KHOURI CONSULTING

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TO: Board Members, Madera County Transportation Commission

FROM: Gus Khouri, President
Mitch Weiss, Legislative Advocate
Khouri Consulting LLC

RE: STATE LEGISLATIVE UPDATE – 2026 STATE LEGISLATIVE PROGRAM DRAFT SUMMARY

2026 Outlook
The legislature reconvened on January 5 from the Winter Recess. While the legislature helped resolve the uncertainty of the continuation of the Cap and Trade, now rebranded as the Cap and Invest Program, the legislature will face complex challenges in 2026. Senator Monique Limón (D- Santa Barbara), who was nominated on November 17 to be the next Senate President pro Tempore of the Senate, was sworn in on January 5.

State Budget Forecast
On November 19, the Legislative Analyst's Office (LAO) released its 2026-27 Fiscal Outlook, which estimates an $18 billion General Fund shortfall. While revenues are projected to be up by $11 billion between FY 24-25 and FY 26-27, constitutional requirements to fulfill education spending, which has a higher floor each year, and debt service, nearly wipe out the gain ($10 billion). Increased costs for pensions, Medi-Cal, and Corrections have added $6 billion.

The state's reliance on volatile revenue sources such as capital gains, corporate, and personal income taxes results in wild swings. In the past three years, the legislature has had to solve deficits of $27 billion in FY 23-24, $55 billion in FY 24-25, and $43 billion in FY 25-26. This contrasts with a $97.5 billion surplus in FY 22-23 and $76 billion surplus in FY 21-22. The LAO estimates a $15 billion to $25 billion structural deficit through FY 28-29.

On January 9, Governor Newsom released his proposed FY 2026-27 State Budget. The 2026-27 Budget, which includes $348.9 billion in General Fund spending and $23 billion in reserves, is projected to result in a $2.9 billion deficit. This is in stark contrast to the LAO's 2026-27 Fiscal Outlook, which estimates an $18 billion General Fund shortfall. The difference is the Governor's Budget forecast reflects General Fund revenues that are more than $42 billion higher over the budget window ($31 billion more than the LAO projected due), from 2024-25 through 2026-27, than projected at the 2025 Budget Act—an increase driven by higher cash receipts, higher stock market levels, and an improved economic outlook rather than the LAO's conservative approach that capital gains revenues will regress by 20 percent, which the Governor does not factor. The Governor estimates a deficit of roughly $22 billion in the 2027-28 fiscal year and shortfalls in the two years following.

Impact on Transportation

There are no changes to funding for transportation programs, which are predominantly reliant on special funds such as the gas tax, vehicle registration fees, or cap-and-invest auction proceeds. It remains to be seen if the legislature can fulfill its obligation to fully allocate the remaining balance of SB 125 funding for transit capital and operations. That will be contingent upon the accrual of Cap and Invest auction proceeds, which have come in more than $350 million below expectations through the past two auctions. There is not much, if any, capacity within the $1 billion legislative appropriation bucket, due to $250 million in various commitments. The budget act also requires the Greenhouse Gas Reduction Fund (GGRF) to absorb Cal Fire expenses that were borne by the General Fund, including $1.25 billion in FY 26-27, $500 million in FY 27-28, and $500 million in FY 28-29.

MCTC 2026 Draft State Legislative Platform Summary

MCTC annually adopts a state legislative platform that outlines its priorities, enabling legislative and regulatory advocacy to aggressively pursue or protect state resources, and to support or oppose legislation or regulations that serve the interests of county residents. This summary provides context for the draft 2026 State Legislative platform, including opportunities and threats we will navigate this year.

1. Acquiring Funding for Priority Projects

MCTC's primary objective has been to obtain funding to enhance safety on Highways 41, 99, and 233, as well as to implement multimodal improvements to enhance transit and active transportation.

Opportunities will be contingent upon the availability of state funding, which has been in decline or constrained, with the reliance on gas tax revenue, and the reorientation of an extended Cap and Invest Program that deprioritizes transit and absorbs General Fund obligations.

It is imperative that a successor to the gas tax and the diesel sales tax be enacted as soon as possible to fund highway safety projects, local streets and roads, transit, passenger rail, and active transportation.

Road User Charge – Gas Tax Successor Source

Gas tax, the primary source of transportation funding, is declining in revenue due to increased fuel efficiency. In 2014, the Legislature initiated a pilot program (SB 1077) to study a road charge model as a potential replacement for the gas tax. Due to the limited number of participants from rural and low-income areas, more work is needed to recommend an appropriate charge rate. A recent pilot was tested at 2.5 cents per mile. Issues for implementation include protecting privacy relating to data collection, enforcement, and compliance. There are concerns about equity and affordability, particularly in less densely populated areas where the jobs-housing imbalance is more pronounced, forcing people to drive farther to access work, goods, and services.

