



June 18, 2026

To: Legislative Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: State Legislative Status Report

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Overview

The Orange County Transportation Authority provides regular updates to the Legislative Committee on policy issues directly impacting its programs, projects, and operations. A support position is recommended on legislation that would reform and streamline the Low Carbon Transit Operations Program. This report also includes an update on the Cap-and-Invest Program, including amendments adopted by the California Air Resources Board, actions taken by the Legislature, and ongoing advocacy for continued investment in transportation programs traditionally covered by Cap-and-Invest revenues.

Recommendation

Adopt a SUPPORT position on SB 741 (Blakespear, D-Encinitas), which would reform and streamline the Low Carbon Transit Operations Program by expanding flexibility for eligible expenditures and reducing administrative requirements.

Discussion

SB 741 (Blakespear, D-Encinitas): Low Carbon Transit Operations Program

OCTA previously opposed SB 741 when the bill related to the California Coastal Commission permitting process along the Los Angeles – San Diego – San Luis Obispo Rail Corridor. However, the bill has since been gutted and amended to now focus exclusively on reforms to the Low Carbon Transit Operations Program (LCTOP). SB 741 would reform and streamline the LCTOP, a formula-based transit funding program supported by revenues from the cap-and-invest program via the Greenhouse Gas Reduction Fund (GGRF). OCTA receives LCTOP funding annually and utilizes those funds to support transit operations, capital investments, and fare subsidy programs, including the agency's Youth Ride Free Program.

Sponsored by the California Transit Association, SB 741 seeks to simplify administration of the program by reducing reporting requirements and streamlining the process through which transit agencies access and utilize LCTOP funds. Under current law, transit agencies must comply with extensive documentation and reporting requirements to demonstrate that individual expenditures satisfy program criteria and reduce greenhouse gas emissions. This bill would replace many of these requirements with a simplified process focused on identifying services and programs to be funded, while maintaining accountability for expenditure of program funds.

The bill would also simplify the annual allocation process by replacing existing detailed allocation requests and supporting documentation with a list of services or programs to be funded. Agencies would be permitted to submit multi-year service or program lists and would report expenditures after funds have been utilized rather than undergoing extensive upfront approval requirements. The bill also clarifies that submitted program lists do not limit a transit agency's flexibility to fund services and programs consistent with local needs and priorities.

These reforms are particularly important for OCTA because the agency currently utilizes LCTOP funding for transit operations, capital investments, and fare subsidy programs, including the Youth Ride Free Program. By simplifying the allocation process, allowing multi-year programming, and reducing documentation requirements, SB 741 would provide greater certainty and administrative efficiency for transit agencies while allowing them to focus resources on delivering transportation services and programs.

A SUPPORT position is consistent with OCTA's 2025-26 State Legislative Platform principle to "Support removing the barriers for funding transportation projects, including allowing local agencies to advance projects with local funds when state funds are unavailable due to budgetary reasons, and allowing regions to pool federal, state, and local funds in order to limit lengthy amendment processes and streamline project delivery time." A thorough analysis and copy of the text of this legislation is included as Attachment A.

California Air Resources Board Cap-and-Invest Program Update

On May 29, 2026, the California Air Resources Board (CARB) approved amendments to the state's Cap-and-Invest regulation on a 10-3 vote despite significant opposition from transit agencies, affordable housing organizations, labor groups, environmental justice advocates, local governments, and other stakeholders. Many stakeholders expressed concern that the amendments would significantly reduce Greenhouse Gas Reduction Fund (GGRF) revenues and jeopardize funding for critical climate investments, including public transit programs. Concerns raised during the hearing focused primarily on the potential impacts of reduced revenues on programs that are to receive GGRF funding, including the Transit and Intercity Rail Capital Program (TIRCP), a discretionary

grant program administered by the California State Transportation Agency (CalSTA), and the Low Carbon Transit Operations Program (LCTOP).

As part of its final action, CARB amended its resolution to direct the Executive Officer to work with the Governor and Department of Finance to communicate the importance of stable funding for transportation, affordable housing, and community air protection programs and to encourage funding for these programs through the state budget. CARB also directed staff to return to the Board prior to the issuance of any Manufacturing Decarbonization Incentive (MDI) allowances, a program intended to support investments in low-carbon manufacturing technologies and industrial emissions reductions, to evaluate the program and report on potential impacts to GGRF revenues and the sectors that would benefit from the allowances before implementation.

The approved amendments are expected to reduce future Cap-and-Invest auction revenues available to the GGRF by increasing the number of allowances distributed outside of the auction process to support programs intended to offset energy and fuel costs for consumers. As a result, significant uncertainty now exists regarding future funding levels for programs supported by the GGRF, including the TIRCP and LCTOP. Under the expenditure plan adopted as part of the 2025 Cap-and-Invest reauthorization, Tier 1 funding is reserved for statutory commitments, including manufacturing tax credits, state operations, and other required expenditures. Then \$2 billion is to be used for Tier 2 funding programs including discretionary allocations to the California High-Speed Rail Authority. TIRCP and LCTOP are categorized as Tier 3 programs alongside affordable housing, community air protection, sustainable communities and agricultural land conservation, healthy forests, and safe and affordable drinking water programs. These Tier 3 programs receive funding only after Tier 1 and Tier 2 commitments are fully funded, making them particularly vulnerable to revenue shortfalls.

