SENATE COMMITTEE ON TRANSPORTATION
Senator Dave Cortese, Chair
2025 - 2026 Regular

Bill No:	SB 741	**Hearing Date:**	8/27/2026
Author:	Blakespear		
Version:	7/1/2026 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Samuel Myers		

SUBJECT: Low Carbon Transit Operations Program

DIGEST: This bill clarifies how transit agencies may spend funds received under the Low Carbon Transit Operations Program (LCTOP), repeals the requirement for transit agencies to demonstrate how funds reduce greenhouse gas (GHG) emissions, and generally streamlines the LCTOP program.

ANALYSIS:

Existing law:

1) Requires the California Air Resources Board (CARB) to develop a plan to reduce statewide GHG emissions to 1990 levels by 2020. (HSC 38550)

2) Authorizes CARB to use market-based incentive mechanisms (Cap and Invest) to reach this target level. (HSC 38570)

3) Establishes the Greenhouse Gas Reduction Fund (GGRF) in the State Treasury and requires all money collected pursuant to Cap and Invest, with limited exceptions, to be deposited into the fund. (HSC 39710-39723)

4) Establishes LCTOP to provide operating and capital assistance for transit agencies to reduce GHG emissions and improve mobility, with a priority on serving disadvantaged communities (DACs). (PRC 75230(a))

5) Appropriates a maximum of $200 million of funding annually from GGRF to LCTOP via the State Controller, upon a determination by the California Department of Transportation (Caltrans) that a transit agency's proposed expenditures meet program requirements and guidelines. (HSC 39719.4, PRC 75230(b)(c))

6) 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))

7) Requires transit agencies to spend LCTOP funds on: (PRC 75230(f))

   a) Expenditures that directly enhance or expand transit service by supporting new or expanded bus or rail services, waterborne transit, or expanded intermodal transit facilities;

   b) Operational expenditures that increase transit mode share; or,

   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 zero-emission buses.

8) 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))

9) 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))

This bill:

1) Makes a number of findings and declarations regarding the role of public transportation in reducing GHG emissions.

2) Repeals the requirement for transit agencies to spend LCTOP funds on:

    a) Expenditures that directly enhance or expand transit service by supporting new or expanded bus or rail services, waterborne transit, or expanded intermodal transit facilities;

    b) Operational expenditures that increase transit mode share; or,

    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 zero-emission buses.

3) In place of the repealed requirements specified in 2), authorizes transit agencies to spend 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.

4) States that any expenditure made according to the above in 3) shall be deemed to reduce GHG emissions.

5) States that funds spent on buses must be in accordance with CARB's Innovative Clean Transit Regulations.

6) Repeals the requirement for Caltrans and CARB to develop guidelines that describe the methodologies a transit agency must use to demonstrate GHG reductions and authorize the disbursement of funds.

7) Requires Caltrans to report to the Controller that a recipient transit agency has submitted a list of services or programs and is eligible for funding for the

applicable fiscal year.

8) Repeals the requirement for a transit agency receiving funds to identify the source and timing of all moneys required to undertake a project.

9) 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.

10) Clarifies that a transit agency may continue to use program moneys to continue the same service or program for which program moneys were used in a previous fiscal year.

11) Exempts the development of LCTOP guidelines from the Administrative Procedures Act.

12) Makes various technical and conforming changes.

COMMENTS:

1) *Purpose of the bill.* 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."

2) *What is LCTOP?* LCTOP was created by SB 862 (Committee on Budget and Fiscal Review, Chapter 862, Statutes of 2014), 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 (now Cap and Invest) program. These programs include affordable housing and sustainable communities, transit and intercity rail projects, and high-speed rail. LCTOP is administered by Caltrans and is allocated funding on a formula basis to transit operators and Regional Transportation Planning Agencies (RTPAs).

   LCTOP was created to provide operating and capital assistance for transit agencies to reduce GHG emissions and improve mobility, with a priority on serving DACs. Under current law, LCTOP can only 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 (i.e. shifting new riders out of their cars and to other forms of transportation); or the purchase of zero-emission buses, including the installation of the necessary equipment and infrastructure to operate and support the buses.

Furthermore, all LCTOP projects must reduce GHG emissions and must not supplant other agency funds. Prior to receiving an allocation, eligible transit agencies must submit a description of their proposed expenditures to Caltrans for approval and demonstrate how each expenditure will reduce GHG emissions. Caltrans then compares the proposal to guidelines developed jointly between Caltrans and CARB to determine GHG reduction effects of the project. Only once the project is deemed compliant does Caltrans approve the project and direct the State Controller to release funds.

