June 19, 2025

To: Legislative and Communications Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: State Legislative Status Report

Overview

The Orange County Transportation Authority provides regular updates to the Legislative and Communications Committee on policy issues directly impacting its overall programs, projects, and operations. This report includes a state budget update focused on budget change proposals and trailer bills related to the 2028 Olympics and the cap-and-trade program. A summary of a hearing focused on the Los Angeles – San Diego – San Luis Obispo Rail Corridor is also included. A verbal update on the adopted fiscal year 2025–26 state budget will be provided when this report is presented.

Recommendation

Receive and file as an information item.

Discussion

Overview of Proposed State Budget Trailer Bill Proposals Impacting Transportation

Following the release of the Governor's May Revision for fiscal year (FY) 2025-26, several trailer bills have been proposed to support implementation of proposed budget items related to transportation infrastructure, specifically on planning for the 2028 Olympic and Paralympic Games in Los Angeles (LA28). Topics addressed in these proposed trailer bills include permitting exemptions, environmental streamlining, and operational authority for Olympic-related transportation activities.

The May Revision proposed $17.6 million from the State Highway Account to support the California Department of Transportation's (Caltrans) initial efforts to plan and implement the Games Route Network (GRN), a system of designated freeway and arterial lanes intended to facilitate secure and predictable travel for athletes, officials, and other accredited participants. The funding would also support the Integrated Transportation Management Project, which seeks to enhance coordination between Caltrans and local agencies through upgraded traffic operations systems. The proposal includes 92 limited-term positions to support these planning, operational, and maintenance functions. Not part of this request is future staffing and operating costs that Caltrans has identified, capital expenditures for the GRN, and any costs by local agencies including host cities. A joint effort between Caltrans and the Los Angeles County Metropolitan Transportation Authority to obtain funding via grants or appropriations for this work is referenced in the original budget change proposal supporting this funding. This joint effort would also undertake the analysis to assess costs for the remaining elements to inform potential future budget requests.

Three trailer bill proposals were also released in conjunction with the May Revision to support transportation initiatives related to LA28. One proposal amends the California Coastal Act to classify LA28 as temporary events, exempting from coastal development permitting requirements any development deemed necessary by the Organizing Committee for the bidding, hosting, or staging of LA28, under the authority of the California Coastal Commission. This exemption would apply throughout the entire duration of construction, occupancy, and removal activities connected to LA28. A second proposal provides a California Environmental Quality Act exemption to exclude from environmental review those activities and approvals necessary for planning and executing LA28, excluding facility construction unless deemed necessary by the Organizing Committee. A third trailer bill would authorize Caltrans and local agencies to temporarily allow exclusive or preferential use of high-occupancy vehicle lanes, high-occupancy toll lanes, and other lanes for Olympic-related vehicles as part of the GRN. Eligible vehicles would display a distinctive decal or identifier issued by LA28 organizers and approved by Caltrans in collaboration with the California Highway Patrol. Notably, the trailer bill does not reference toll agencies or regional transportation planning agencies in the development or approval of the decal. It also does not specify how access would be coordinated across tolled facilities, and it remains unclear whether Caltrans or other entities would request OCTA’s participation. Staff will continue to monitor implementation details and assess any potential operational impacts on OCTA-managed infrastructure. These provisions would be in effect through January 1, 2029.

Additional details are expected to emerge as budget negotiations progress in the coming weeks. The Legislature must pass a balanced budget bill for FY 2025-26 by midnight on June 15, 2025. Due to the proximity of this deadline to the publication of this staff report, staff will provide a verbal update on the approved state budget to the Legislative and Communications Committee, scheduled for June 19, 2025.

Cap-and-Trade Update

As part of the Governor’s May Revision, the Administration proposed an extension of California’s cap-and-trade program through 2045, rebranded as the cap-and-invest program. While the proposal outlines a new structure for allocating future cap-and-trade revenues, it introduces potential shifts in funding priorities that could significantly affect transit-related programs supported by the Greenhouse Gas Reduction Fund (GGRF).

Revenue generated through the sale of emissions allowances under the cap-and-trade program is deposited into GGRF, which supports a variety of programs statewide. While the program’s primary purpose is to achieve emissions reductions, it has also become a critical funding source for public transportation infrastructure and operations. For example, the Orange County Transportation Authority (OCTA) has secured funding from the Transit and Intercity Rail Capital Program (TIRCP) to support major projects, including the OC Streetcar, and efforts to protect the Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor. Additionally, OCTA utilizes the Low Carbon Transit Operations Program (LCTOP) to implement its Youth Ride Free initiative, which expands transit access for young residents across the County.

