



May 19, 2025

To: James Corless, Executive Director, Sacramento Area Council of Governments

From: Chris Lee, Partner, Politico Group  
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**Re: May State Advocacy Report – Legislative & Budget Updates**

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Politico Group is pleased to provide the following report to the Sacramento Area Council of Governments on recent advocacy activities, as well as state legislative and budget updates.

## May Advocacy Update

Following the May 2<sup>nd</sup> deadline for policy committees to report bills with a fiscal impact, the Legislature's attention turned to the Appropriations Committees, which must approve fiscal bills by May 23<sup>rd</sup>. The Legislature has also started its review of the Governor's proposed May Revision to the 2025-26 state budget, discussed in detail below.

In May, Politico Group continued to work with SACOG staff to improve legislation and proposed budget trailer bill language that would create opportunities to mitigate the vehicle miles travelled (VMT) impacts of projects, with a focus on ensuring that available mitigation funding aligns with on-the-ground realities and priorities in the SACOG region. We also worked with SACOG and the California Council of Governments to propose amendments to legislative language that would provide the Department of Housing and Community Development with greater authority over the methodology used to develop the Regional Housing Needs Allocation.

## State Budget Updates

### Governor's 2025-26 May Revision

Governor Newsom began his May 14 press conference announcing the 2025-26 May Revision by highlighting California's status as 4<sup>th</sup> largest economy in the world and criticizing President Trump for economic policies that are hurting California and causing significant uncertainty for lawmakers as they try to finalize a spending plan before the June 15 constitutional deadline. While revenues are up \$7.9 billion over January Budget projections, those revenues are associated with economic activity in 2024. The Department of Finance (DOF) is projecting a \$16 billion decline in revenue in 2025-26, of which \$10 billion is attributed to reduced capital gains, \$2.5 billion to weaker corporate tax profits, \$2 billion to lower wages/income tax withholding, and \$1.5 billion to reduced personal income tax revenue.

The Governor's May Revision balances the \$321.9 billion FY 2025-26 budget and addresses a \$12 billion budget problem through \$5 billion in reductions, \$5.3 billion in borrowing, and \$1.7 billion in fund shifts—primarily from Cap-and-Trade auction revenues. The May Revision also acknowledges the use of \$7.1 billion in state budget reserve funds pursuant to an agreement with the Legislature to balance last year's budget. An overwhelming majority of the budget solutions are in the state's health and human services programs, including freezing the enrollment of undocumented adults in Medi-Cal.

### ***Cap-and-Trade Extension to 2045***

As expected, the May Revision confirmed the Governor's commitment to extending the state's Cap-and-Trade program this year. Accompanying trailer bill language would rename the program "Cap-and-Invest" and extend the program through 2045. The Governor is also proposing changes to expenditures from the Greenhouse Gas Reduction Fund (GGRF), tapping the GGRF to address General Fund shortfalls through a shift of \$1.54 billion in GGRF to backfill General Fund support for CalFire's fire prevention, fire control, and other related forest resources management activities. This is an ongoing, annual diversion, which would increase to \$1.9 billion by 2028-29.

The May Revision also states Governor Newsom's intent to work with the Legislature to design an expenditure plan while also signaling at least one additional Cap-and-Invest priority of his own – raising the annual funding amount for the High-Speed Rail (HSR) project. Currently, the HSR project receives 25% of GGRF revenue which fluctuates year-over-year. The May Revision proposes a floor for GGRF allocations to HSR of \$1 billion annually, regardless of overall auction proceeds. which will have an impact on the availability of funding for other carbon reducing programs.

Since the inception of the Cap-and-Trade program in the fiscal year 2012-13, funding generated from a 25% share of GGRF revenues has ranged from a low of \$61 million in the first year to a high of \$1.28 billion in 2023-24. The HSR project has received GGRF allocations greater than \$1 billion in each of the last three fiscal years. As a reminder, in addition to HSR, the following programs receive ongoing percentage-based allocations of GGRF revenues under existing law:

- Affordable Housing and Sustainable Communities (20%)
- Transit and Intercity Rail Capitol Program (10%)
- Low Carbon Transit Operations Program (5%)
- Safe and Affordable Drinking Water (5%)

Continued funding for these programs could be in doubt under the proposed May Revision allocations to HSR and CalFire wildfire and forest resiliency programs.

### ***Transportation Budget Proposals***

The May Revision proposes \$17.6 million one-time from the State Highway Account to support the 2028 Olympic and Paralympic Game in Los Angeles, including facility development, ongoing planning efforts, and work on the Games Route Network project.

The May Revision does not make any other transportation funding related proposals, including the Budget Act of 2023's Transportation Package that included significant support from the General Fund for transit programs, although the Governor's proposed expenditures from the Greenhouse Gas Reduction Fund (discussed above) could have implications on funding available to transit operators under SB 125 (Committee on Budget, 2023), including the Zero Emission Transit Capital Program, which allows operators to flex capital funding to support transit operations, as well as other transportation and transit funding.

