approximately $1.6 billion in auction revenues and $135 million in carryover ($1.7 billion total) available for the major remaining funding decisions.

The August negotiations will determine how the remaining resources – including $250 million in remaining legislative discretionary funding – are allocated among several priorities. Major items of interest to MTC-ABAG include:

- **High-Speed Rail:** Approximately $1 billion.
- **SB 125 formula commitment:** $230 million in FY 2026-27 and $460 million in FY 2027-28, for a total of $690 million.
- **Tier 3 programs:** Approximately $1.83 billion in statutory funding targets, including:
  - Affordable Housing and Sustainable Communities Program (AHSC): $800 million. (See Page 3.)
  - Transit and Intercity Rail Capital Program: $400 million.
  - Low Carbon Transit Operations Program: $200 million.
  - Community Air Protection Program: $100 million in remaining funding need[1]

Transportation Trailer Bill

The transportation trailer bill (SB 169) extends COVID-era statutory relief for transit agencies through FY 2026-27, including:

- Relief from farebox recovery requirements needed to receive a full share of Transportation Development Act Local Transportation Fund revenues.

[1] The enacted budget provided a one-time $150 million General Fund appropriation to 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 from $250 million to $100 million.

- Relief from the requirement that agencies maintain operating cost per revenue vehicle to use State Transit Assistance (STA) funds for operations.

Unlike prior years, the trailer bill does not include a hold harmless provision for STA revenue-based calculations. MTC staff estimate that overall, the impact is minimal to the Bay Area – Bay Area's statewide share of STA revenues is projected to decline from 54% to 52% - but there are significant individual operator swings. BART and Muni are projected to experience the largest reductions, while Caltrain and Golden Gate Transit are projected to receive significant increases.

Other transportation provisions of note:
The budget appropriates $271 million for California Air Resources Board zero-emission vehicle incentive programs, $135.5 million for medium- and heavy-duty incentives (Clean Truck and Bus Voucher Incentive Project (HVIP) and $135.5 million for light-duty vehicle incentives ($115 million from GGRF; remaining from community air protection). The budget does not include additional funding for the State Route 37 Sears Point to Mare Island project.

Housing Funding and Policy Provisions

BAHFA Earmark

The budget included very few legislative earmarks, and the Bay Area Housing Finance Authority request was not among those funded. The August budget modifications and improved General Fund revenue picture creates an opportunity for the request to be funded in FY 2026-27. Staff are continuing to coordinate with regional partners to secure funding this year.

Traditional Housing and Homelessness Programs
The budget includes approximately $1.6 billion for core housing and homelessness programs:
- $500 million for the State Low-Income Housing Tax Credit (LIHTC), matching last year's funding level.
- $200 million for the Multifamily Housing Program (MHP), an increase over FY 2025-26 for this oversubscribed program.
- $900 million for the Homeless Housing, Assistance and Prevention (HHAP) Program, nearly double the amount committed for FY 2025-26.

Affordable Housing and Sustainable Communities
AB 179, the housing trailer bill, codifies the Governor's proposal to divide the AHSC Program into two allocations:

- A housing allocation, administered by the California Housing Finance Agency's new housing finance committee, to support affordable housing developments.
- A sustainable communities allocation, administered by the Strategic Growth Council, to support projects that reduce vehicle miles traveled, including transit, active transportation, complete streets, agricultural conservation easements, and Sustainable Communities Strategy implementation.

The funding split between the two allocations has not yet been determined.

Earlier this year, MTC-ABAG, together with the other “Big 4” metropolitan planning organizations (MPOs) and CALCOG, had been advocating that the sustainable communities allocation be distributed via formula to MPOs to fund a new Sustainable Communities Implementation Program. However, the detailed structure established in the housing trailer bill appears to foreclose that option for FY 2026-27.

Disaster Assistance for Homeowners

The budget provides $100 million for a new Disaster Rebuilding Fund to expand access to affordable construction financing for disaster-impacted homeowners. The proposal is intended to help address gaps between insurance proceeds and rebuilding costs, with a particular focus on communities affected by the 2025 Los Angeles wildfires.