

Date of Hearing: June 29, 2026

ASSEMBLY COMMITTEE ON TRANSPORTATION

Lori D. Wilson, Chair

SB 741 (Blakespear) – As Amended June 8, 2026

SENATE VOTE: Not relevant

SUBJECT: Low Carbon Transit Operations Program

SUMMARY: Repeals the requirements for transit agencies to demonstrate that the expenditure of funds received under the Low Carbon Transit Operations Program (LCTOP) reduces the emissions of greenhouse gases and to expend 50% of the funds in a disadvantaged community and instead authorizes transit agencies to spend the money on specified services and programs. Specifically, **this bill:**

- 1) Authorizes transit agencies to expend LCTOP funds on the following:
 - a) Maintenance or expansion of bus, rail, or ferry services, including, but not limited to, equipment acquisition, vehicles, fueling, maintenance, and other costs to operate bus, rail, and ferry services.
 - b) Transit fare subsidies, including, but not limited to, discounted and free student transit passes.
 - c) Network and fare integration technology improvements.
- 2) Repeals the requirement for transit agencies to expend LCTOP funds on
 - a) Expenditures that directly enhance or expand transit service by supporting new or expanded bus or rail services, new or expanded waterborne transit, or expanded intermodal transit facilities, and may include equipment acquisition, fueling, and maintenance, and other costs to operate those services or facilities.
 - b) Operational expenditures increase transit mode share.
 - c) Expenditures related to the purchase of zero-emission buses, including electric buses, and the installation of the necessary equipment and infrastructure to operate and support these zero-emission buses.
- 3) Repeals the requirement for transit agencies to expend 50% of their total funds on projects that benefit disadvantaged communities, as identified with guidance developed by State Air Resources Board (CARB).
- 4) Requires transit agencies to submit to the Department of Transportation (Caltrans) a list of services or programs proposed to be funded with the funds prior to receiving the funds. The list of services or programs proposed to be funded by the program may be for a single year or for multiple years. The list of services or programs proposed to be funded with the funds shall include a description and location of each proposed service or program.
- 5) Requires Caltrans to report to the Controller a recipient transit agency has submitted a list of services or programs and is eligible for funding for the applicable fiscal year.

- 6) Requires a transit agency to submit documentation to Caltrans that includes a description and the location of each completed service or program on an annual basis.

EXISTING LAW:

- 1) Establishes LCTOP to provide operating and capital assistance for transit agencies to reduce greenhouse gas (GHG) emissions and improve mobility, with a priority on serving disadvantaged communities. (Public Resources Code Section (PRC) 75230(a))
- 2) Continuously appropriates funding for the program from the Greenhouse Gas Reduction Fund (GGRF) via the State Controller on a formula basis, upon a determination by Caltrans that a transit agency's proposed expenditures meet program requirements and guidelines. (PRC 75230(b)-(c))
- 3) Requires a recipient transit agency to demonstrate that each expenditure of program moneys reduces GHG emissions and does not supplant another source of funds. (PRC 75230(d)-(e))
- 4) Restricts LCTOP expenditures to transit operating or capital assistance that meets any of the following criteria:
 - a) Expenditures that directly enhance or expand transit service by supporting new or expanded bus, rail, or waterborne transit, or expanded intermodal transit facilities (including equipment acquisition, fueling, maintenance, and operating costs).
 - b) Operational expenditures that increase transit mode share.
 - c) Expenditures related to the purchase of zero-emission buses, including electric buses, and the installation of the necessary equipment and infrastructure to operate and support them. (PRC 75230(f))
- 5) Mandates equity investment targets, requiring transit agencies whose service areas include identified disadvantaged communities to expend at least 50% of their total LCTOP allocation on projects or services that directly benefit those communities. (PRC 75230(g))
- 6) Directs Caltrans, in coordination with CARB, to develop program guidelines establishing methodologies for demonstrating GHG reductions, anti-supplantation compliance, and ongoing reporting requirements. (PRC 75230(h))
- 7) Provides fiscal flexibilities and auditing safeguards for transit operators, including:
 - a) Allowing a transit agency to retain and accumulate its annual formula allocation share for a maximum of four fiscal years to fund a larger expenditure. (PRC 75230(p))
 - b) Permitting an agency to apply to Caltrans to reassign surplus project savings or reallocate funds away from a project that is no longer a local priority to another eligible program expenditure. (PRC 75230(r))
 - c) Exempting the continuation of free or reduced-fare transit programs from standard duration limits placed on other expanded services. (PRC 75230(m))
 - d) Requiring recipient agencies to submit annual reports and transmit copies of local audits to Caltrans, which are made available to the Legislature and the Controller upon request. (PRC 75230(s))

