California Transit Association

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June 18, 2026

The Honorable Gavin Newsom, Governor
State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

The Honorable Monique Limón, President pro Tempore
California State Senate
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas, Speaker
California State Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

RE: Priorities for Three-Party Budget Negotiations

Governor Newsom, pro Tem Limón, Speaker Rivas:

On behalf of the California Transit Association, I write to you today to restate our members' budget priorities, as negotiations progress on the Fiscal Year (FY) 2026-27 budget. The Association represents more than 220 member organizations nationwide, including 85 transit and rail agencies in California that provide service to urban, suburban, and rural communities and that operate a variety of public transportation modes.

This letter follows our letter responding to the Governor's proposed FY 2026-27 budget, dated February 9, 2026, and our coalition letter responding to the California Air Resources Board's adoption of amendment to the Cap-and-Invest Program, which will reduce Greenhouse Gas Reduction Fund (GGRF) revenues by $2 billion annually. Our coalition letter, which calls on the state to honor its ongoing funding commitments to Tier 3 GGRF programs, was co-signed by 60 organizations representing affordable housing, local government, transportation / transit, environmental, and labor interests from across the state.

The priorities outlined in this letter focus on ensuring the state fulfills the commitments it made to affordable housing, public transportation, and AB 617 communities in the reauthorization of the Cap-and-Invest Program and its commitments to transit and rail agencies made in the last three budget cycles, as you work to reach a "three-party" budget agreement. Additionally, the priorities expressed in this letter support continued progress toward the state's zero-emission transition goals amidst the loss of key state incentives and new federal challenges.

Said differently, recognizing the state's uncertain fiscal future, the Association is advocating this year for the preservation of critical funding and the institution of policies to advance the state's goals for our industry.

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Honor State's Ongoing Funding Commitments to Tier 3 Programs
In 2025, the Association and its Climate Safe Infrastructure Coalition supported the efforts of the Newsom Administration and Legislature to extend the Cap-and-Trade program beyond 2030. We supported the proposed early action on the extension, as we understood the importance of the program to meeting California's long-term climate and air quality goals and believed state officials' public statements that such action was immediately necessary to stabilize the market and continue the state's investment from the GGRF in key climate programs. As the effort gained traction in the companion measures of AB 1207 (Irwin) [Chapter 117, Statutes of 2025] and SB 840 (Limon) [Chapter 121, Statutes of 2025], we were pleased to see that the enacted legislation, consistent with our objectives, extended the program through 2045, renamed the program the "Cap-and-Invest" program, and maintained continuous appropriations from the GGRF for the AHSC, TIRCP, and LCTOP while also committing – for the first time – ongoing funding for air quality initiatives in AB 617 communities.

Our enthusiasm for the reauthorization and maintenance of these continuous appropriations was, unfortunately, short-lived.

Less than one year later, CARB released, and later adopted, amendments to implement AB 1207 that, in our view, violated legislative intent and invalidated the funding agreement reached between the Administration and Legislature in SB 840 (Limon). The amendments, as you know, increased allowances for polluting industries by nearly $2 billion annually to address "industry leakage" and "affordability" and reduced GGRF revenue by a commensurate amount annually, zeroing the hard-fought funding that was deliberately committed to the AHSCP, TIRCP, LCTOP, and AB 617. This funding has been a centerpiece of the state's climate strategy since 2015 and its maintenance was, in our view, essential to the reauthorization of the Cap-and-Invest program. This funding supports the buildout of affordable transit-oriented housing and major transit projects, deployment of zero-emission vehicles, transit service, fare free and discounted transit passes, and community air quality initiatives.

What's more, implemented projects directly address the affordability crisis faced by Californians by expanding access to affordable housing and transit options; supporting good paying, life-sustaining jobs; and creating travel time savings that buys Californians more time with family and friends.

Reducing this funding will jeopardize the state's ability to meet its 2030 GHG reduction targets and erode progress toward the state's affordability and jobs goals. We appreciate that the two-party budget agreement nods to these impacts by deferring action on the GGRF expenditure plan and adopting placeholder language to revisit SB 840.

