CaliforniaTransit
Association

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April 25, 2023

The Honorable Gavin Newsom
Governor, State of California

The Honorable Toni G. Atkins
Senate President Pro Tempore
California State Senate

The Honorable Nancy Skinner
Chair, Senate Budget Committee
California State Senate

The Honorable Anthony Rendon
Speaker of the Assembly
California State Assembly

The Honorable Phil Y. Ting
Chair, Assembly Budget Committee
California State Assembly

RE: California Transit Association's Funding Request and Policy Recommendations to Address Near-Term Operating Deficits

Dear Governor Newsom, Pro Tempore Atkins, Speaker Rendon, Senator Skinner, and Assemblymember Ting:

On behalf of the California Transit Association, I write to you to today to share our state funding request and policy recommendations to address the near-term operating deficits faced by California transit agencies. Our recommendations were unanimously approved by the Association's leadership in the week of April 16, following months of discussion between our members from across the state and shaped by our engagement with decision makers in Sacramento. With the state itself facing a difficult budget outlook for Fiscal Year 2023-24, our recommendations consciously internalize your message to limit (to the extent possible) new impacts to the state's General Fund and tackle impediments to the long-term financial and operational sustainability of our industry. As public transportation is at the center of the state's strategy for combatting climate change and vital to the mobility of the most vulnerable Californians, we intend for our recommendations to provide actionable guidance to the Legislature and Newsom Administration for addressing in 2023 the near-term needs of California transit agencies and the communities they serve, and to set the stage for a larger discussion about state support for transit operations, potential reforms to long-standing transit funding programs and formulas, and strategies to retain and rebuild riders. We thank you for your continued engagement with us, and for your demonstrated support for public transportation throughout your careers and in this pivotal moment.

Funding Request
As we presented at the Assembly Budget Subcommittee #3 hearing on March 15, **the Association estimates, through surveys of our member agencies, that California transit agencies statewide require at least $6 billion from FY 2023-24 to FY 2027-28** to address

pandemic-induced operating deficits that threaten transit service and jobs statewide, undermine transit agencies' work to support the state's environmental and mobility objectives, and stymie transit agencies' – and our most vulnerable communities' – recovery from the pandemic. Our data shows that most of this total statewide need derives from the operating deficits of agencies in the San Francisco Bay Area and broader Southern California region, respectively. The remaining balance of this total statewide need derives from the operating deficits of agencies in the broader Northern California region (exclusive of the San Francisco Bay Area), Central Valley and Central Coast. Thus, we argue that this statewide crisis requires a state-level solution, with flexible parameters to address unique local needs.

We find that these operating deficits stem from a variety of factors impacting agencies nationwide, including the depletion of federal emergency relief funding; the increased costs of transit operations resulting from a tight labor market and historically high fuel and energy costs; the increased costs of capital projects, resulting from inflation and supply chain issues; and, a slower-than-anticipated recovery in ridership caused by prevalence and endurance of remote work and the advent of new public safety concerns. The start date and severity of these operating deficits in California, much like for agencies across the nation, vary greatly by agency and depend on the funding portfolios that comprise their operating budgets, their level of dependence on fare revenue, and the socioeconomic characteristics of their ridership (which correlate with ridership retention and recovery).

Our findings are validated by a recent report completed by the UCLA Institute of Transportation Studies, entitled "Financing the Future: Examining the Fiscal Landscape of California Public Transit in the Wake of the Pandemic," which found, among other things, that *"[d]espite lagging demand, energy, equipment, and especially labor costs are up, while both ridership and associated fare revenues remain depressed. While state and local subsidies have mostly rebounded, they are falling behind rising costs. As a result, California transit agencies may be forced to cut service to reduce costs, and in doing so precipitate a vicious cycle of falling resources, service, and ridership."*

To address this near-term funding need, we request that the State of California provide $5.15 billion in multiyear funding for transit operations from a collection of state funding sources that have historically supported transit capital and operations. As detailed below, our request is intentionally designed to limit its impact to the state's General Fund and is only expected to result in a $213 million reduction to General Fund revenue in FY 2023-24 (assuming prior year funding commitments are upheld).

