SENATE RULES COMMITTEE SB 741
Office of Senate Floor Analyses
(916) 651-4171

UNFINISHED BUSINESS

Bill No: SB 741
Author: Blakespear (D)
Amended: 7/1/26
Vote: 27

PRIOR SENATE VOTES NOT RELEVANT

SENATE TRANSPORTATION COMMITTEE: 12-0, 8/27/26
AYES: Cortese, Strickland, Archuleta, Arreguín, Blakespear, Dahle, Gonzalez, Menjivar, Richardson, Seyarto, Valladares, Wiener
NO VOTE RECORDED: Grayson

ASSEMBLY FLOOR: 78-0, 8/25/26 - See last page for vote

SUBJECT: Low Carbon Transit Operations Program

SOURCE: California Transit Association

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.

Assembly Amendments deleted the previous content of the bill relating to coastal development permits and inserted the bill's current provisions pertaining to LCTOP.

ANALYSIS:

Existing law:

1) 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). (Public Resources Code [PRC]§ 75230(a))

2) Appropriates a maximum of $200 million of funding annually from the Greenhouse Gas Reduction Fund (GGRF), funded via Cap-and-Invest, to LCTOP. (Health and Safety Code [HSC] § 39719.4, 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) 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.

5) Directs Caltrans, in coordination with the California Air Resources Board (CARB), to develop program guidelines establishing methodologies for demonstrating GHG reductions, anti-supplantation compliance, and ongoing reporting requirements. (PRC § 75230(h))

6) Provides fiscal flexibilities and auditing safeguards for transit operators, including the ability to accumulate funds, change fund allocations, and fund certain programs like free or reduce-fare transit. (PRC § 75230(p-m))

This bill:

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

2) Repeals the existing requirements for how transit agencies may spend LCTOP funds.

3) In place of the repealed requirements, 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 and repeals the requirement for a transit agency to demonstrate GHG reductions.

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

6) Streamlines the reporting and expenditure requirements for transit agencies receiving LCTOP funds.

7) 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. LCTOP specifically 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; or the purchase of zero-emission buses, including the installation of the necessary equipment and infrastructure to operate and support the buses.

   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 the 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 the 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.

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. 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. On the operations side, nearly 30% (or roughly $46 million) went towards free or reduced fare programs. These accounted for 45 of the 143 awards.

5) *Future challenges to LCTOP funding.* 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), creating uncertainty in the annual funding amount. This uncertainty has recently been compounded with CARB's adoption of significant changes to the Cap and Invest program. As a result of these 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 remove all funding for Tier 3 programs like LCTOP, effectively zeroing out the program.

6) *More streamlining is needed.* Despite previous streamlining efforts, many transit agencies have continued to highlight issues with the way LCTOP is currently structured. 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.

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

According to the 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.

  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.

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

- ARB reports minor and absorbable costs.

SUPPORT: (Verified 8/27/26)

California Transit Association (source)
Alameda-contra Costa Transit District (AC Transit)
California Conference Board of the Amalgamated Transit Union
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: (Verified 8/27/26)

None received

ARGUMENTS IN SUPPORT: 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."

ARGUMENTS IN OPPOSITION: 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."

ASSEMBLY FLOOR: 78-0 8/25/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: McKinnor

Prepared by: Samuel Myers / TRANS. / (916) 651-4121
8/27/26 18:10:12

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