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 will adjourn for its Summer Recess on July 2nd and will not return until August 3rd. With the June 15th budget hurdle having been cleared, the focus now is on meeting the policy committee hearing deadline on July 2nd. The deadline hearings are always long, but this year these agendas contain an unusually large number of "gut and amended" bills. This is likely the result of a lower bill limit, which has forced members to horde dead bills with the goal of breathing new life into them by amending them to include new proposals.

Also on the horizon is the June 25th deadline for the legislature to place measures on the November ballot. This is also the deadline for the legislature and initiative proponents reach deals to remove a qualified measure from the November ballot. The legislature does have plans to approve two proposals. One proposal is to place an affordable housing bond on the ballot. This will likely be AB 736 by Assemblymember Buffy Wicks. In addition, the legislature is expected to place a Constitutional amendment on the ballot that would increase the size of the Rainy-Day Fund reserve, and exempt deposits into the fund from the Gann Limit calculation.

So far only one agreement has been reached to remove an initiative from the ballot. Uber and the trial attorneys have reached an agreement to remove Uber's initiative from the ballot and enact an agreement through legislation. This would spare both Uber and the trial attorneys from a costly campaign, and the rest of us from endless television ads. 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 to adopt A budget. AB 109 includes 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.

The additional spending in the legislature's plan is the result of rejecting some proposed safety net cuts, such as the Governor's proposed cuts to the In-Home Supportive Services (IHSS) Program, and temporarily delays and reduces various other cuts enacted last year or imposed by the federal government. The legislative plan, like the Governor's May Revise, provides for a balanced budget in 2026-27 and 2027-28.

With the AB 109 budget on his desk, negotiations will heat up over the next week and half to reach an agreement between the Governor and the legislature. Governor Newsom has until June 29th to sign or veto AB 109. However, an agreement is expected to be reached in time to enact a spending plan by July 1st.

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:

- Adopts the Governor's proposals for the permanent credit limitation for business tax credits and applying sales tax on digital software products. Supplemental reporting language is included requiring the Administration to report back within a few years on the economic impact of these two proposals. This proposal is included in SB 122.

  The business tax proposal extends the existing three-year business tax credit cap for three additional years, until 2029. Generating about $7 billion in additional revenue. Starting in 2030, a new permanent cap would take effect.

- Adopts the Governor's proposal to revise and extend the Managed Care Organization (MCO) tax due to new requirements of H.R. 1 effective January 1, 2027. This proposal is contained in SB 125.
- The Legislature also plans to move forward with 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.
- 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 and other specified funds resulting from legal action as detailed in the bill.

- Reduces the annual minimum franchise tax for Limited Liability Companies, Limited partnerships, and limited liability partnerships from $800 to $400 for the first year of operation, during the 2027 through 2029 tax years.

Not in the Budget, yet: While AB 109 contains the bulk of the spending plan, 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.
- SB 125 from 2023 contained several provisions that froze STA allocations and exempted transit operators from various provisions of TDA law. A budget trailer bill is expected to extend the TDA exemptions, such as the fare box recovery requirement, but the freeze on STA allocations will sunset on July 1st. The main issue of negotiation is not whether to extend these items, but for how long.
- 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 a excise tax credit would reduce the amount of tax revenue available to the state and local governments for roadway repairs.