Specifically, we request the following:

- **An Additional Appropriation of Revenue from Sales Tax on Diesel Fuel ($1.35B from FY 2023-24 through FY 2027-28):** Under current law, California transit agencies receive approximately 80% of revenue generated by the state sales tax on diesel fuel. In usual years, the remaining balance of revenue flows to the state's General Fund. However, AB 194 (Committee on Budget) [Chapter 55, Statutes of 2022], last year's taxation budget trailer bill, paused collection of the portion of the sales tax on diesel fuel that generates the remaining balance of revenue through October 1, 2023.

  We request that you direct the full balance of revenue generated by the state sales tax on diesel fuel to transit operations for the next five years – from FY 2023-24 through FY

2027-28 once collection of that portion of the sales tax on diesel fuel resumes. This element of our request would provide transit agencies with approximately $213 million in FY 2023-24 and approximately $284 million annually from FY 2024-25 to FY 2027-28 for operations. This element would reduce General Fund revenue by the corresponding amount in each fiscal year.

- **An Additional Appropriation of Unallocated Cap and Trade Revenue ($2.5B from FY 2023-24 through FY 2027-28):** In its report to the Senate Budget Subcommittee No. 2, entitled "Cap-and-Trade Spending Overview," the Legislative Analyst's Office identified $800 million in unallocated (or "discretionary") Cap and Trade revenue in FY 2022-23 and FY 2023-24 above the Governor's proposed FY 2023-24 budget, which includes a significant investment of Cap and Trade revenue in zero-emission vehicles and AB 617 communities.

  We request that you provide $500 million in discretionary Cap and Trade revenue annually to transit agencies for operations for the next five years – from FY 2023-24 through FY 2027-28. We argue that this action is prudent in the face of increased demand for this revenue, given the nexus between transit service and greenhouse gas emission reduction, the centrality of public transit service to the state's long-term environmental goals, the immediate equity co-benefits that such an investment would deliver, and the dearth of other non-General Fund options for this purpose. We also believe it is important to highlight that the California Air Resources Board's 2022 Scoping Plan warns that *"[t]ransit's fiscal crisis has only exacerbated the adverse equity impacts of the pandemic, considering people with low-income, people with disabilities, and BIPOC communities are commonly transit dependent populations and the service available to them are now more limited,"* and argues "*[a]ccordingly, securing the necessary funding to return transit operations to pre-pandemic levels in the short term needs to be considered both a priority climate and equity action for the State."*

- **The Conversion of Transit Capital Funding to Transit Operations Funding ($300M in FYs 2026-27, 2027-28):** Under current law, the Transit and Intercity Rail Capital Program receives $650 million annually for distribution as competitive grant for transformative transit capital projects through the Transit and Intercity Rail Capital Program. These funds have been encumbered through the end of FY 2025-26 under previously approved multi-year grant awards through the Transit and Intercity Rail Capital Program.

  We have long supported TIRCP and recognize the significant value the program provides to communities across the state by supporting the construction of transformative projects that will significantly reduce vehicle miles traveled, congestion, and greenhouse gas emissions. That said, in this time of growing needs and fewer resources, we believe it is appropriate to redirect – on a one-time basis – a portion of this capital funding to operations. Specifically, we request that the state convert $300 million of the $1.3 billion that will be available in FYs 2026-27 and 2027-28 from capital funding to operations funding. In this process, we urge the state to ensure that all projects that previously received a multi-year commitment of funds see those commitments upheld.

- **Maintenance of $4 Billion General Fund Investment in Transit, Flexibility to Use this Transit Capital Funding for Transit Operations (Up to $1B in FYs 2023-24 through FY 2027-28):** The adopted FY 2022-23 budget commits $4 billion in General Fund revenue in FYs 2023-24 and 2024-25 for transit capital projects, to be distributed to regions via a population-based formula. The Governor's proposed FY 2023-24 budget proposes to reduce that commitment by $2 billion.

  As we outlined in our letter, dated January 24, we urge the state to maintain its original $4 billion commitment for FYs 2023-24 and 2024-25. This investment in the TIRCP was a key element of the budget discussions that ultimately led to the historic $11 billion commitment to transit, active transportation, climate adaptation and high-speed rail in the adopted FY 2022-23 budget. However, we request that the state grant regions the authority to "flex" up to 25% of their share of funding in these years for transit operations. This element would preserve at least 75% of this funding for building transformative capital projects, as originally directed by the FY 2022-23 budget.

