

Dodd & Chabaan Strategies, LLC

Government and legislative Affairs

February 13, 2026

MEMORANDUM

To: Jamar Stamps

From: Mark Watts
Senior Adviser & Advocate

Subject: **February Report, Budget & Administrative Updates**

I am pleased to provide the following report on recent legislative advocacy and other legislative and administrative updates. I supplemented the core information about the January 10 State Budget with a more comprehensive overview of the state budget information for transportation entities.

Legislature

February 20, 2026, is the legislative deadline for the introduction of legislative bills for the coming 2026 Session Year. Staff and consultant have worked closely with the delegation and a measure to increase allocations of state fuel tax revenues to smaller cities is near ready for introduction.

State Budget, Additional transportation information

The Governor did release his 2026-27 State Budget proposal on Friday January 9, 2026. In spite of the ongoing reports by the Legislative Analyst Office (LAO) of a continuing underlying, structural budget deficit his State of the State address provided a preview that the new budget reflected an increase of more than \$40 billion in available revenues; this will lead to a state General Fund budget in excess of \$248 billion.

Overview

Governor Newsom released his proposed 2026-27 budget on January 9, 2026, featuring these highlights:

- ⇒ Proposes a \$348.9 billion balanced budget for the 2026-27 fiscal year, supported by stronger-than-anticipated cash receipts and an estimated improved economic outlook. That compares to a \$321.1 billion budget that was previously approved in 2025-26.

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- ⇒ Reflects more than \$42 billion in additional General Fund revenue over the three-year budget window (2024-25 through 2026-27) compared to last year's enacted budget
- ⇒ The Budget is balanced in the 2026-27 fiscal year, with a discretionary reserve of \$4.5 billion (and total reserves of \$23 billion) with a projected deficit of roughly \$22 billion in the 2027-28 fiscal year and shortfalls in the two years following.

Transportation Element

- ⇒ The overall transportation budget is proposed at \$18.6 billion, including GF, Special Fund and Bonds, which a reduction from \$19.8 billion approved in the 2025-26 and 2024-25 budgets.
- ⇒ Funding for the State Transportation Agency budget decreases from \$764 million in 2025-26 to \$455 million in 2026-27.
 - Cap and Invest/GGRF – Reserves \$125 million for free transit passes for expenditures in SB840 (2025)
 - Transportation One Time Allocations - The Budget maintains the entirety of the one-time transportation investments included in the **2025 Budget Act, totaling \$14.6 billion.**
 - Bay Area Transit Loan—Pursuant to Control Section 91.00 of the 2025 Budget Act, the 2026-27 proposed budget calls for statutory changes to authorize the Metropolitan Transportation Commission (MTC) to provide short-term loans to transit agencies facing cash flow challenges, preserving essential services for Bay Area riders.

Deeper Dive into the Transportation Elements and their impacts

- *Zero Emission Transit Capital Program:* Based on initial review of the budget, it appears that the budget leaves out \$230 million in Zero Emission Transit Capital Funds that were expected next year. It is unclear whether the Administration plans to shift this commitment to a future fiscal year.
- *State Transit Assistance:* Funding for the base amount of STA in 2026-27 is projected to be \$858 million. This is a little over \$30 million less than the current year, likely due to lower fuel prices. In addition, Low Carbon Transit Operations Program (LCTOP) is forecast to total only \$142 million. The LCTOP is funded by cap & invest auction revenue and is statutorily pegged at \$200 million, unless auction revenue falls short.