The Association and our coalition partners urge you to honor the state's ongoing funding commitments to the Tier 3 programs established by SB 840. Specifically, we urge you to maintain the ongoing appropriation of $800 million for the AHSC, $400 million for the TIRCP, $200 million for the LCTOP, and $250 million for the AB 617 program.

Appropriate Committed $230 million for the SB 125 Program's ZETCP
In 2023, following months of advocacy by the Association, California's transit agencies, regional entities, labor organizations, and transit riders, you approved AB 102 (Ting) [Chapter 38, Statutes of 2023] and SB 125 (Skinner) [Chapter 54, Statutes of 2023], which together, established a $5.1 billion multi-year transit funding package. The funding package (commonly referred to as the "SB 125 program") directed previously approved transit capital funding and new General Fund spending to the then-newly created formula-based TIRCP and ZETCP to maintain and increase critical transit service and advance major transit and rail capital projects (when operational funding challenges did not exist). The size and multi-year nature of the funding package reflected the state's understanding that dedicated funding could provide transit agencies with a runway to recover lost ridership, provide industry supply chains with time to stabilize, and afford regions and transit agencies the opportunity to scope, pursue, and secure long-term funding solutions.

In 2024 and 2025, due to the state's fiscal challenges, California's transit agencies faced budget proposals to eliminate the state's commitments to the SB 125 program. These transit agencies worked with the Legislature, through the Association, to reject the proposals and advance planned appropriations. To date $4.41 billion of the $5.1 billion funding package has been appropriated through separate actions in the Budget Acts of 2023, 2024, and 2025. The remaining balance of funding for the SB 125 ZETCP, totaling $690 million in Greenhouse Gas Reduction Fund revenue, is scheduled for appropriation in the Budget Acts of 2026 and 2027. Unfortunately, neither the Governor's May Revise nor the two-party agreement includes the planned appropriation for FY 2026-27, totaling $230 million.

While we understand that the state faces continued fiscal challenges, we will continue to highlight – as we did in 2024 and 2025 – that past appropriations to the SB 125 program have been essential to the maintenance of transit service and ridership recovery and that future appropriations to the program are critical to our industry's ongoing recovery and efforts to secure long-term funding solutions. Today, California's transit agencies have largely reached their pre-pandemic ridership levels. Where ridership recovery is slow or operational costs strain limited budgets, regions and transit agencies are readying self-help measures to secure long-term funding. The failure to provide the remaining balance of funding for the ZETCP, would result in service cuts and layoffs, threatening a fragile ridership recovery and undermining the efforts of regions and transit agencies – from San Francisco to San Diego – to secure long-term funding through self-help measures.

The Association urges the state to appropriate the planned $230 million in GGRF for the formula-based ZETCP in FY 2026-27 and reaffirm the state's commitment to appropriate $460 million in GGRF to the program in FY 2027-28.

Support ZEB Transition by Reinstituting the Partial Sales and Use Tax (SUT) Exemption and Identifying New Incentive Funding

In 2018, the California Air Resources Board (CARB) adopted the Innovative Clean Transit (ICT) regulation, which requires California transit agencies to convert their bus fleets to 100% zero-emission technology by no later than 2040. To achieve this goal, the regulation instituted a phased zero-emission bus (ZEB) purchase mandate, beginning in 2023, that requires transit agencies to purchase a fixed percentage of ZEBs with each bus procurement.

While navigating major global events and their impacts on capital budgets, California transit agencies have made significant progress toward the ICT regulation's goals, reaching CARB's ZEB deployment milestone for 2027 in 2022. This progress was not inevitable and was only possible because of funding and policy changes pursued and secured by the Association at the federal- and state-level, beginning in 2019.

Unfortunately, nearly all this funding, which has helped offset the significantly higher purchase costs of ZEBs over the last 7 years, has been used or redirected. Regrettably, one of the state's last remaining tools for offsetting the significantly higher purchase costs of ZEBs – the partial SUT exemption – expired on December 31, 2025 when its extension bill, SB 752 (Richardson), was held in the Senate Appropriations Committee. The partial SUT exemption saved transit agencies between $48,000 and $83,000 per ZEB.

