PLATINUM | ADVISORS

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TO: Diane Shaw, President, AC Transit Board of Directors

Members of the AC Transit Board of Directors

Salvador Llamas, General Manager

Claudia Burgos, Executive Director of External Affairs & Customer Experience

FR: Steve Wallauch
Platinum Advisors

RE: Legislative Update

Session Status: The legislature adjourned for its Summer Recess on July 2nd and will not return until August 3rd. With the June 15th budget hurdle having been cleared, an agreement with the Governor was reached on June 26th, and the budget bill junior and nearly 20 budget trailer bills were heard in committee, approved by each house, and signed into law by the Governor before the end of the fiscal year.

June 25th was the deadline for the legislature to place measures on the November ballot. This is also the deadline for the legislature and initiative proponents to reach deals to remove a qualified measure from the November ballot. The legislature placed on the ballot a housing bond, and two Constitutional amendments that strengthen the Rainy-Day fund, and another that would require a 2/3 vote on citizen initiative tax measures.

While efforts were made to reach a deal on removing the Billionaire's Tax, those efforts failed. However, Uber and the trial attorneys did reach an agreement to remove Uber's initiative from the ballot and enact an agreement through legislation. The agreement would generally tighten restrictions on medical damage payouts, which was in Uber's initiative, and hold Uber to higher safety standards as demanded by the trial attorneys.

Budget, Check: The Senate and Assembly met the June 15th deadline by adopting AB 109 that outlined a $356 billion spending plan. This is $6.5 billion more than proposed in the Governor's May Revise. This is made possible by using the LAO's updated revenue forecast providing $5.5 billion more revenue available over the budget window.

With the AB 109 budget on the Governor's desk, negotiations between Governor Newsom, Senate Pro Tem Monique Limon and Speaker Rivas concluded on June 26th with an agreement on a $352 billion spending plan. This agreement provides for a balanced budget in 2026-27 and 2027-28 and reduces outyear deficits. The agreement also uses the lower revenue forecasts from the May Revise that are adjusted upward to include new revenues from new taxes contained in SB 122. While this budget does not restore as much funding for various health and social services programs as proposed by the legislature, it does try to blunt the impact federal funding cuts will have on local services.

The final plan includes an estimated $28.8 billion of reserves in 2026-27, including the rainy-day fund ($15.1 billion), the Proposition 98 reserve ($9.2 billion), and Specific Fund for Economic Uncertainties ($4.5 billion). In addition, $6.4 billion is deposited in 2026-27 to a separate special purpose reserve, the Projected Surplus Temporary Holding Account, in order to help balance the 2027-28 budget.

Transportation Trailer Bill: SB 169 is the vehicle to enact several statutory changes to transportation items. Under existing law several provisions in the Transportation Development Act (TDA) that subject transit operators to penalties if the operator fails to meet specified farebox and performance metrics have been suspended, but these suspensions are set to sunset this year.

Among the provisions in SB 169, the bill suspends penalties for one more year for not maintaining the prescribed ratio of fare revenues to operating costs on transit operators during the 2026-27 fiscal year and exempts transit operators from meeting specified efficiency standards through the 2026-27 fiscal year.

New Taxes: The legislature did approve two bills that would enact new taxes that were proposed by the Governor. These include extending existing business taxes, expanding the application of the sales tax, and revamping the existing health insurance tax. These measures include the following:

- SB 122 includes the Governor's proposal to extend the temporary business tax credit limitation through 2029 and impose a permanent tax credit limitation beginning in 2030. In addition, SB 122 would impose a digital software sales tax, and extend and update the existing tax on managed health care plans to preserve Medi-Cal funding in light of new federal requirements.
- Establishes a 100 percent tax on settlement fund payments received by taxpayers during the taxable years 2026 through 2029 from the Anti-Weaponization Fund established by the federal Department of Justice.
- Supplemental reporting language is included requiring the Administration to report back within a few years on the economic impact of the SB 122 proposals.

- AB 180 is another tax trailer bill that includes the following items and makes some technical corrections to SB 122.
    - Reduces, for the 2027, 2028, and 2029 tax years, the annual minimum franchise tax of $800 to $400 for limited liability companies doing business during the company's first taxable year.
    - Extends CalCompetes tax credits to recruit and retain businesses in the state through the 2034 taxable year.