In 2017, SB 1 increased the gas tax, indexed it to inflation, and enacted other funding increases for transportation. SB 1 has delayed action on landing on a solution to the waning gas tax income, but the problem of finding a replacement for the gas tax as the primary source of transportation funding may come to the forefront soon due to the drop in revenue. The Legislative Analyst's Office (LAO) estimates the state will experience a $5 billion reduction in funding over the next decade. The (LAO) report projects declines of $5 billion, or 64%, in the state's gasoline excise tax, $290 million, or 20%, in the diesel excise tax, and $420 million, or 20%, in the diesel sales tax, over the next decade.

For 2026, MCTC has approximately $4.5 million in programming capacity in State Transportation Improvement Program (STIP) funds, a flexible, formula-based funding source that can be used for local streets and roads, highways, mass transit guideways, and active transportation. The STIP would be compromised without a solution to the gas tax funding source. Each city and county would see a reduction in funding for local streets and roads, as would Caltrans for maintaining the state highway system and transit agencies for transit capital and operations, due to a decline in diesel sales tax revenue. The objective is complete work between Avenues 7 and 12 on State Route 99.

<u>Conversion to a Vehicle Registration Fee is a Viable Solution</u>
The Vehicle Registration Fee (VRF) is agnostic to fuel source, fuel economy, and travel patterns, protecting privacy and providing a stable, predictable, and growing source of funding. Even with indexing to inflation, as cars depreciate, car owners would pay less. It is possible that the State could convert entirely to a vehicle registration fee, eliminate the state gas tax (currently 61.2 cents per gallon), and reduce the Road Improvement Fee (RIF), which is a fee collected on electric vehicles.

California has over 32 million registered vehicles, and electric vehicles make up less than 3.4% of that amount (1 million). In 2024, the New Car Dealers Association reported that 1.75 million vehicles were sold statewide, with almost 400,000 of those being electric vehicles, roughly one in every four vehicles sold. Even when considering Governor Newsom's Executive Order N-79-20, which requires that all cars manufactured in the state be electric vehicles by 2035, it would take over 18 years to fully convert to an all-electric vehicle fleet, and this is before considering the removal of federal rebates and incentives for electric vehicles, which could further stagnate conversion.

Car owners statewide could save between 77% and 87% if the State fully converted to a VRF system rather than the current VRF and gas tax. On average, each registered driver statewide pays about $292 or $261 in gas tax per registered vehicle annually.

The legislature will continue to conduct information hearings to discuss options. Assembly Transportation Committee Chair Lori Wilson has indicated her intention to use AB 1421 as the vehicle for a gas tax replacement mechanism.

2. Leverage Regional Partnerships
MCTC is a regional transportation planning agency and metropolitan planning organization, supported by a local sales tax dedicated to transportation purposes. As a result, it is a member of coalitions such as the California Association of Councils of Governments (CALCOG) and the Self-Help Counties Coalition, which help coordinate with MCTC on priority issues relating to air quality, housing, and transportation. MCTC is also a member of the San Joaquin Valley Regional Policy Council, which focuses on air quality, housing, and improvements to transportation infrastructure, such as Highway 99 and other key arterials that accommodate goods movement and tourism. Remaining competitive for state grant opportunities is imperative, but that objective is becoming increasingly complex as state mandates to limit greenhouse gas emissions and vehicle miles traveled become more stringent. MCTC will work with the Policy Council and other stakeholders to maintain our competitiveness for state funding.

3. Enhance Transit Service

Transit has faced challenges since the COVID-19 pandemic. However, many systems have recovered to pre-pandemic levels, but most struggle due to funding declines and uncertainty. Transit predominantly relies on the ¼-cent provided through the Transportation Development Act and the State Transit Assistance program, funded by a portion of the diesel sales tax, and Cap and Invest auction proceeds. Cap and Invest has been recast to cap transit funding as a low-line-item priority contingent upon available funding, rather than its previous treatment of receiving 15% of all auction proceeds. The legislature is struggling to honor a rare one-time commitment made during FY 22-23 through SB 125, when the State was enjoying a General Fund surplus for operations and capital needs.

Cap and Invest Program Allocations – Complexity in Keeping Commitments to Transit

On September 13, the legislature approved AB 1207 and SB 840, which comprise the package to extend and fund the Cap-and-Trade Program, now rebranded as Cap and Invest.

AB 1207 (Irwin) extends the Cap and Invest program through 2045 and reforms the use and accountability of auction credits. It also provides greater oversight on the California Air Resources Board (CARB), which would have to appear before the legislature to discuss the administration of the program.