The Association highlights that, in the absence of new or restored funding and/or statutory support to address the higher purchase costs of ZEBs, transit agencies' progress on ZEB deployments will slow, undermining our hard-fought leadership position on the medium- and heavy-duty ZEV transition.

The Association encourages the Legislature to identify new funding to support HVIP and reinstitute the partial sales and use tax exemption for zero-emission buses.

Extend COVID-19 Era Statutory Relief for Transit Agencies

In 2020, at the height of the COVID-19 pandemic, the Association worked with the state to identify and

enact a series of statutory relief measures to, among other things, temporarily eliminate counterproductive financial penalties for non-compliance with various transit funding efficiency measures.

Specifically, these statutory relief measures eliminated the financial penalties associated with current law that require:

- Transit agencies to obtain specified fixed percentages of their operating budgets from passenger fares (often called “farebox recovery ratio requirements”) in order to receive their full share of the Transportation Development Act’s Local Transportation Fund (LTF) revenues.
- Transit agencies to hold operating cost per revenue vehicle hour constant year-over-year, as adjusted for inflation, in order to apply their share of State Transit Assistance Program funds fully toward operations.

Transit agencies that fail to meet this first requirement face financial penalties, which reduce the LTF funding available to them for capital and operations. Transit agencies that fail to meet this second requirement face financial penalties, which limit the funding from their total share that could be applied to operations (i.e. these dollars may only be used for capital expenditures).

In 2022 and 2023, the Association sought extensions to these measures, which ultimately resulted in this statutory relief being provided by the state through FY 2025-26.

As noted above, although transit agencies are continuing to recover from the pandemic, they are still dealing with much higher operating costs and inconsistent ridership levels. Once financial penalties resume in FY 2026-27, agencies may be unable to meet the required farebox recovery and efficiency standards. This could trigger penalties that reduce their access to critical transit funding or limit how that funding can be used.

The Association urges the state to extend these statutory relief measures through FY 2028-29.

As the state navigates another challenging budget cycle, we appreciate your continued partnership and thoughtful engagement with the Association. By preserving critical funding commitments, establishing long-term program stability, and advancing new policies to support California’s ZEV transition goals, the state can ensure California transit and rail agencies are well-positioned to deliver safe, reliable, and affordable mobility options to all Californians.

Please contact me at michael@caltransit.org or 916-446-4656 x1034, if you have any questions.

Sincerely,

Michael Pimentel
Executive Director

Attachment 1: Tier 3 GGRF Coalition Letter (Update 6/12/26)

cc: The Honorable Eloise Gomez Reyes, Chair, Senate Budget Subcommittee No. 2
The Honorable Laura Richardson, Chair, Senate Budget Subcommittee No. 5
The Honorable Steve Bennett, Chair, Assembly Budget Subcommittee No. 4
Members and Consultants, Senate Budget and Fiscal Review Committee
Members and Consultants, Assembly Budget Committee
Joe Stephenshaw, Director, Department of Finance
Steven Cliff, Executive Officer, California Air Resources Board
Toks Omishakin, Secretary, California State Transportation Agency
Dina El-Tawansy, Director, California Department of Transportation

Attachment 1

June 10, 2026 (June 12 Update)

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

The Honorable Monique Limón
Senate President Pro Tempore
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas
Speaker of the Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

RE: Honor SB 840 Commitments to AHSC, TIRCP, LCTOP, and AB 617

Governor Newsom, pro Tem Limón, and Speaker Rivas:

We, the undersigned organizations, write to you today, following the California Air Resources Board's vote to adopt the *Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms,* to urge you to honor the state's ongoing funding commitments to the Tier 3 programs established by SB 840 (Limon) [Chapter 121, Statutes of 2025].