Recognizing that this funding request does not address the full balance of our estimated funding need, we look forward to reviewing, and engaging you on, the funding recommendations being prepared by the Legislative Analyst's Office. As these discussions continue, we will be sharing recommendations with you for a preferred distribution mechanism, eligible uses, eligible entities, and accountability measures. At the highest-level, we have established as priorities that any new funding be available to transit agencies statewide and be accessible to stop service cuts and layoffs, but also to help agencies retool their service in ways that will retain and attract riders.

Policy Recommendations
As we submit this significant funding request, we acknowledge that in our initial round of discussions with you, you have emphasized the importance of continuing to improve transit service and the rider experience, with the goals of increasing the attractiveness of transit service and setting transit agencies on a path to achieving long-term operational and financial sustainability.

In those discussions, we have communicated our industry's commitment to this work and our continued interest in partnering with you to scope and implement legislation and operational improvements to deliver these shared goals. In recent years, we have demonstrated what this partnership looks like in practice by scoping and co-sponsoring legislation, including SB 922 (Wiener) [Chapter 987, Statutes of 2022] and AB 917 (Bloom) [Chapter 709, Statutes of 2021] to, among other things, improve transit travel times and on-time performance within existing resources. Today, we offer the following policy recommendations for consideration by the Legislature:

- **Pass Legislation to Address Safety and Homelessness on Transit Systems:** With the cleanliness and safety of our transit systems being a top concern for the public and key impediments to growing transit ridership, we and our member agencies previously supported the creation of the Clean California Program and the passage of SB 1161 (Min) [Chapter 218, Statutes of 2022], and called for the state to provide direct access to homelessness funding to transit agencies.

This year, we and/or our member agencies have worked with the members of the Legislature to scope SB 434 (Min) and AB 1377 (Friedman), new legislation to combat street harassment and the incidence of homelessness on our systems. We urge the Legislature to pass both bills. If California transit agencies are to regain riders and establish long-term financial and operational viability, we stress that it is imperative that we receive targeted support to address these larger societal challenges.

- **Continue Discussions on Reforms to Transit Service and Performance Metrics, Extend Current Statutory Relief:** In late 2018, in response to a request by then-Senate Transportation Committee Chair Jim Beall and then-Assembly Transportation Committee Chair Jim Frazier, the Association initiated an effort to reform the performance metrics in the Transportation Development Act (TDA) that provide accountability on transit operations and that govern access to state transit funding. In early 2020, the Association transmitted preliminary reform recommendations to these committees for their review and further guidance.

  Unfortunately, in March 2020, the COVID-19 pandemic began, and work on "TDA reform" between the Association and the Legislature was put on hold. In its place, the Legislature enacted in 2020 and 2021, at the Association's urging, a series of "statutory relief measures" that incorporated elements of the broader reform effort, but which also shielded transit agencies from unwarranted and counterproductive shifts in transit funding as well as a series of financial penalties that otherwise would have resulted under TDA due to the sharp pandemic-induced loss of fare revenues.

  As the pandemic has subsided, the Association has restated its commitment to the Legislature to pursue mutually agreeable reforms to TDA's performance metrics and to transit service, more generally, to help agencies regrow their ridership and establish fiscal stability over the next five years. Such engagement will take place through the process outlined in AB 761 (Friedman and Gonzalez) and through upcoming listening sessions organized by the California State Transportation Agency.

  As that work progresses, we urge you to extend the statutory relief provided to transit agencies through FY 2024-25 as this extension would allow more time for transit operations to recover, stave off unwarranted and counterproductive shifts in transit funding, while also allowing agencies to continue operations without service impacts. From the data we have collected, more than 80% of responding agencies noted that such relief has been helpful in maintaining their service and ridership.

- **Maintain Existing Flexibility in State Transit Assistance-State of Good Repair Program, Expand Flexibility in Low Carbon Transit Operations Program:** SB 1 (Beall and Frazier) [Chapter 5, Statutes of 2017] created the State Transit Assistance – State of Good Repair Program (STA-SGR) to provide additional revenues for transit infrastructure repair and service improvements.

  Under current law, enacted in 2020 and 2021, California transit agencies were granted flexibility to access STA-SGR to address funding shortfalls in operating or capital expenses resulting from the impact of the COVID-19 pandemic. This redirection of SGR funds requires transit agencies to obtain an approved declaration, board resolution and/or other appropriate document(s), from their respective governing board identifying the fiscal challenges which may cause reduction of service and thereby directing agency staff to pursue the flexibility of redirecting SGR funds toward these expenses. This flexibility expires at the end of FY 2022-23. We urge you to extend this flexibility for five years through FY 2027-28.