Finally, because LCTOP is funded with GGRF funds, 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 LCTOP enabling legislation, transit agencies whose service area includes a DAC must spend at least 50% of the total funds 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 GHG 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, vastly exceeding the 50% minimum investment requirement.

3) *Making LCTOP easier to implement.* Since the implementation of LCTOP, numerous pieces of legislation have been pursued to streamline the program and make it more flexible and usable for transit agencies. Primarily, SB 1119 (Beall, Chapter 606, Statutes of 2018), streamlined the priority communities requirements regarding both DAC and low income communities and households. Specifically, SB 1119 waived the DAC requirements and deemed that transit agencies have met the low income requirements if the agency spends LCTOP funds on 1) new or expanded transit service that connects with transit service serving DAC or low income communities; 2) transit fare subsidies and network and fare integration technology improvements, including, but not limited to, discounted or free student transit passes; or, 3) the purchase of zero-

emission transit buses and supporting infrastructure. Caltrans, through their guidelines for the program, still encourage transit agencies to continue to document the "direct, meaningful, and assured" benefits to priority populations even if they qualify for the streamlining.

Other streamlining changes have included SB 824 (Beall, Chapter 479, Statues of 2016), which recast many of the provisions of LCTOP to authorize certain financial options for projects, such as banking funds for the future purchase of a zero-emission bus, and SB 942 (Newman, Chapter 988, Statutes of 2022), which allowed transit agencies to continue using LCTOP funding to support free or reduced fare transit programs with less stringent reporting requirements.

4) *What projects does LCTOP fund?* In practice, LCTOP is used to support a number of different project types. In the 2024 fiscal year, LCTOP funds were awarded to 143 different projects across the state, totaling slightly over $200 million in funding. Of this funding, approximately three-quarters went to operating expenses, and the rest went to capital projects. The vast majority of the capital funding (nearly 80%, or roughly $35 million) was devoted to the acquisition of zero-emission buses or the installation of zero-emission bus infrastructure. These types of projects accounted for 48 of the 143 awards for the program cycle. The majority of the remaining capital projects (about $11 million total) were related to acquiring non-bus vehicles, building or repairing station facilities, or building rail extensions.

   On the operations side, nearly 30% (or roughly $46 million) went towards free or reduced fare programs. These accounted for an additional 45 of the 143 awards. Most prominent among these was an $18 million allocation to Muni in San Francisco for their youth, seniors, and persons with disabilities free fares program. Additionally, Orange County Transportation Authority (OCTA) was allocated roughly $10 million for its free youth fare program. The vast majority of the remaining allocations for operations (totaling roughly $110 million) went to supporting or expanding existing transit service. Notably, nearly half of this amount (roughly $50 million, or about one-quarter of the year's funding) was allocated to Los Angeles County Metropolitan Transportation Authority (LA Metro) to support Metro A Line operations.

5) *Future challenges to LCTOP funding.* Upon its creation, LCTOP was continuously appropriated 5% of GGRF funds. However, following recent changes to GGRF under SB 840 (Limón, Chapter 121, Statutes of 2025), LCTOP is now funded from the bottom tier (Tier 3) of a tiered funding structure. Under this new regime, LCTOP is eligible for a maximum of $200 million annually. However, the program only receives funding after full funding

has been allocated to all higher tier programs (i.e. Tier 1 and Tier 2 programs). Since GGRF revenues vary from year to year, it is nearly impossible to anticipate how much funding, if any, will be available in any given year.

This uncertainty has recently been compounded with CARB's adoption of significant changes to the Cap and Invest program. That is because these changes will significantly affect the amount of GGRF funding available. These changes, effective September 1, 2026, tighten emission caps, reduce overall allowance budgets, and create a new Manufacturing Decarbonization Incentive to support industrial decarbonization. As a result of these and other changes, carbon credit auction values are expected to decrease. This is on top of already historically low auction prices. The combined result is a steep reduction in expected GGRF revenues in the coming years, potentially equating to 50% or more of all available funding.

The expected drop in GGRF revenues, combined with the new tiered funding system, means that it is likely lower tier programs will receive little or no funding in coming years. This would include LCTOP, which is a Tier 3, or bottom tier program. Indeed, according to a recent analysis by the Legislative Analyst's Office (LAO), the proposed changes could not only remove all funding for Tier 3 programs like LCTOP (effectively zeroing out the program), but even threaten Tier 2 programs such as high-speed rail.

