SENATE THIRD READING
SB 741 (Blakespear)
As Amended July 1, 2026
2/3 vote

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 instead authorizes transit agencies to spend the money on specified services and programs.

Major Provisions

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) 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).

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.

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 greenhouse gas (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 disadvantaged communities (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 the Greenhouse Gas Reduction Fund (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. State Air Resources Board (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.

Transit agencies will be able to use LCTOP dollars to purchase non-zero emission buses, but only if the agency was granted a waiver by CARB to continue to purchase non-zero emission buses.

According to the Author
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."

Arguments in Support
According to the California Transit Association, the sponsor of this bill, "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 of being spent on paperwork."

Arguments in Opposition
None on file.

FISCAL COMMENTS

According to Assembly Appropriations Committee, by expanding the eligible uses of LCTOP funds (by allowing the program to fund transit maintenance and non-ZE buses, for example) and eliminating the requirement for a transit agency to demonstrate that each expenditure reduces GHG emissions, this bill creates ongoing cost pressures of an unknown but potentially significant amount on the program to provide additional funding to a broader swath of project categories.

1) LCTOP, funded through the Greenhouse Gas Reduction Fund (GGRF), has invested over $1.4 billion in projects over the past decade – funding over 1,500 projects to help local transit agencies launch new or expanded transit services, purchase ZE fleet vehicles, build ZE infrastructure, and make public transportation more affordable.

   Until recently, LCTOP received 5% of the proceeds of each quarterly cap-and-invest program auction. As part of last year's extension of the cap-and-invest program, SB 840 (Limon), Chapter 121, Statutes of 2025, made various modifications (including creating funding "tiers") to the allocation of GGRF revenues starting in fiscal year 2026-27. SB 840 places LCTOP in tier three and allocates $200 million annually to the program. Tier three programs receive funding only after all tier one and tier two programs' funding commitments are met. When GGRF revenues fall short, tier three programs are subject to proportional funding reductions.

   Analysis by the Legislative Analyst's Office indicates there will not be enough GGRF money available annually to fund all of the Legislature's priorities each year, and it is likely all tier three programs – including LCTOP – will be defunded.

2) Caltrans' Division of Mass Transit, which administers LCTOP, anticipates any administrative costs to be minor and absorbable.

3) Air Resources Board's (ARB) reports minor and absorbable costs.

VOTES

SENATE FLOOR: 39-0-1
YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Reyes

ASM TRANSPORTATION: 15-0-1
YES: Wilson, Davies, Aguiar-Curry, Ahrens, Carrillo, Harabedian, Hart, Hoover, Jackson, Macedo, Papan, Ransom, Rogers, Sharp-Collins, Ward
ABS, ABST OR NV: Lackey

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Hoover, Arambula, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

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