Under the current framework, TIRCP and LCTOP receive ten percent and five percent of cap-and-trade revenues, respectively, through continuous appropriations. These programs have funded numerous transit capital projects and services intended to reduce greenhouse gas emissions and deliver additional benefits such as improved air quality and mobility. In recent years, GGRF revenues have also been used to stabilize transit funding in the face of state budget constraints. For example, as part of the FY 2024-25 state budget, a significant portion of transit funding was shifted from the General Fund to the GGRF to maintain support for key programs like TIRCP and the Zero-Emission Transit Capital Program. For OCTA, these programs have been essential to advancing regional transit priorities, including support for bus and rail operations, capital improvements, and the agency’s ongoing transition to a zero-emission bus fleet under the Innovative Clean Transit regulation.

However, the cap-and-invest proposal introduced in the FY 2025-26 May Revision includes a significant shift in how the State plans to allocate GGRF revenues. The Governor has framed the extension through 2045 as a response to growing federal scrutiny of state climate policies and as a way to provide certainty for programs such as the California Climate Credit, which is expected to provide approximately $60 billion in utility bill relief through the duration of the extension, and would require at least $1 billion annually in GGRF be directed to the California High-Speed Rail Project. The proposal also responds to a $12 billion budget shortfall, redirecting GGRF revenues to cover other state obligations. As part of this shift, the Governor proposes allocating $1.54 billion annually to fund CalFire operations, which were previously supported by the General Fund. These proposed commitments would represent a major reallocation of cap-and-trade revenues and would reduce the pool of funding available for other GGRF-supported programs, including public transit.

As a result of these shifts, the cap-and-invest proposal would reduce or defer funding for several transit programs that have historically relied on GGRF support, including:

- A reduction in the State’s planned FY 2025–26 formula-based investment in TIRCP from $1 billion to $812 million.
- The proposed elimination of a $690 million investment in the Zero-Emission Transit Capital Program, previously planned for FYs 2026–27 and 2027–28.
- Elimination of a planned $200 million allocation for TIRCP Cycle 6, potentially impacting already awarded grant funding.
- A lack of clarity on whether continuous appropriations for TIRCP and LCTOP will be maintained beyond FY 2024–25, creating uncertainty for currently programmed projects and future grant cycles.

These changes could affect nearly $3 billion in GGRF funding for public transit statewide between FY 2025–26 and FY 2028–29, including approximately $2 billion already programmed to specific projects and services by the State or regional agencies. For OCTA, this level of uncertainty could jeopardize the delivery of regional projects and services. Broader potential impacts include delays to capital projects, loss of federal matching funds, and financial pressures on transit operators statewide.

As part of ongoing legislative review, there has been a series of hearings across both the Assembly and the Senate focused on the Governor’s cap-and-invest proposal and the broader question of extending California’s cap-and-trade program beyond 2030. The Assembly Budget Subcommittee No. 4 on Climate Crisis, Resources, Energy, and Transportation held hearings on April 30 and May 15, 2025, where members expressed apprehension about the proposed reallocation of GGRF revenues, particularly the shift of $1.54 billion annually to CalFire operations, previously funded through the General Fund. Legislators questioned whether this shift could reduce available funding for core services such as public transit, housing, healthcare, and water infrastructure. Concerns were also raised about the proposed elimination of SB 125 (Chapter 54, Statutes of 2023) transit funds and the uncertain future of TIRCP and LCTOP. Members objected to prioritizing funding for major infrastructure projects such as the Delta Conveyance Project and California High-Speed Rail over programs viewed as essential that address affordability, mobility, and climate resilience in the near term.

These themes were echoed on May 8, 2025, during a joint oversight hearing of the Senate Budget and Fiscal Review Subcommittee No. 2 and the Senate Environmental Quality Committee, which examined the future of California's cap-and-trade program as the State considers reauthorization beyond 2030. Legislative Analyst's Office (LAO) analyst Helen Kerstein recommended the Legislature reassess continuous appropriations to ensure GGRF spending aligns with evolving climate and affordability priorities. The LAO further suggested measures to enhance affordability, such as lowering the price ceiling, issuing more free allowances to utilities, and targeting GGRF revenues toward consumer rebates or uncapped emissions sectors for greater cost-effectiveness. Lawmakers echoed concerns about program design, equity, and fund volatility, with some advocating for redirecting funds away from high-speed rail toward multimodal transit with faster climate impacts. The hearing highlighted strong legislative interest in improved oversight, affordability protections, and aligning cap-and-trade revenue use with California's long-term climate and community goals.

Transit agencies across the state are engaging with the Administration and Legislature to request that the final framework:

- Maintains existing GGRF commitments to transit agencies through 2030.
- Continues or increases ongoing support for TIRCP and LCTOP beyond 2030.
- Streamlines the design of GGRF-funded programs to improve flexibility and reduce administrative barriers for transit agencies.