    - Updates manufactured home limitations for the State Controller's property tax postponement program.
- The Legislature also plans to develop the Fair Share from Big Corporations Program proposal, which is intended to hold large employers accountable for employees on Medi-Cal. Options on how to implement the program would be considered during next year's budget process.

Still Not in the Budget, yet: While the bulk of the budget agreement is in place, there are, as usual, several items that will be addressed in future budget trailer bills. These items include the following:

- AB 109 does appropriate some cap & invest revenue to CalFire, the remaining funding allocations remain on hold. It is par for the course for cap & invest funding agreement to be pushed back to August, but this year these negotiations carry more weight considering CARB's actions. The negotiations over cap & invest funding will range from reversing or reducing the number of credits the CARB proposal eliminates to developing a new expenditure plan based on the amount of auction revenue available.
- While there has been significant opposition to the Governor's proposed Sustainable Aviation Fuel (SAF) tax credit proposal, it may still become part of the budget. This proposal would provide California producers of SAF a credit against the amount of diesel excise tax paid by the producer to deliver SAF in California. Providing an excise tax credit would reduce the amount of tax revenue available to the state and local governments for roadway repairs.

Executive Order on Transit: Governor Newsom recently issued an executive order aimed at accelerating transit projects and increasing transit ridership. The Executive Order tasks Caltrans and CalSTA with streamlining project delivery, integrating digital travel data, and removing administrative barriers. The directives in the order include the following:

- *Infrastructure Acceleration:* Caltrans must develop a statewide list of priority transit projects within 120 days and create standard plans to permit transit infrastructure on state highways.
- *Enhanced Agency Roles:* Caltrans is designated as a statewide "Mobility Manager" to unify trip planning, scheduling, and payment systems across various transit operators.
- *Environmental Review Streamlining:* State agencies must leverage recent CEQA updates and pursue federal NEPA assignment to expedite environmental clearances for transit and rail projects.
- *Funding Transparency:* Caltrans must build real-time digital dashboards to track grant applications, awards, and invoice processing times to ensure equitable funding access.

- *Data Integration:* The California Integrated Travel Project (Cal-ITP) must publish standardized data guidelines to seamlessly integrate different transit payment and information systems.
- *Support for Clean Energy & Housing:* The order allows zero-emission transit vehicles to utilize Caltrans airspace for charging infrastructure and prioritizes transit funding for jurisdictions with "Pro-Housing" designations.
- *First- and Last-Mile Connectivity:* Funding guidelines will be updated to prioritize pedestrian, cyclist, and wheelchair accessibility leading to bus and rail stops.

November Ballot: With the deadline to place or remove items on the November ballot having passed, there will be 14 statewide measures on the ballot. The following highlights some of those measures:

- *Special Taxes:* The Legislature placed ACA 22 (Wicks) on the ballot. This measure would raise the threshold for citizen-driven special tax ballot initiatives to pass from a simple majority to two-thirds. If approved this would apply to local measures placed on the ballot after January 1, 2027. The measure, placed on the ballot at the last minute by state lawmakers, reflects a deal state leaders struck with Howard Jarvis Taxpayers Association. The Jarvis backed measure would have applied to the 2/3 vote requirement retroactively.
- *Housing Bond:* This would allow the state to borrow a record $11.25 billion for affordable housing, with $10 billion to buy, build, rehabilitate and preserve affordable homes and $1.25 billion to help veterans buy homes.
- *Rainy-Day Fund:* ACA 20 was placed on the ballot to allow the state to deposit up to 20% of its general fund tax revenue into its rainy day fund each year, instead of the current 10%. The state could also spend some tax revenue to pay down its $20 billion federal unemployment insurance debt.
- *Expedited CEQA Review:* This initiative would amend the California Environmental Quality Act to create deadlines for environmental reviews of most housing, transportation, water, health, and clean energy projects to speed up permitting and limit the court’s ability to stop or delay developments.
- *Mortgage Loans:* This initiative would create a $25 billion mortgage loan program for home buyers who make less than 200% of the area median income. The measure would offer fixed-rate mortgages for up to 17% of the purchase price on homes priced under $1.5 million. Home buyers must pay at least 3% of their down payment.