Under current law, California transit agencies can access the Low Carbon Transit Operations Program to support new or expanded bus or rail services, expand intermodal transit facilities, including equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, provided each project reduces greenhouse gas emissions. We urge you to provide flexibility in this program for five years through FY 2027-28 to allow LCTOP funds to be used to maintain operations.

We estimate that, combined, these two policy recommendations would maintain and create operating flexibility of approximately $1.63 billion over five years.

I also wish to thank you for holding hearings in the Senate and Assembly on this important issue and listening sessions at the California State Transportation Agency to discuss the issues facing my industry and for availing yourselves and your staff to us to carry out deeper conversations on how the state can provide support to California transit agencies amidst a difficult state budget outlook and over the long-term. We look forward to meeting with your offices soon to discuss these requests and recommendations in more detail as we work together to implement solutions to the issues our public transit agencies are facing. If you have any questions about our requests, please contact me at Michael@caltransit.org or (916)-446-4656 x1034.

Sincerely,

Michael Pimentel
Executive Director

cc: The Honorable Maria Elena Durazo, Chair, Senate Budget Subcommittee No. 5
The Honorable Josh Becker, Chair, Senate Budget Subcommittee No. 2
The Honorable Steve Bennett, Chair, Assembly Budget Subcommittee No. 3
Toks Omishakin, Secretary, California State Transportation Agency
Mark Tollefson, Undersecretary, California State Transportation Agency
Chad Edison, Chief Deputy Secretary for Rail and Transit, California State Transportation Agency
James Hacker, Deputy Cabinet Secretary, Office of Governor Gavin Newsom
Steve Cliff, Executive Officer, California Air Resources Board

ATTACHMENT 1: California Transit Association – Budget Request (by Funding Category, Source)

California Transit Association - Budget Request (By Funding Category, Source)

Summary Sheet

New Ops. Funding - New Allocations	Annual Funding Opportunity	5-Year Funding Opportunity	5-Year Funding Request (FY 2023-24 - FY 2027-28)	Notes
Redirection - Sales Tax on Diesel Fuel	$284,000,000	$1,349,000,000	$1,349,000,000	Funding in FY 2023-24 available for partial year only.
Appropriation - Cap and Trade Unallocated	$800,000,000	$4,000,000,000	$2,500,000,000	
Subtotal	**$1,084,000,000**	**$5,349,000,000**	**$3,849,000,000**	
New Ops. Funding - Repurposing of Existing Transit Capital Funding	**Annual Funding Opportunity (FY 2026-27 - FY 2027-28 Only)**	**5-Year Funding Opportunity**	**5-Year Funding Request (FY 2023-24 - FY 2027-28)**	**Notes**
Redirection - TIRCP (TIF Only)	$250,000,000	$500,000,000	$200,000,000	Funding for FY 2023-24 - FY 2025-26 encumbered in existing multi-year grant awards.
Redirection - TIRCP (GGRF Only)	$400,000,000	$800,000,000	$100,000,000	Funding for FY 2023-24 - FY 2025-26 encumbered in existing multi-year grant awards.
Subtotal	**$650,000,000**	**$1,300,000,000**	**$300,000,000**	
Flexibility in Existing Transit Capital Funding	**Annual Funding Opportunity (FY 2023-24 - FY 2024-25 Only)**	**5-Year Funding Opportunity**	**5-Year Funding Request (FY 2023-24 - FY 2027-28)**	**Notes**
Flexibility - TIRCP (GF Only)	$2,000,000,000	$4,000,000,000	$1,000,000,000	Funding only available in FY 2023-24 - FY 2024-25. Assumes 25% of $2 billion annual funding.
Subtotal	**$2,000,000,000**	**$4,000,000,000**	**$1,000,000,000**	
TOTAL			**$5,149,000,000**	
Statuory Changes to Existing Transit Operations Funding	**Annual Funding Opportunity**	**5-Year Funding Opportunity**	**5-Year Funding Request (FY 2023-24 - FY 2027-28)**	**Notes**
Flexibility - LCTOP	$200,000,000	$1,000,000,000	$1,000,000,000	Allow LCTOP, an existing operations funding program, to be used to maintain service.
Flexibility - STA-SOGR	$125,000,000	$625,000,000	$625,000,000	Extend current flexibiliy to use STA-SOGR to maintain service.
Total	**$325,000,000**	**$1,625,000,000**	**$1,625,000,000**	