Specifically, we voice our strong support for honoring the state's commitments to the Affordable Housing and Sustainable Communities Program (AHSC), Transit and Intercity Rail Capital Program (TIRCP), Low Carbon Transit Operations Program (LCTOP), and AB 617, which were reauthorized less than a year ago. As you know, the amendments will reduce GGRF revenues by $2 billion and eliminate GGRF funding for all Tier 3 programs, including but not limited to, the AHSC, TIRCP, LCTOP, and AB 617 communities. **We urge you to maintain the ongoing appropriation of $800 million for the AHSC, $400 million for the TIRCP, $200 million for the LCTOP, and $250 million for AB 617.**

In 2025, our organizations, representing affordable housing, local government, transportation / transit, environmental, and labor interests from across the state, supported the efforts of the Newsom Administration and Legislature to extend the Cap-and-Trade program beyond 2030. We supported the proposed early action on the extension, as we understood the importance of the program to meeting California's long-term climate and air quality goals and believed state officials' public statements that such action was immediately necessary to stabilize the market and continue the state's investment from the GGRF in key climate programs. As the effort gained traction in the companion measures of AB 1207 (Irwin) [Chapter 117, Statutes of 2025] and SB 840 (Limon) [Chapter 121, Statutes of 2025], we supported the legislation and defended the bills against attacks from stakeholders, including the industry sectors subject to the program. We were pleased to see that the enacted legislation, consistent with our objectives, extended the program through 2045, renamed the program the "Cap-and-Invest" program, and maintained continuous appropriations from the GGRF for the AHSC, TIRCP, and LCTOP while also committing – for the first time – ongoing funding for air quality initiatives in AB 617 communities.

Our enthusiasm for the reauthorization and maintenance of these continuous appropriations was, unfortunately, short-lived.

Less than one year later, CARB released, and later adopted, amendments to implement AB 1207 that, in our view, violated legislative intent and invalidated the funding agreement reached between the Administration and Legislature in SB 840 (Limon). The amendments, as you know, increased allowances for polluting industries by nearly $2 billion annually to address "industry leakage" and "affordability" and reduced GGRF revenue by a commensurate amount annually, zeroing the hard-fought funding that was deliberately committed to the AHSC, TIRCP, and LCTOP. This funding has been a centerpiece of the state's climate strategy since 2015 and its maintenance was, in our view, essential to the reauthorization of the Cap-and-Invest program. This funding supports the buildout of affordable transit-oriented housing and major transit projects, deployment of zero-emission vehicles, transit service, fare free and discounted transit passes, and community air quality initiatives.

Over the last decade, as identified by CARB, implemented projects funded by these programs have delivered the following GHG emission reductions and benefits.

- AHSC:
  - 6,632,693 MTCO2e GHG emissions reduced
  - $4.85 billion invested, with $4.0 billion benefitting priority populations
  - 22,877 units of affordable housing funded

- TIRCP:
  - 23,369,888 MTCO2e GHG emissions reduced
  - $2.74 billion invested, with $1.58 billion benefitting priority populations
  - 263 transit projects implemented

- LCTOP:
  - 7,446,600 MTCO2e GHG emissions reduced
  - $1.23 billion invested, with $1.14 billion benefitting priority populations
  - 1,123 projects and services implemented

- AB 617:
  - 282,500 MTCO2e
  - $527 million invested, with $442.68 million benefitting priority populations
  - 9,004 projects implemented

What's more, implemented projects directly address the affordability crisis faced by Californians by expanding access to affordable housing and transit options; supporting good paying, life-sustaining jobs; and creating travel time savings that buys Californians more time with family and friends.

We estimate that, due to the adoption of the amendments, the constituencies we represent and/or serve will lose up to $1.65 billion in GGRF annually. Given the GHG reductions from these programs outlined above, reducing this funding will jeopardize the state's ability to meet its 2030 GHG reduction targets. **We, therefore, urge you to work with our organizations to develop and implement a plan to honor the state's ongoing funding commitments to the AHSC, TIRCP, LCTOP, and AB 617.** Such action is necessary to ensure that, despite CARB's action, the state can continue to deliver more affordable housing units, more accessible and affordable public transit, and better air quality for our vulnerable communities.

We look forward to engaging with you in the weeks ahead to protect this critical funding.

Sincerely,

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