CALIFORNIA STATE SENATE

COMMITTEE ON BUDGET AND FISCAL REVIEW

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SACRAMENTO, CA 95814

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COMMITTEE ASSISTANT
SAMUEL LANCHESTER

(916) 651-4103
FAX (916) 668-7004

Scott Wiener, Chair

Agenda

February 6, 2025

10:00 a.m. or Upon Adjournment of Session – 1021 O Street, Room 1200

Informational Hearing

Transit in California

I. Overview of Transit Funding and Operations in California

Frank Jimenez
Senior Fiscal & Policy Analyst, Legislative Analyst's Office

Brian Taylor
Research Fellow, University of California Los Angeles Institute of Transportation Studies

II. Recent State Investments in Transit

Mark Tollefson
Undersecretary, California State Transportation Agency

Michael Pimentel
Executive Director, California Transit Association

III. Operator Perspectives

Julie Kirschbaum
Acting Director of Transportation, San Francisco Municipal Transportation Agency

Michael Turner
Executive Officer, Government Relations, Los Angeles County Metropolitan Transportation Authority

Corey Aldridge
Chief Executive Officer, Santa Cruz Metropolitan Transit District

IV. Public Comment

Informational Hearing

Transit in California

BACKGROUND

Transit Basics. Public transportation, mass transportation, and transit generally refers to transportation services operated on a variety of modes, including rail, bus, and ferry, offered to the general public on a regular basis. A wide range of agencies provide transit services, including cities, counties, independent special districts, transportation planning agencies, nonprofit organizations, universities, and tribes. Transit riders generally have to pay a fare, but it is often discounted for specific types of riders, such as students and seniors. Fare structures also vary by agency—some offer a flat fee for each ride, whereas others charge fares based on the length or distance of the trip.

Transit in California. Over 200 entities provide transit services in California. Together, these agencies maintain and operate nearly 20,000 vehicles and employ more than 21,000 workers. These agencies vary greatly in size, ranging from large urban agencies with bus and rail services to small rural agencies providing paratransit. However, few of the largest transit agencies do reside in California. For example, according to the American Public Transportation Association (APTA), three of the country's 15 largest transit fleets are in California: Los Angeles County Metropolitan Transportation Authority (LA Metro), San Diego Metropolitan Transit System (MTS), and San Francisco Municipal Railway (Muni) (APTA 2024 Public Transportation Vehicle Database). In addition, five of the nation's 30 highest ridership transit services are in California: LA Metro, City and County of San Francisco, San Diego MTS, Alameda-Contra Costa Transit District, and Orange County Transportation Authority (APTA 2023 Public Transportation Fact Book).

Funding. Transit agencies are funded through various mechanisms, the majority of which typically falls under three categories: passenger fares and fees, local funds, state funds, and federal funds.

- *Fares and fees.* Users of transit services pay fares to use services and operators generate additional revenues from users through auxiliary fees, such as for park and ride services, concessions, and advertising.

- *Local Funds.* Local funds are generated in multiple ways, but the majority of these funds come from sales tax revenues. Local sales tax revenues include both counties' share of the Local Transportation Fund (LTF), as well as local sales tax measures. Through LTF, counties receive revenues from a one-quarter percent sales tax applied to all goods statewide. All counties receive LTF revenues, which must be used for transportation purposes, including transit services. In addition, in 25 "self-help" counties, voters have passed a one-half percent sales tax for transportation, a portion of which goes towards transit.

- *State Funds.* The state has several major formula and competitive programs that support transit. These programs are largely funded on an ongoing basis from fuel taxes and vehicle fees, with a smaller portion coming from annual Greenhouse Gas Reduction Fund (GGRF) revenues. Below is a summary of the major state transit programs from the Legislative Analyst's Office (LAO):

Overview of Major State Transit Programs

(In Millions)

Program	Description	Amounts (2022-23)
Formula		
State Transit Assistance	Provides operational and capital support.	$1,039
Low Carbon Transit Operations Program	Provides operational and capital support to reduce GHG emissions and improve mobility.	234
State of Good Repair	Provides support for maintenance, rehabilitation, and capital projects.	121
State Rail Assistance	Provides operational and capital support for commuter and intercity rail agencies.	67
Competitive		
Transit and Intercity Rail Capital Program[a]	Funds capital projects that reduce GHG emissions, vehicle miles traveled, and congestion.	$540

[a] The 2022-23 budget package allocated an additional $4 billion from the General Fund to temporarily augment the Transit and Intercity Rail Capital Program, not displayed in the figure.

GHG = greenhouse gas.

In addition, the 2022-23 budget package provided $4 billion from the General Fund to temporarily augment the Transit and Intercity Rail Capital Program (TIRCP). It also included an agreement to provide $2 billion from the General Fund in both 2023-24 and 2024-25 to provide funding to regional agencies via a population-based formula through TIRCP. Transit can also receive funding through other state transportation programs. For instance, the State Transportation Improvement Program and the Solutions for Congested Corridors Program support improvements to highways, local streets and roads, and transit systems. Transit agencies are also eligible to receive funding under the California Air Resources Board's (CARB's) Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project, which provides vouchers to purchase near-zero-emission and zero-emission trucks and buses.