SB 840 (Limón) establishes a new structure for allocating the Greenhouse Gas Reduction Fund (GGRF) beginning with the 2026-27 fiscal year, including $1 billion for high-speed rail, $1 billion reserved for discretionary appropriation, $1.85 billion in commitments to other major categories consistent with previous appropriations, and $125 million in new funding for free transit passes and $250 million in financial incentives for local air districts to fund community emissions reduction programs. Legislative or regulatory direction will be needed to administer the $125 million in funding made available for a new free transit pass program. It is uncertain whether funds will be available on a formulaic or competitive basis, and what the award cap would be.

There is not much, if any, capacity within the $1 billion legislative appropriation bucket, due to $250 million in various commitments. The budget act also requires the Greenhouse Gas Reduction Fund (GGRF) to absorb Cal Fire expenses that were borne by the General Fund, including $1.25 billion in FY 26-27, $500 million in FY 27-28, and $500 million in FY 28-29. The GGRF contribution would be reduced to $500 million if the General Fund were not in deficit, but a $18 billion deficit is expected.

TIRCP and LCTOP are provided with a ceiling of funding ($400M and $200M, respectively, which is approximately the 10% and 5% each program receives through the existing continuous appropriation. By having line items, TIRCP and LCTOP have a ceiling but no floor, based on available revenue.

Impact on MCTC

There is an outstanding balance of prior commitments, such as the Zero Emission Transit Capital Program ($690 million combined in FY 26-27 and FY 27-28), and $388 million for SB 125 formula-based TIRCP ($188 million) and competitive funds ($200 million for Cycle 6 and 7) through FY 2026-27, that are not itemized, but can be honored through legislative appropriation or through the excess balance of funds that materialize through auctions. MCTC has not received its full share of the $18.8 million allocated under SB 125, Chapter 54, Statutes of 2023.

In September, the Department of Finance (DOF) estimated that auction proceeds should generate $4.2B for FY 26-27, down from $4.4B in FY 24-25. With all the prescriptive line items, if the DOF estimate holds, it would leave around $107M unprogrammed for any purpose. This is the balance of funding that they would use to pay down the previous SB 125 and TIRCP Cycle 6 and 7 commitments. If revenue exceeds $4.2 billion, the legislature can augment any program or even accelerate the SB 125 and TIRCP Cycle 6 and 7 competitive grant commitments.

As the legislature deliberated on the Cap and Invest extension, there was a prevailing view that higher-than-projected revenues could materialize with an extension and market stability, providing an opportunity to supplement funding for transit capital and operations, including passenger rail.

However, the Department of Finance estimated in September that Cap and Invest revenues for FY 2026-27 would be $4.2 billion, down from the $4.4 billion realized in FY 2025-26. The reduced forecast is due to a steep decline in auction proceeds following an underwhelming June auction. A recent auction in November resulted in $150 million fewer credits being sold than in November 2024. If the market does not rebound, meeting current obligations for transit capital and operations will be difficult.

MCTC will aggressively pursue the full balance of SB 125 funds and advocate for any excess revenues generated by the Cap and Invest program to augment transit capital and operations needs and push for excess auction proceeds to supplement transit needs.

4. Addressing Mobility and Meeting Climate Change Mandates

Metropolitan planning organizations, such as MCTC, must prepare a sustainable communities strategy to be eligible to access state grant funding opportunities. The SCS is a document that details how a region intends to create livable communities by addressing housing needs, reducing miles traveled, and greenhouse gas emissions. The California Air Resources Board, which approves the plans, has become more stringent in its approval process due to ever-changing greenhouse gas reduction targets that do not correlate with a region's density, demographics, or travel patterns. MCTC must be able to access SB 1 competitive grant funding to address multimodal needs and safety projects on the state highway system, particularly Highway 99, which accommodates national goods movement and tourism. Madera County's low population density, socio-economic status, geography, and its role in accommodating traffic from other parts of the state and nation must be factored into equitable expectations.

In coordination with CALCOG and the Policy Council, MCTC has been advocating for greater flexibility and the elimination of duplicative processes in complying with state air quality standards, so that solutions account for Madera County's population density, vehicle miles traveled, and housing reflect a region's geography, demographics, travel patterns, and availability of alternative modes.

5. Expand Passenger Rail Service

MCTC advocated for extending the Cap-and-Trade program, now rebranded as Cap and Invest, and supported $1 billion for high-speed rail to ensure sufficient funding to complete its initial operating segment and stations, such as the one planned for the City of Madera. Investments in passenger rail service significantly help mobility, ease highway congestion, and achieve greenhouse gas emission reduction goals. MCTC will work cooperatively with CalSTA, Caltrans Division of Rail, Amtrak, CTC, LOSSAN, ACE, San Joaquins, and Union Pacific Railroad to expand passenger rail service to accommodate for Madera County residents.