PLATINUM | ADVISORS

October 28, 2025

TO: Diane Shaw, President, AC Transit Board of Directors
Members of the AC Transit Board of Directors
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RE: Legislative Update

Fiscal Outlook: Revenues continue to exceed projections. In the month of September receipts of income taxes and corporation taxes exceeded projections for the month by $2.3 billion. For personal income taxes, September withholdings beat projections by $925 million, and September quarterly income tax payments were $1.2 billion higher than expected. For the fiscal year to date revenue is $3.8 billion higher than the June forecast. October receipts are also looking promising to date, with initial estimates exceeding projections by almost $2 billion. However, the LAO has released a couple of reports that raise concerns about future budget impacts.

The LAO released a report examining the outlook of the Medi-Cal program given the state's tightening fiscal outlook and changes at the federal level. Medi-Cal has grown to serve more than one-third of the state's population, with a total annual budget of $197 billion, with over half of the program federally funded. Implementing the changes enacted in HR 1 will result in billions in lost federal funding. An amount the state general fund could not absorb. How California implements the federal changes will determine how it will impact enrollees, hospitals, providers, state government, and counties.

In addition, the LAO released a report on the state's new "wall of debt." In its recent report analyzing the 2025-26 budget, the LAO points out how budget deficits over the past three years have been partially addressed through budgetary borrowing. In the current fiscal year, the budget uses various maneuvers that increase borrowing by $10 billion, increase the total borrowing over the last few years from $12 billion to $22 billion. While the state's cash reserves and rainy-day fund provide a significant cushion, these borrowing maneuvers place additional pressure on the state's budget and limit future flexibility. However, the state can always push back any repayment plan.

Pending Initiatives: With the enactment of SB 63, the effort to fund transit operations now shifts to the local level to gather the signatures to place this sales tax measure on the ballot through the initiative process. At the state level the initiative process is gearing up as we approach the 2026 election year. The following are several proposals that are in the preliminary stages of the initiative process.

CEQA Reform: The CalChamber that filed the ***Building an Affordable California*** initiative would streamline the review of essential projects under the California Environmental Quality Act (CEQA). This ballot measure is being cast as an effort to spur development and lower housing costs.

This measure pushes beyond legislation passed earlier this year and would streamline the entire CEQA process for "essential projects," arguing that the state's "outdated system" is "too slow, too bureaucratic, and too costly." The measure proposes a series of changes to streamline CEQA to cut red tape and limit lawsuits that the Chamber says unnecessarily delay projects deemed "essential" like affordable housing, clean energy, transportation, and wildfire resilience. It would create enforceable deadlines for review, giving government officials one year to approve or deny environmental impact reports, as well as measures to limit the effectiveness of "NIMBY" lawsuits.

CalChamber does not lack money and has a long history of involvement in ballot measure campaigns, although less commonly as the main proponents. Should it manage to assemble a coalition invested in reforming CEQA, a successful signature drive seems more likely than not.

Extending Prop 30: Labor groups will ask voters next year to renew and make permanent a tax on high earners. Voters originally approved Proposition 30, which raised income tax rates on those earning more than $250,000 per year, in 2012 and then extended the tax in 2016 through Proposition 55.

The tax, which brings in billions of dollars a year for schools and health care programs, is set to expire in 2030. That means the groups backing a renewal need to put it before voters in either 2026 or 2028 — and have decided now is the time to push "The California Children's Education and Health Care Protection Act of 2026."

The California Teachers Association and the SEIU, who helped fund earlier campaigns for the high-earners tax, are the major players backing this renewal proposal. But they will likely get support from the wide range of labor, health care and progressive interests that together put more than $50 million behind Prop 55.

Signature-gathering for the tax extension would likely begin just as the campaign for Prop 50 is ending. Given the organization and financial backing from these groups it is highly likely that it will qualify for the ballot. The open question is how the electorate will feel about big fiscal questions come November 2026. The last fiscal measure – Prop 1, the Behavioral Health Services Act, passed by just a sliver of a margin (**50.2%** to **49.8%**).

Chatbot Protections: Children's online safety advocates filed a ballot initiative to protect kids from AI chatbots and hold Big Tech accountable for any harm they cause. Spearheaded by Common Sense Media CEO Jim Steyer and former U.S. Surgeon General Vivek Murthy, this effort follows Governor Newsom's recent veto of a Steyer-backed bill by Assemblymember Bauer-Kahan. This bill proposed extending kids' chatbot safety, and also had the backing of California Attorney General Rob Bonta.

This initiative has foundation backing from deep-pocketed organizations, including the Gates Foundation and the Omidyar Network. Former Surgeon General Vivek Murthy recently joined Common Sense, after speaking out about kids' online safety while in the Biden administration.

The initiative will receive a title and summary from the California attorney general's office in the coming weeks before signature gathering can begin to place the measure on the ballot.

Save Prop 13: The Howard Jarvis Taxpayers Association (HJTA) wants to impose the two-thirds supermajority to pass revenue measures placed on the ballot by citizen initiative. The California Supreme Court's *Upland* decision clarified in 2017, that citizen initiatives were not covered under Prop 13's definition of "local government." Passage of this measure would have a devastating impact on SB 63.

Because voters originally passed Prop 13, and because the change to Prop 13 came via the state Supreme Court, further amendments to the constitutional language require voter approval. HJTA has drafted three separate versions with slight variations to test how state officials will summarize each one in an official ballot title and summary and plans to choose a version once the final title and summary is available later this month.

Its recent efforts to limit tax increases, most notably with the Taxpayer Protection Act — which the California Supreme Court deemed unconstitutional and booted off the 2024 ballot — have drawn staunch opposition from California's labor movement, among others. A new poll commissioned by Alliance for a Better California, a coalition of unions who opposed the 2024 measure, found 51% opposed this proposal, which underscores the challenges HJTA could face selling its new proposal to voters.

The most urgent question is whether the measure can make the 2026 ballot concerns funding, and whether HJTA can enlist a deep-pocketed organization like the California Business Roundtable to fund a petition drive. Unions are hoping dismal polling will help scare away potential backers from thinking of it as a worthy investment.