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PLATINUM | ADVISORS

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

Members of the AC Transit Board of Directors

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**RE: Legislative Update**

***The good news is over:*** Governor Newsom released the May Revision to the January budget, and as expected the news was not good. The General Fund deficit is currently calculated at $12 billion, and budget analysts warn it could swell to $20 billion-plus once federal funding decisions and sluggish 2025-26 revenues are booked. The May Revision lays out about $12 billion in corrective actions for 2025-26, split into Cost Reductions, Revenue Shifts & Borrowing, as well as Fund Shifts.

The shortfall reflects a potent mix of President Trump's blanket tariffs (the so-called "Trump slump"), an unanticipated $6.2 billion Medi-Cal overrun, and delayed income-tax payments from Los Angeles wildfire victims; together they have knocked the administration's January surplus projection on its head. The Legislative Analyst's Office concurs on the direction of travel, flagging "muted expectations" for 2025-26 revenue growth and the lowest consensus GDP outlook in Blue-Chip survey history.

Local governments already squeezed by homelessness, wildfire recovery and transit shortfalls—are lobbying hard for relief that the May Revise may be too cash-strapped to deliver. Los Angeles wants up to $1.9 billion for payroll backstops; the Bay Area is seeking a dedicated transit lifeline; and Newsom is floating a "model ordinance" that would tie future homelessness grants to local encampment bans. With one-third of the state budget riding on still-unsettled federal appropriations, both the Governor and Legislature are preparing for trailer-bill clean-up sessions well past the June 15 deadline—and perhaps a special session this fall—before the real contours of the 2025-26 budget are known.

***Trump Slump:*** The May Revision bakes in a *net* loss of $16 billion in General-Fund revenue for FY 25-26 and FY 26-27 that the Department of Finance attributes almost entirely to President Trump's tariff regime and related policy volatility.

Newsom argued that tariffs have created a “climate of deep uncertainty,” chilling investment and driving the ten-trillion-dollar equity swing that feeds directly into California’s highly volatile capital-gains base. He framed the downturn as a “Trump slump” that reversed a $7.9 billion revenue upswing the state was enjoying as recently as April.

Because 40 percent of all U.S. containerized cargo passes through the LA/Long Beach complex, the Governor noted that volume there is already down 30–35 percent, with similar stress at Oakland and other ports. One in five Southern California firms is trade-connected, so ripple effects land quickly on trucking, warehousing, and retail (e.g., Walmart suppliers, fleet operators, chassis-leasing companies).

Newsom reminded reporters that California has sued the federal government over the tariffs and is courting foreign partners to insulate supply chains. Crucially for budget watchers, the administration has *embedded* the tariff impact in its multiyear forecast, meaning any easing of federal trade tensions would convert directly into upside revenue revisions. Platinum will be monitoring both court calendars and Capitol-Hill negotiations; even minor tariff roll-backs could reopen room for legislative restorations in June’s final budget deal.

**Cap & ~~Trade~~ Invest Showdown:** With the May Revise, Governor Newsom placed his marker on the direction he wants the extension of the now called cap & invest program to go. Newsom propose a 15-year extension—and rebranding—of the cap-and-trade program to “cap-and-invest”. Moving the sunset date to 2045 is in line with the state’s goal of becoming carbon neutral. With this extension, he proposes to guarantee $1 billion a year of auction revenue for high-speed rail, replacing the current 25 percent carve-out. In addition, he proposes, starting with the 2025-26 fiscal year, to siphon $1.5 billion from auction revenue to backfill Cal Fire. The diversion to Cal Fire would grow to $1.9 billion over the next few years. These two items would account for about ¾ of the annual auction proceeds.

As lawmakers press for $2 billion to rescue transit operators, the Governor ups the pressure on the legislature by eliminating nearly $1 billion in cap & invest funding from transit programs and other zero emission vehicle programs. The May Revise proposed to eliminate $560 million in auction proceeds for the Low Carbon Transit Operations Program (LCTOP) and the Transit Intercity Rail and Capital Program (TIRCP). The May Revise would eliminate $700 million in out-year funding for the Zero-Emission Transit Capital Program (ZETCP) beginning in 2026-27 through 2027-28. The May Revise also eliminates $465 million proposed for CARB administered programs, including commercial harbor craft projects, funding for zero emission drayage trucks, and the Charge Ahead California Initiative, among others.

The details of this proposal remain a little murky. At budget hearings today, Department of Finance staff stated the funding for highspeed rail is merely the Governor’s intent and is not reflected in actual budget amendments, while the diversion of funds to Cal Fire is baked into the budget. Also, while the budget letters propose stripping the funds from LCTOP and TIRCP, the May Revise does not contain any statutory language to repeal the allocation of funds to these programs. While the Governor's Office has stated its intent to fund transit, it is clear they want a significant overhaul on how cap & invest funds are allocated, and they are leaving it to the legislature to fight for transit funding. This just marks the beginning of negotiations for a new cap & invest allocation plan.