These priorities are outlined in letters submitted in response to the Governor's cap-and-invest proposal. OCTA submitted a letter to the Governor, State Senate President pro Tempore, and Speaker of the State Assembly (Attachment A). Similarly, the California Transit Association (CTA) submitted a letter to the same recipients (Attachment B).

As budget negotiations continue, additional details may emerge that clarify how GGRF allocations will be managed under the proposed cap-and-invest framework and what impacts there will be on transit funding in future years. Recent federal scrutiny of the California High-Speed Rail Project, including a letter from the Federal Railroad Administration (FRA) on June 4, 2025, seeking to revoke funding, may put additional pressure on negotiations.

Specifically, the letter from the FRA to the California High-Speed Rail Authority expressed deep concerns over the direction and management of the project, signaling potential revocation of up to $4 billion in federal grants. The letter underscored a $7 billion funding shortfall needed to complete the Merced-to-Bakersfield section, emphasizing the lack of a credible plan to secure the necessary resources. This shortfall is one of the underlying challenges that is underpinning the cap-and-trade discissions. The letter established a mid-July deadline for the State to respond and demonstrate continued compliance with the terms of the funding agreements, with the possibility of grant termination if sufficient progress is not shown.

Summary of Subcommittee on Los Angeles – San Diego – San Luis Obispo Rail Corridor Resiliency Hearing

On May 30, 2025, the Senate Transportation Subcommittee on LOSSAN Rail Corridor Resiliency held a hearing entitled, "*Tracks to the Future: Strengthening the LOSSAN Corridor for California's Global Stage.*" The hearing focused on transportation planning for nine major international sporting events through 2028, including the 2026 Fédération Internationale de Football Association World Cup and LA28. Paul Krikorian, Executive Director of the City of Los Angeles Office of Major Events, presented on the long-term opportunity to improve regional rail and mobility across Southern California, mentioning that host cities and visitors will rely heavily on rail to travel between venues. He noted that LA28 is expected to generate $18 billion in economic impact, and planning efforts are being led by a cross-agency consortium focused on key station upgrades and temporary service expansion. Mr. Krikorian highlighted the urgent need for additional federal and state support, especially to meet bus fleet demands.

Chad Edison, Chief Deputy Secretary for Rail and Transit at the California State Transportation Agency, shared plans to grow intercity rail capacity by 40 percent by 2028 through a revitalized state-owned fleet, and restored frequencies on key routes. Jennifer Gress, Division Chief of the Sustainable Transportation and Communities Division at the California Air Resources Board, discussed the climate and equity benefits of transit investments, particularly along the LOSSAN Rail Corridor, where recent improvements have expanded service and access for disadvantaged riders.

Frank Jimenez, Senior Fiscal and Policy Analyst of the LAO, cautioned that without additional state funding, intercity services may face cuts or fare increases. He outlined potential funding options, including use of the General Fund, GGRF, and transportation-specific revenues. Jacob Wasserman of the University of California, Los Angeles (UCLA) described LOSSAN's fragmented governance as a barrier to coordination and recommended reforms such as unified branding, fare integration, and a network manager model. Jonathan Stewart, also from UCLA, highlighted geotechnical risks such as coastal landslides and seismic threats, calling for proactive hazard mitigation.

Legislators raised concerns about funding shortfalls and equity. Michael Pimentel, Executive Director of CTA, warned that proposed cuts to the GGRF could undermine nearly $3 billion in planned transit and rail investments and accelerate a fiscal cliff for agencies. Overall, the hearing highlighted ongoing discussions around the importance of sustained investment, improved coordination, and strategic planning to prepare California's transit systems for these upcoming major events.

Summary

An overview of key state activities is provided related to the state budget and hearings on cap-and-trade and the Los Angeles – San Diego – San Luis Obispo Rail Corridor.

Attachments

A. Letter from Doug Chaffee, Chair, Orange County Transportation Authority Board of Directors, to the Honorable Gavin Newsom, Governor, State of California, the Honorable Mike McGuire, President pro Tempore, California State Senate and the Honorable Robert Rivas, Speaker, California State Assembly, dated June 4, 2025, re: Concerns Regarding Cap-and-Trade (Cap-and-Invest) Proposal in Fiscal Year 2025-26 May Revision
B. Letter from Michael Pimentel, Executive Director, California Transit Association, to the Honorable Gavin Newsom, Governor, State of California, the Honorable Mike McGuire, President pro Tempore, California State Senate, and the Honorable Robert Rivas, Speaker, California State Assembly, dated May 22, 2025, re: Transit Investments in Cap-and-Invest Plan
C. Orange County Transportation Authority Legislative Matrix

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