6) *More streamlining is needed.* Despite previous streamlining efforts, many transit agencies have continued to highlight issues with the way LCTOP is currently structured. The California Safety and Legislative Board of SMART – Transportation Division (SMART – TD), writing in support of SB 741, state "Transit agencies across the state rely on LCTOP funding, but over time the program's administrative requirements have become increasingly burdensome for transit agencies seeking to use funding toward otherwise eligible uses. Currently, transit agencies must navigate an administrative process involving multiple state agencies, complex data requirements and extensive modeling to verify expenditures that the state has already determined reduce emissions. Additionally, program restrictions, such as limiting operational expenses to only certain years, can make planning difficult and interrupt successful initiatives focused on ridership growth. SB 741 streamlines the LCTOP administrative process."

SB 741 attempts to address these concerns by streamlining and clarifying many aspects of the program. Specifically, this bill repeals and replaces the set of allowed expenditures. Under SB 741, LCTOP funding could be used for 1) ongoing maintenance or expansion of existing bus, rail, or ferry services, which encompasses vehicle and equipment acquisition, fueling, maintenance, and general operational costs; 2) transit fare subsidies, including free or discounted student transit passes; or 3) technological improvements for network and fare integration. Additionally, SB 741 repeals the requirement that transit agencies must demonstrate that each project will reduce GHG emissions. Instead, SB 741 states that any project that meets the new criteria is automatically deemed to reduce GHG emissions.

Beyond these major changes, SB 741 also streamlines reporting requirements for transit agencies, removes the requirements for Caltrans and CARB to produce guidelines for the programs, further clarifies that funds may continue to be used on programs that have previously been funded with LCTOP funds, and makes a number of technical and conforming changes to streamline the LCTOP statute.

A coalition of primarily environmental stakeholders, while supportive of the overall effort to streamline LCTOP, have noted concerns around particular issues. Namely these included the declarative statement regarding all compliant programs to be GHG emissions reducing, and the exact wording around the purchase of new buses. Specifically, the Natural Resource Defense Council (NRDC), states “We support the intent of this bill to streamline the administration of the program by Caltrans and CARB, and get the funds out the door more quickly to transit operators that need it to maintain and improve service… There are several provisions in existing statute that SB 741 proposes to remove that we believe are critical to maintain as climate and equity benefits of the program going forward.”

7) *Gut and Amend.* SB 741 is being heard in this committee pursuant to Senate Rule 29.10 (d). SB 741 was amended in the Assembly to delete provisions related to coastal development permits for the maintenance of passenger rail and insert its current provisions pertaining to LCTOP.

RELATED/PREVIOUS LEGISLATION:

SB 840 (Limón, Chapter 121, Statutes of 2025) – Renamed Cap and Trade as Cap and Invest and redistributed GGRF funds to be continuously appropriated according to a new tiered structure.

SB 942 (Newman, Chapter 988, Statutes of 2022) – Allowed transit agencies to continue using LCTOP funding to support free or reduced fare transit programs.

AB 680 (Burke, Chapter 746, Statutes of 2021) – Required LCTOP and other programs funded by GGRF to implement certain workforce standards across various projects.

SB 1119 (Beall, Chapter 606, Statutes of 2018) – Added certain exceptions to the requirement that 50% of all LCTOP funds be spent on projects or services that benefit DACs.

SB 824 (Beall, Chapter 479, Statutes of 2016) – Modified LCTOP to provide enhanced flexibility to recipient transit agencies for program expenditures, as specified.

AB 2090 (Alejo of 2016) – Would have authorized transit agencies to utilize LCTOP funding to support existing transit operations if the governing board of the transit agency declares a fiscal emergency under CEQA. *This bill was held in the Senate Appropriations Committee.*

SB 862 (Committee on Budget and Fiscal Review, Chapter 36, Statues of 2014) – Created and funded LCTOP, among other programs.

FISCAL EFFECT: Appropriation: Yes Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, August 26, 2026.)

SUPPORT:

California Transit Association (Sponsor)
Alameda-contra Costa Transit District (AC Transit)
California Safety and Legislative Board, SMART Transportation Division
Central Contra Costa Transit Authority
City and County of San Francisco
City of Los Alamitos
Foothill Transit
Napa County Transportation and Planning Agency
Napa Valley Transportation Authority
North County Transit District
Orange County Council of Governments
Orange County Transportation Authority
San Diego Metropolitan Transit System
San Francisco Municipal Transportation Agency (SFMTA)
San Mateo County Transit District (SAMTRANS)
Santa Barbara Metropolitan Transit District

Santa Clara Valley Transportation Authority
Santa Cruz Metropolitan Transit District
Southern California Regional Rail Authority (METROLINK)
Streets for All
Sunline Transit Agency

OPPOSITION:

None received

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