FISCAL EFFECT: Unknown

COMMENTS: SB 862 (Committee on Budget and Fiscal Review), Chapter 862, Statutes of 2014, created LCTOP as part of a comprehensive package of programs to target GHG emissions reductions in California using funds generated by the state's cap and trade program (now called Cap and Invest). LCTOP was created to provide operating and capital assistance for transit agencies to reduce GHG emissions and improve mobility, with a priority on serving disadvantaged communities or DACs. Overall, LCTOP can fund projects that directly enhance or expand transit service by supporting new or expanded bus or rail services, water borne transit, or intermodal transit facilities; operational expenditures that increase transit mode share – shift new riders out of their cars; or the purchase of zero-emission buses, including the installation of the necessary equipment and infrastructure to operate and support the buses.

All projects must reduce GHG emissions and must not supplant other agency funds. Prior to receiving an allocation from the State Controller following the STA formula, eligible transit agencies must submit a description of their proposed expenditures and demonstrate how each expenditure will reduce GHG emissions.

Additionally, as LCTOP is funded with GGRF monies, transit agencies must comply with requirements to expend funds to the benefit of “priority populations,” which include both DAC communities, as defined by CalEnviroScreen, and low-income communities and households. Specifically, according to the LCTOP enabling legislation, transit agencies whose service area includes a DAC must spend at least 50% of the total monies received by the agency on projects that benefit DACs.

According to the 2025 Annual Report to the Legislature on California Climate Investments Using Cap-and-Trade Auction Proceeds, LCTOP has cumulatively implemented \$1.1 billion across California to reduce greenhouse gas emissions and increase transit ridership. The program strongly advances the state's environmental justice mandates, with over 90% of implemented LCTOP funds directly benefiting Priority Populations, including DACs and low-income households, vastly exceeding the state's statutory 50% minimum investment requirements. Local transit operators utilize these formulaic allocations to fund capital and operational improvements, primarily focused on providing free or reduced-fare transit passes for students and low-income residents, expanding service frequencies and routes, and purchasing zero-emission buses and supporting charging infrastructure to comply with state fleet electrification mandates.

By statute, 5% of the proceeds of each Cap and Invest quarterly auction are allocated to LCTOP. These funds are allocated annually to transit agencies via an established formula. With the passage of SB 840 (Limon) Chapter 121, Statutes of 2025, the program was allocated \$200 million. However, recent changes to the Cap and Invest Program may significantly impact the availability of these funds for LCTOP.

Recent changes to the state's Cap and Invest Program impact LCTOP. CARB recently adopted significant changes to the program, effective September 1, 2026, that tighten emissions caps, reduce overall allowance budgets, and create a new Manufacturing Decarbonization Incentive to support industrial decarbonization.

Combined policy maneuvers in conjunction with historically low auction prices will reduce the amount of funding anticipated to flow into GGRF. Because GGRF is entirely funded by the "residual" revenue left over when CARB auctions off remaining unallocated carbon allowances,

prioritizing free consumer and industrial protections means fewer allowances are left for public auction. Furthermore, the newly created industrial subsidies and protected allowance pools are projected to depress overall carbon credit values at auction. As a result this could ultimately lead to little to no funding for LCTOP. The Legislative Analyst's Office (LAO) has indicated that the proposed changes could result in a hit to the GGRF that also could reduce funding for GGRF investments in high-speed rail, affordable transit-oriented housing, and community climate resilience.