- *Federal Funds.* Federal funds come from multiple sources, but a large share comes from federal taxes on gasoline and diesel. There are 33 programs under the Infrastructure Investment and Jobs Act (IIJA) with five programs making up the majority of federal funds for transit in California: (1) the Urbanized Area Formula Program, (2) the Rural Area Formula Program, (3) the State of Good Repair Program, (4) the Bus and Bus Facilities Grant Program, and (5) the Capital Investment Grants Program. Most of these funds are disbursed on a formula basis. In addition to these programs, there are competitive grant funding included in the IIJA.

Major Federal Formula Transit Programs

Federal Fiscal Year 2022 (In Millions)

Program	Amounts
Urbanized Area Formula Program	$1,138
State of Good Repair Program	641
Bus and Bus Facilities Program	76
Enhanced Mobility of Seniors and Individuals with Disabilities Program	47
Rural Area Formula Program	39
Metropolitan Transportation Planning Program	23
Statewide Transportation Planning Program	5
Totals	**$1,969**

Impacts of the Pandemic. With the onset of the COVID-19 pandemic during the first half of 2020, transit ridership plunged from 50 percent to as much as 94 percent in California. In efforts to stave off financial losses from declining transit ridership the federal government provided relief for transit operators across the country. In March of 2020, Congress passed and the President signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act, which provided $25 billion in direct operational relief to transit agencies. The Coronavirus Response and Relief Supplemental Appropriations Act of 2021 provided an additional $14 billion in transit relief and the American Rescue Plan in March of 2021 provided $30.5 billion more. In total, the federal government provided nearly $70 billion nationwide to stabilize agencies' budgets, prevent layoffs, and maintain service levels. More specifically, transit agencies in California received $9.8 billion in federal relief. This funding was intended to sustain transit operations until ridership and fare revenues have recovered.

Although transit ridership has improved since 2020, the recovery has proven to be uneven across the various agencies. For example, below is a summary of recent ridership metrics from several large agencies across the state:

- *BART.* Between July 2023 and June 2024, BART monthly ridership ranged from 39 to 43 percent of pre-pandemic expectations. Weekend trips have recovered at a better rate, with average Saturday ridership reaching 63 percent and average Sunday ridership reaching 75 percent in May 2024. (BART Ridership Reports)

- *Muni.* In September 2024, the agency reported weekday ridership reached 74 percent of pre-pandemic levels, weekend ridership is at 92 percent, and overall ridership is at 78 percent. (SFMTA, "Muni Crosses a Major Ridership Milestone")

- *Caltrain.* The agency's ridership has reached a peak of nearly 39 percent of pre-pandemic levels in May 2024. (Caltrain Fiscal Year 2024 Annual Ridership Report)

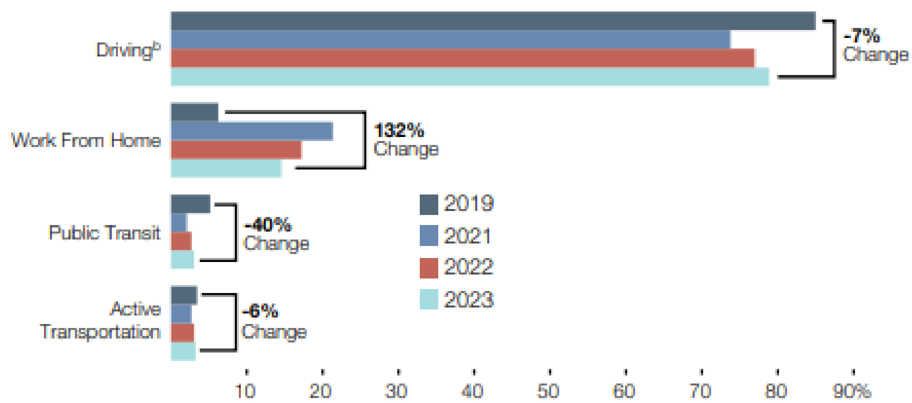
- *LA Metro.* In September 2024, Metro's combined bus and rail ridership reached 86.4 percent of its September 2019 pre-pandemic level. Average weekday boardings on Metro reached 83.6 percent of September 2019 pre-pandemic levels and 96.6 percent of the pre-pandemic level on weekends. (LA Metro, "LA Metro Ridership Reaches One Million Weekday Riders in September, Marks 22nd Consecutive Month of Year-Over-Year Growth")

- *San Diego MTS.* The agency reports the ridership has reached 85 to 90 percent of the pre-pandemic levels. (MTS, "On Track: MTS Sees Strong Ridership Rebound in FY24")

- *SacRT.* As of December 2024, SacRT reports ridership is nearly 83 percent of pre-pandemic levels, with bus ridership at about 100 percent. (SacRT Annual Comprehensive Financial Report)

Ridership recovery has varied across transit agencies due to a range of factors. A key issue continues to be a greater proliferation of remote work and school. This has particularly affected transit systems that historically were oriented towards commuters. As a significant share of the workforce continue to work remotely, or work hybrid schedules, commute trips on public transit have not fully recovered to pre-pandemic levels.

