California Transit Association

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February 9, 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: Response to Governor's Fiscal Year 2026-27 Proposed Budget**

Governor Newsom, pro Tem Limón, Speaker Rivas:

On behalf of the California Transit Association, I write to you today in response to the Governor's Fiscal Year (FY) 2026-27 Proposed Budget and to present our members' budget priorities. 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 transit modes.

As you know, in 2023, against the backdrop of a multi-billion state budget shortfall, the state approved a $5.1 billion funding package to address the dire financial needs of California transit and rail agencies statewide in the aftermath of the COVID-19 pandemic. Your action acknowledged the importance of transit service to the people of California and the essential role transit plays in improving public health, combating climate change, creating good-paying jobs, and expanding access to opportunity. In the years that followed, despite continued fiscal challenges, the state affirmed its commitment to the funding package and honored all planned appropriations. What's more, in 2025, as the state considered the reauthorization of the Cap-and-Trade program, you acknowledged the importance of mass transportation to reaching the state's climate goals by preserving critical funding for the Transit and Intercity Rail Capital Program (TIRCP) and Low Carbon Transit Operations Program (LCTOP), and providing $125 million in new funding for transit passes. While the Association thanks you for your historic and ongoing support for transit and rail agencies, we voice significant concerns with the proposed FY 2026-27 budget's failure to recognize the remaining appropriations owed to the Zero-Emission Transit Capital Program (ZETCP) and new funding uncertainty in the TIRCP and LCTOP. The priorities outlined in this letter focus on ensuring the state continues to fulfill the commitments it made to transit and rail agencies in the last three budget cycles and prioritizes investments in transit and rail programs from the Greenhouse Gas Reduction Fund (GGRF), while advancing policy recommendations that 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.***

**Appropriate Committed $230 million for the SB 125 - 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, the Governor's proposed budget does not include the planned appropriation for the upcoming fiscal year, totaling $230 million.

While we understand that the state faces continued fiscal challenges, which put strain on the GGRF, 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 SB 125-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.***

**Establish Funding Certainty for TIRCP and LCTOP Program**
In 2024 and 2025, the Association and its Climate Safe Infrastructure Coalition (CSIC) regularly engaged the Administration and Legislature on our members' priorities for Cap-and-Trade Reauthorization. In these discussions, we voiced our support for action in 2025, a long-term extension of the program through 2045, the maintenance of continuous appropriations from the GGRF for the TIRCP and LCTOP at levels at least equal to current levels, streamlining of TIRCP and LCTOP grant administration, and greater funding flexibility under the programs. Throughout our advocacy, we emphasized the importance of funding certainty to transit agencies for capital program development and project delivery as well as for service planning and delivery.

In 2025, following months of advocacy by diverse stakeholders, including the Association and CSIC, you approved AB 1207 (Irwin) [Chapter 117, Statutes of 2025] and SB 840 (Limón) [Chapter 121, Statutes of 2024], which together, extended the Cap-and-Trade program through 2045; renamed it the

Cap-and-Invest program; and recast the Cap-and-Invest Expenditure Plan, maintaining continuous appropriations for the TIRCP and LCTOP.

The bills represented significant progress toward the Association's priorities and secured our endorsement. As we voiced our support for the bills and expressed our appreciation for maintaining the continuous appropriations for the TIRCP and LCTOP, we also respectfully raised concerns about the state's decision to place these programs in Tier 3 of the new GGRF Expenditure Plan. Under the new plan, Tier 3 programs receive funding only after all Tier 1 and Tier 2 programs' funding commitments are met. When GGRF revenues fall short due to a weak auction market, Tier 3 programs are subject to proportional funding reductions. We flagged then that, in a weak market, the TIRCP and LCTOP could receive far less than the $400 million and $200 million committed to the programs by SB 840, respectively. The Governor's proposed budget validates these concerns by projecting reduced appropriations of $283 million and $141 million, respectively.

***The Association urges the state to work with us to establish funding certainty for these programs. Additionally, with the Governor pursuing reforms to the Affordable Housing and Sustainable Communities Program, we urge the state to work with the Association to update and streamline the TIRCP and LCTOP to ensure they provide additional flexibility to transit agencies to fund projects and services that align with the state's goals and objectives while meeting evolving local needs.***

**Implement $125 million in FY 2026-27 for Fare Free Program with Guidance from the Association**
SB 840 (Limón) provides $1 billion annually for investment in legislative priorities and pre-approved from this share $125 million in the FY 2026-27 for transit passes. The Governor's proposed budget maintains this appropriation.

In recent years, the Association has sponsored and supported various measures to encourage California transit agencies to implement fare free or reduced fare programs, recognizing the equity and mobility benefits they provide to transit riders and the communities our members serve. In engaging on these measures, we have been guided by the expertise of our members who have developed and implemented these programs locally (or, at times, regionally) with limited operating budgets, compiled diverse funding sources and established creative partnerships to sustain these programs over the long-term, and who are ultimately accountable to their riders and communities. This guidance has led us in previous years to adopt a "first, do no harm" principle relative to state-level transit pass programs to ensure that, as we strive to implement more equitable fare structures, we do not create additional strain on operating budgets, undermine the funding sources and partnerships that have sustained existing fare free or reduced fare programs, or overcommit to riders and communities on the scope of the programs.

The Association believes this "first, do no harm" principle remains valid today.

To align this one-time funding opportunity to this principle, ***the Association urges the state to direct the $125 million for transit passes to an existing formula program. The Association further urges the state to work with the Association to identify and eliminate reporting requirements or limits on the use of funds that are unnecessary for this one-time investment.***

**Support ZEB Transition by Reinstituting the Partial Sales and Use Tax 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.

| Beginning Purchase Year | Large Agencies (100 or more VOMs) | Small Agencies (100 or fewer VOMs) |
|---|---|---|
| 2023 | 25% | N/A |
| 2026 | 50% | 25% |
| 2029 | 100% | 100% |

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. This funding included multi-year funding for CARB's Hybrid and Zero-Emission Bus Voucher Incentive Project (HVIP) and the creation of the program's Transit Set-Aside; multi-year funding for the CEC's Clean Transportation Program and the creation of the program's Transit Set-Aside; one-time funding from CARB's VW Mitigation Trust; one-time funding from the Investor-Owned Utilities' Make Ready Infrastructure Programs; and a 500 percent increase in federal funding in the Infrastructure Investment and Jobs Act for the Federal Transit Administration's Low and No Emission Grant and Buses and Bus Facilities (B&BF) Grant programs. These policy changes included the establishment of a partial sales and use tax (SUT) exemption for zero-emission buses; exemptions from the California Environmental Quality Act for the buildout of charging and refueling infrastructure and associated facilities for ZEBs; and new commercial electricity vehicle rates for battery-electric buses.

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. At the state level, CARB's multi-year HVIP retains a balance of $66 million, which is accessible to transit agencies on a first-come/first-serve basis. $61 million of this total is accessible by other medium- and heavy-duty fleets and is expected to be fully utilized by the end of the calendar year. All one-time funding has been utilized. At the federal level, the Low-No and Buses and Bus Facilities Programs have been wholly redirected from funding the deployment of ZEBs and low-emission buses to funding only low-emission buses. What's more, transit agencies that received Low-No or B&BF grant awards under the previous administration, but who had not yet fully encumbered the funding by the end of its term, have been encouraged by the FTA to convert planned ZEB orders to low-emission bus orders or risk losing funding. 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 Fiscal Year 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, many 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 limited 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

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
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