Following CARB's approval of the amendments, several members of the Legislature submitted a budget letter (Attachment B) to the Governor and legislative leadership expressing concerns that the adopted amendments could significantly reduce funding available for transit programs supported by the GGRF. Signatories included several Orange County delegation members, including Senators Bob Archuleta (D-Norwalk), Catherine Blakespear (D-Encinitas), Tom Umberg (D-Santa Ana), and Assembly Member Blanca Pacheco (D-Downey). The letter calls on state leaders to preserve funding commitments established through the 2025 Cap-and-Invest reauthorization, including annual funding for TIRCP and LCTOP, and to fulfill the remaining transit funding commitments established through SB 125 (Chapter 54, Statutes of 2023). SB 125 created a \$5.1 billion multi-year transit funding package to support transit operations, capital improvements, and zero-emission transit investments. The letter specifically requests appropriation of the remaining \$690 million in Zero-Emission Transit Capital Program (ZETCP) funding that was supposed to be obligated for fiscal years 2026-27 and 2027-28.

In addition, on May 28, 2026, the Senate Budget Subcommittee No. 2 (Subcommittee) rejected the Governor's proposed GGRF expenditure plan and approved budget actions intended to preserve funding commitments. Specifically, the Subcommittee advanced "Deal is a Deal" budget bill language that would prohibit new GGRF appropriations unless the Department of Finance determines that annual revenues are sufficient to fully support existing statutory funding commitments or the Legislature appropriates additional funding to maintain those commitments. This would include funding for the TIRCP and the LCTOP. The Subcommittee's language would also direct the Department of Finance to provide updated revenue estimates reflecting CARB's final action and proposed additional restrictions on the creation of MDI allowance, a new category of Cap-and-Invest allowances authorized under the 2025 reauthorization intended to support emissions-reduction investments in manufacturing facilities. The Subcommittee proposed requiring additional findings related to greenhouse gas reductions, fuel prices, and impacts on GGRF revenues before such allowances could be distributed.

Similar action has not yet been taken by the Assembly. While the final outcome will be determined through ongoing fiscal year 2026-27 budget negotiations among the Senate, Assembly, and Administration, it is likely that this issue may not be resolved until later this session, after the June 15 budget deadline.

For OCTA, the stakes remain significant. The loss of this funding would be detrimental to multiple programs and projects administered by OCTA. LCTOP, a formula-based program that OCTA receives annually, funds various projects and programs at OCTA, including the Youth Ride Free Program, transit operations, and bus purchases. TIRCP, which is funded by both the GGRF and Transportation Improvement Fee (TIF), has been used to fund several OCTA priority projects and programs. TIRCP funding is currently used to support programs and projects related to the Los Angeles – San Diego – San Luis Obispo Rail Corridor, including the Coastal Rail Infrastructure Resiliency Project. TIRCP has also funded portions of the OC Streetcar, purchase of hydrogen fuel-cell electric buses, Orange County Maintenance Facility, and improvements at the Irvine Station. CalSTA, in its grant awards, had assumed ongoing funding being available from GGRF to TIRCP, and committed to multi-year grant agreements. The removal of GGRF funding would mean TIRCP would be fully reliant of TIF revenues, which could complicate the cash flow available for existing grant commitments that have not been completely allocated. Because TIF revenues are already expected to support existing and future program commitments, the loss of GGRF funding could significantly reduce funding available for future TIRCP awards and limit opportunities for OCTA and other agencies to secure funding for major transit and rail capital projects. In addition, the remaining \$690 million in ZETCP funding commitments established through SB 125 is expected to be supported by GGRF revenues. Reductions in those revenues could affect the state's ability to fulfill those commitments.

Staff will continue to monitor budget negotiations, implementation of the CARB amendments, and updated GGRF revenue projections and will provide updates as additional information becomes available.

Summary

A support position is recommended on legislation that would reform and streamline the Low Carbon Transit Operations Program. Information is provided on California Air Resources Board amendments to the Cap-and-Invest Program, action taken by members of the Legislature related to such, and advocacy for continued investment in transportation.

Attachments

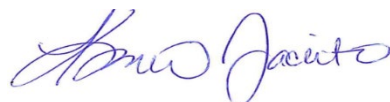
- A. SB 741 (Blakespear, D-Encinitas) Bill Analysis with Bill Language
- B. Letter to The Honorable Gavin Newsom, Governor, State of California, The Honorable Monique Limon, Senate President Pro Tempore, The Honorable Robert Rivas, Speaker, California State Assembly, from Members of the California State Legislature, re: Urgent Call to Protect Statewide Transit Funding, dated June 1, 2026
- C. Orange County Transportation Authority Legislative Matrix

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