## Transportation Funding

- **The Governor preserves the big January promise:** The May Revise preserves the $1 billion for Formula Transit & Intercity Rail Capital Program (TIRCP) funds in 2025-26. This would bring the total allocated under the SB 125 agreement to $4.41 billion of the total of $5.1 billion. Unfortunately, the May Revise does not recognize the legislative effort to secure $2 billion for transit operations.

- **Active Transportation takes the hit:** Bike-ped and Safe-Routes projects will receive $650 million in 25-26. This reflects a loss of $400 million in '25-26 and $99 million in '26-27, the largest direct reduction in the transportation portfolio.

- **Special Events:** The only new expenditure is a $17.6 million appropriation from the State Highway Account to support transportation planning for the 2028 Olympic Games. The funds would be used for route-network planning tied to the 2028 Los Angeles Olympics. The Revise also directs Caltrans and Cal OES to marshal resources for the 2026 FIFA World Cup host cities. These early dollars signal upcoming procurements for traffic management, way-finding, and last-mile improvements.

- **A stable spigot for High-Speed Rail:** Extending—and rebranding—Cap-and-Trade to "Cap-and-Invest" through 2045 would provide $1 billion a year for the California High-Speed Rail Authority, replacing today's 25 percent carve-out with a fixed floor. That steady stream is designed to attract private capital and bigger federal matches, accelerating work in the Central Valley and toward the Bay Area.

***Legislation:*** The first major deadline was May 2nd where all bills with a fiscal impact must be moved out of policy committees. The deadline for policy committees to hear all nonfiscal bills quickly followed on May 9th. The last day for policy committees to meet prior to June 9th is May 16th. Now, this is the legislature and there are exceptions to every rule and waivers for almost any deadline, for example policy committee hearing deadlines do not apply to urgency measures or tax measures.

Once bills are weeded out by the Senate and Assembly Appropriations Committees, the house of origin deadline is June 6th. The Senate and Assembly Appropriations Committees are expected to take action on a very lengthy list of Suspense File items on May 23rd.

*<u>Transit Funding:</u>* SB 63 is in Senate Appropriations where it has been placed on the Suspense File. However, SB 63 will not be held on the Suspense File.

SB 63 would authorize a 10- to 15-year regional public transportation operations sales tax measure on the November 2026 ballot in the Counties of Alameda, Contra Costa, and San Francisco, with the option for the Counties of San Mateo and Santa Clara to be added.

The Board will be considering changing its position from Watch to Support & Seek Amendments. Senator Arreguin has expressed his support in ensuring AC Transit receives an equitable share of funds and that the proposed amendments will be thoughtfully considered. The changes proposed by AC Transit include the following:

- Seeking an equitable allocation of funds and providing direction that the allocation of revenue should, at a minimum, proportionally address the operating deficit of each specified operator.
- Create a distinct governing body that includes MTC governing board members who represent the counties covered by the special district and representatives from transit operators and county transportation authorities.
- Protect transit operators from the costs associated with mitigating the impacts identified in a Title VI review for programs or projects specified in the 2021 Bay Area Transit Transformation Action.
- Add language building a stronger partnership between transit operators and MTC by codifying the Regional Network Management Council.
- Address issues of accountability with respect implementing SB 63

While there remain missing pieces, SB 63 is moving forward as negotiations continue. The Senate Transportation and the Revenue & Taxation Committee approved SB 63., and amendments were taken in both committees. The amendments include the following changes:

- Strike language relating to the Transit Operations Financial Responsibility and Implementation Plan.
- Clarify that the provisions of the title only apply to the counties identified in the creation of the Transportation Revenue Measure District.
- Direct MTC to report to the Legislature by March 31, 2026 on its forecast of the impacts to ridership on AC Transit, BART, Caltrain, and Muni from planned transportation projects and strategies included in its adopted regional transportation plan, with an emphasis on rail connectivity projects that may increase ridership, reduce operating costs, or help with enhanced mobility.
- Adds a legislative finding and declaration that "the San Francisco Bay Area also needs to prioritize increasing ridership to ensure the region's transit network is sustainable."

***SB 79 (Wiener):*** SB 79 was approved by the Senate Housing Committee over the objections of the chair, Senator Aisha Wahab, and it was approved by the Seante Local

Government Committee over the objections of its chair. The intent of SB 79 is to promote housing and mixed-use development projects near transit services, particularly on parcels owned or controlled by a transit operator. The bill was amended to apply only to parcels near rail service and bus rapid transit corridors.

The goal is to not only promote housing near transit but also create a mechanism for these development projects to generate revenue for transit operators. The size and density of these development projects depends on the type of transit service located within ¼ mile of the project site.

As amended, SB 79 would:

- Upzone near rail and bus rapid transit stations: allow buildings up to seven stories high within a quarter mile from major transit stops and up to four stories high within a half-mile;
- Allow transit agencies to set their own zoning standards for properties they own near rail and bus rapid transit stations,
- Speed up the permitting process for projects within a half-mile from rail and bus rapid transit stations transit stops.

SB 79 also includes provisions that expand the definition of "agency's use" within the Surplus Lands Act to include land leased to support public transit operations. The bill also exempts from CEQA any public or private residential, commercial, or mixed-used project located entirely or principally on land a public transit agency owns.