### ***Housing and Homelessness Budget Proposals***

Consistent with the Governor's January Budget proposal, the May Revision does not propose extending the Homeless Housing, Assistance and Prevention (HHAP) program into 2025-26. Unlike prior budget

summaries, it also does not include a discussion about working with the Legislature to extend the funding with additional accountability policies. Instead, the May Revision focuses on the proposed establishment of the new California Housing and Homelessness Agency responsible for coordinating state housing and homelessness efforts.

On the housing front, the May Revision reverts \$31.7 million in unexpended General Fund for the Infill Infrastructure Grant Catalytic Program, the Commercial Property Pilot Program, and the 2021 Infill Infrastructure Grant Program from a total of \$506.4 million appropriated for these programs in the 2021, 2022, and 2023 Budget Acts.

### ***Housing and Infrastructure Bond***

The May Revision indicates Governor's support for a potential statewide housing bond measure, although with additional investments in broader types of infrastructure. Assembly Member Wicks and Senator Cabaldon have introduced nearly identical \$10 billion housing bond measures, AB 736 and SB 417. While both bond bills include allocations for HCD's Infill Infrastructure Grant Program of 2019, which funds a broad array of infrastructure improvements necessary to build affordable housing, the measures are predominantly focused on housing.

### ***Climate-Aligned Housing Policy Reforms***

The May Revision states the Administration's intent to work with the Legislature to include legislation in the budget that advances climate-friendly housing production. During his press conference, the Governor specifically mentioned working with Senate Budget Chair Wiener and Assemblymember Wicks to advance CEQA streamlining. The two legislators have introduced SB 607 and AB 609, respectively, which make several changes to expedite or eliminate environmental review, including broad exemptions from CEQA for qualifying infill housing projects. In addition, the May Revision includes the following specific trailer bill provisions related to housing and land use:

- Eliminates the exception in the Permit Streamlining Act for the Coastal Commission, thereby subjecting the Commission to the same timelines for discretionary land use approvals that apply to local governments and other state agencies.
- Removes the \$100 million cap on housing development projects under the "Jobs and Economic Improvement Through Environmental Leadership Act of 202," which allows qualifying projects to receive the streamlined administrative and judicial review under CEQA. The trailer bill also allows projects that demonstrate consistency with the Air Resources Board's scoping plan to use this authority, even if the project will result in a net increase in greenhouse gas emissions.
- Authorizes the Governor's Office of Land Use and Climate Innovation (LCI) to develop uniform standards for the submission of General Plan Annual Reports by cities and counties. In recent years, the portion of the Annual Report related to housing and submitted to HCD has grown in scope and complexity, due to similar legislative requirements.
- Requires the development of a Vehicle Miles Travelled (VMT) mitigation banking program under the auspices of LCI with funding flowing to the HCD Transit-Oriented Development Implementation Program (see discussion below).

## Legislative Updates

Following review by policy committees, bills introduced in 2025 face a May 23 deadline to advance from the Appropriations Committee and a June 6 deadline to be approved by their house of origin. Key bills related to SACOG with major activity in May include the following:

### **AB 1244 (Wicks) Vehicle Miles Traveled Mitigation Banking & Related Budget Trailer Bill**

As amended on April 23, this bill would allow project applicants to satisfy vehicle miles travelled (VMT) mitigation requirements under CEQA by electing to contribute to the Department of Housing and Community Development's (HCD's) Transit-Oriented Development Implementation Program (TOD Program), which funds affordable housing development near qualifying transit stations. The April 23 amendments require HCD to confirm and report VMT reductions attributed to the projects and claimed by donor projects and require the Governor's Office of Land Use and Climate Innovation (LCI) to determine appropriate mitigation funding amounts and update them as least every three years.

Draft budget trailer bill language included in Governor Newsom's May Revision proposal incorporates provisions from AB 1244 but could provide greater flexibility for the use of mitigation funding. Unlike AB 1244, the trailer bill would allow LCI to designate location-efficient areas where transit-oriented housing development could receive mitigation funds. These provisions may facilitate funding for infill housing projects in "location efficient areas" that do not otherwise meet the standards for qualifying transit service under HCD's TOD Program.

AB 1244 is currently on the Assembly Appropriations suspense file and must be approved by May 23. During initial budget committee hearings on the related trailer bill, the Legislative Analyst's Office recommended that the Legislature continue its review of the issue in policy committees, rather than considering the issue during the budget process.

### **SB 681 (Wahab): Housing: Regional Housing Needs Allocation Methodology.**

Senate Bill 681 (Wahab) makes dozens of legislative changes to housing-related programs and policies. The bill is part of a broader affordability package being advanced by Senate Democrats. One provision of the bill would give the Department of Housing and Community Development (HCD) additional authority to approve or reject a Council of Government's proposed Regional Housing Needs Allocation methodology and require changes. SACOG has worked with the California Association of Councils of Government to recommend "guardrail" amendments to this proposal, particularly when HCD's proposed changes could make it more difficult to meet sustainable communities strategy emission reduction targets and related policies.

SB 681 is in the Senate Appropriations Committee and must be approved by May 23.

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