Streamlined funding for transit, if funds are available. Should LCTOP continue to receive GGRF funding, this bill would streamline how transit agencies can expend the funds and changes the eligibility for funding. Under current law, agencies are required to restrict these funds to specific project types: expenditures that directly expand or enhance transit service (such as new routes or expanded facilities), operational spending explicitly designed to increase transit mode share, and the purchase and infrastructural support of zero-emission buses. This bill repeals these specific mandates and restrictions.

In their place, this bill establishes a broader set of eligible expenditures. Transit agencies are authorized to use LCTOP funds for the ongoing maintenance or expansion of existing bus, rail, or ferry services, which encompasses vehicle and equipment acquisition, fueling, maintenance, and general operational costs. Additionally, this bill permits the expenditure of these funds on transit fare subsidies, including free or discounted student transit passes, as well as technological improvements for network and fare integration. It also removes the requirement for 50% of the funds to be expended in disadvantaged communities if located within a transit district.

According to the author, “The Low Carbon Transit Operations Program (LCTOP) is a key resource as the state reduces transportation emissions. Over time, added administrative requirements have made the program increasingly complex for local agencies and stakeholders. SB 741 streamlines program administration based on years of implementation experience. As agencies face growing fiscal pressures and work to improve service and increase ridership, SB 741 will help maximize the impact of these critical investments.”

The California Transit Association, writing as the sponsor of this bill, argues “Unfortunately, LCTOP has proven to be difficult and unwieldy to administer. Agencies face complicated and redundant documentation and ongoing compliance requirements and a sometimes-inflexible Caltrans review process. This results in staff time and resources that should go toward serving riders instead being spent on paperwork.

“SB 741 incorporates lessons learned across the last decade to improve the program and ensure the accountability requirements are efficient and focused on outcomes that matter. The bill modernizes LCTOP by expanding eligible uses to include transit maintenance, eliminates redundant GHG demonstration requirements for continuing programs, simplifies Caltrans' administrative role to mirror existing, effective programs like the State Transit Assistance - State of Good Repair program, and clarifies that agencies may continue funding previously approved services without having to restart the application process on regular intervals.”

Committee concerns. CARB's Innovative Clean Transit (ICT) regulation mandates that all public transit agencies statewide gradually transition their bus fleets to 100% zero-emission vehicles (ZEVs) by 2040. The rule applies to a phased mandate based on a percentage of an agency's new annual bus purchases: large transit agencies were required to ensure 25% of new purchases were

zero-emission buses (ZEBs) starting in 2023, while small transit agencies face a 25% purchase requirement starting in 2026. This purchase mandate escalates to 50% for large agencies in 2026, culminating in a strict 100% ZEB requirement for all new bus purchases by any transit agency beginning January 1, 2029.

If any LCTOP funds are available after the recent changes to CARB regulations, those funds will now be eligible to be expended in a manner that does not align with the goals of ICT, authorizing the purchase of non-ZEBs. While this bill significantly reduces paperwork for transit agencies, it also effectively removes oversight of how the funds are expended.

Recent author’s amendments that are before the committee do the following:

- 1) Limit expenditures on buses to be in accordance with the State Air Resources Board’s Innovative Clean Transit regulations (Article 4.3 (commencing with Section 2023) of Chapter 1 of Division 3 of Title 13 of the California Code of Regulations).
- 2) Restore the requirements related to DACs.
- 3) State that the expenditures permitted under this bill are deemed to reduce greenhouse gas emissions.
- 4) Add intent language to the greenhouse gas reduction benefits of transit.

REGISTERED SUPPORT / OPPOSITION:

Support

California Transit Association
 Central Contra Costa Transit Authority
 Orange County Transportation Authority
 San Diego Metropolitan Transit System
 Santa Barbara Metropolitan Transit District
 Santa Cruz Metropolitan Transit District
 Streets for All
 Sunline Transit Agency

Support If Amended

Climate Plan
 Leadership Counsel Action, a Project of Tides Advocacy
 Movela
 NRDC Action Fund
 Planning and Conservation League
 Public Advocates
 Via Transportation

Opposition

None on file

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