Attachment A: FY 2025-26 Cap and Trade Low Carbon Transit Operations Program (LCTOP) Additional Background

Cap and Invest Policy and Funding Background

LCTOP is a formula-based transit funding program that under the current state Cap and Trade policy (effective until June 31, 2026) receives 5% of the state's Cap and Trade auction revenues. Under this policy, funds are allocated annually using the prior calendar year's revenues (e.g., the FY 2024-25 program used revenues from calendar year 2024 auctions), with half of the program distributed to transit operators based on revenue, and half distributed to regions based on population. The program is administered by Caltrans and all project sponsors must submit allocation requests to Caltrans.

Due to changes to the Cap and Trade program – now known as Cap and Invest – the annual LCTOP program will transition to using auction revenues from a fiscal year. To make this transition, Caltrans has decided to hold two funding cycles for FY 2025-26 – Cycle A will utilize the 2025 calendar year auction results and will follow the usual schedule, while Cycle B will distribute revenues from the February and May 2026 auctions and is anticipated to be held in Fall 2026. For FY 2026-27 and beyond, there will be one annual cycle based on the fiscal year auction results.

The State Controller's Office (SCO) released the FY2025-26 LCTOP Cycle A eligibility list in February 2026, distributing $132.8 million to transit operators and Metropolitan Planning Organizations (MPOs) statewide. This year's Cycle A program will distribute $12.9 million in population-based funds to MTC and $36 million in revenue-based funds directly to operators in the region.

Based on the February Cap and Invest auction and historical auction trends, staff estimate Cycle B will distribute a total of approximately $66 million statewide. The Cycle B program is estimated to distribute $6.4 million in population-based funds to MTC and $18 million in revenue-based funds directly to operators in the region. These funding amounts will be finalized this summer after the May auction.

MTC's Cap and Trade Funding Framework

For MTC's share ($19.6 million), the Cap and Trade Funding Framework ("the framework"), MTC Resolution No. 4130, Revised, adopted in April 2016, set funding targets for three categories of investment over the life of Plan Bay Area – North Counties/Small Operators, Clipper and Fare Policy, and Key Transit Corridors.

Within the Key Transit Corridors category, MTC committed to providing at minimum the following shares of these funds to each of three operators:

- AC Transit: 16%
- SFMTA: 28%
- VTA: 17%

These minimum percentages would be achieved over a five-year period, provided that the three operators each have eligible, ready-to-go projects during a five-year cycle. FY 2025-26 will be the final year of the current five-year cycle, and staff recommend that both Cycle A and Cycle B funding be counted as part of the current cycle for calculating and distributing set asides. SFMTA and VTA have met their minimum set asides through previous awards and reprogramming actions. AC Transit has approximately $500,000 remaining to meet their minimum set aside.

In FY 2024-25, MTC distributed approximately one-third of the population-based LCTOP funding to projects selected by northern counties and small operators, and approximately two-thirds of the funding to Next Generation Clipper Operations, based on staff's intent to create a larger pot of funding the following year for a call for projects consistent with the Key Transit Corridors category. As a result, for FY 2025-26 Cycle A and Cycle B LCTOP funding, staff recommend distributing approximately one-third of the population-based LCTOP funding to projects selected by northern counties and small operators and approximately two-thirds of the funding to projects selected via a Transit Performance Initiative (TPI) call for projects.

Details on Proposed FY 2025-26 Distribution

North Counties/Small Operators: The North Counties and Small Operators receive a proportion of MTC's population-based LCTOP funding based on the funding targets set in MTC Resolution No. 4130. The North County CTAs are responsible for distributing the funding within their counties, and the other small operators have discretion over their project selection. The recommended programming for these projects is based on project information provided by these project sponsors. North county and small operators will implement a variety of projects, including service expansion, free or reduced fare programs, and procurement of zero-emission buses and supportive bus-charging infrastructure. Around one-third of the funds from this category will be used for zero-emission buses or infrastructure. A total of $4.3 million is recommended under this project category for LCTOP Cycle A, and approximately $2.2 million is recommended for LCTOP Cycle B. The full list of recommended projects and programming amounts is included in Attachment A of MTC Resolution No. 4273, Revised.

Key Transit Corridors: Staff recommend distributing $8.5 million in LCTOP Cycle A funds and approximately $4.3 million in LCTOP Cycle B funds to five projects selected through the TPI call for projects. Attachment B to this item details the TPI evaluation process, Attachment C provides details on the recommended projects, and the list of recommended projects and programming amounts is included in Attachment A of MTC Resolution No. 4273, Revised.