Commuting Patterns Shifted During and After Pandemic[a]



Working from home has become far more popular while public transit use remains well below pre-pandemic levels.

[a] Based on data from the American Community Survey. 2020 data is omitted due to the effects of the COVID-19 pandemic on data collection and quality.

[b] Driving includes cars, trucks, vans, motorcycles, and taxis.

Credit: LAO

These lagging ridership levels have affected different transit agencies differently. For example, some smaller transit agencies that mainly operate bus routes have been able to respond to such changes in demand, by changing or eliminating bus routes to better serve the riders and lower service costs. Other transit agencies have not been able to change service levels as easily, particularly fixed rail systems that cannot change routes and have high fixed operating costs.

In addition to lower levels of ridership, the pandemic has added additional cost pressures for transit operations. For example, according to the UCLA Institute of Transportation Studies: "Transit service grew more expensive to provide during the pandemic. A vehicle-hour of revenue service in California increased in cost by an average of 18 percent between Fiscal Year 2019 and 2021." This could be a result of a combination of factors, including supply-chain related shortages, inflation, labor shortages, among other issues.

Recent State Investments. Due to the impacts of the pandemic, transit agencies reported an impending fiscal crisis in 2023. Based on ridership, service levels, and cost trends, transit agencies expect to face budget shortfalls in the tens of millions of dollars in 2023-24, growing to hundreds of millions of dollars in 2024-25 and thereafter. For example, BART projected annual deficits of $140 million by 2026-27; Caltrain anticipated a budget shortfall of $25 million in 2024 and $49 million in 2025; and LA Metro expected a budget gap of $400 million in 2025 and $1 billion in 2026.

In response, the 2024 Budget Act included $5.1 billion for transit across four years through the Transit and Intercity Rail Capital Program (TIRCP) and the Zero Emission Transit Capital Program (ZETCP). In addition, SB 125 (Committee on Budget and Fiscal Review), Chapter 54, Statutes of 2023, provided statutory relief to transit operators as well as measures for accountability for transit operators to improve ridership and long-term sustainability. According to the LAO, [this] budget package provides new funding, flexibilities, and oversight, along with establishing a taskforce to recommend longer-term transit improvements and reforms.

- *Provides New Funding and Flexibility for Transit Operations and Capital Programs…* To give transit agencies additional tools to address potential operating shortfalls, the budget package provides flexibility over the use of funding within two programs. First, as shown earlier in Figure 2 and consistent with prior multiyear funding agreements, the budget includes $2 billion General Fund in both 2023-24 and 2024-25 for the population-based TIRCP. The budget also expands the allowable uses for this funding, permitting it to be used for capital improvements and/or transit operations. Under previous budget agreements, funding under this program had been limited to capital expenditures. In addition, the spending plan includes intent to provide $1.1 billion across 2023-24 through 2026-27 from the Greenhouse Gas Reduction Fund (GGRF) and Public Transportation Account to support a new Zero-Emission Transit Capital Program. This includes $410 million in 2023-24 ($220 million from GGRF and $190 million from the Public Transportation Account). This new program provides formula funding which agencies have the flexibility to use to support zero-emission buses and related infrastructure and/or to cover their operating expenses.

- *…And Adds New Accountability and Reporting Requirements.* The budget package includes various accountability and reporting requirements related to this transit funding. At the state level, the California State Transportation Agency (CalSTA) is required to develop and administer an accountability program for funding distribution. The budget package also includes new requirements for regional transportation agencies. In order to receive funding in 2023-24, an agency must either (1) submit a short-term financial plan for CalSTA approval by December 31, 2023 or (2) declare that it does not have an operational need between 2023-24 through 2026-27 and will not use the funding to support operations. In order to receive funding in 2024-25, agencies must submit short-term financial plans to CalSTA by December 31, 2025. In addition, agencies must submit long-term financial plans to CalSTA by June 26, 2026. CalSTA must approve an agency's long-term plan in order for it to be eligible to receive TIRCP funding in 2026-27 or subsequent years.

- *Extends Temporary Penalty Exemptions and Statutory Flexibility.* The budget package extends various flexibilities and penalty exemptions that were previously set to expire at the end of 2022-23. Specifically, the budget extends the following through 2025-26: (1) exemptions to penalties if agencies do not meet existing efficiency requirements under the Transportation Development Act; (2) flexibility to use State of Good Repair Program funding to support operations; and (3) hold harmless provisions that allow for revenue-based allocations to be based on pre-pandemic data for various programs including the State Transit Assistance, State of Good Repair, and Low Carbon Transit Operations Program.

- *Establishes Taskforce to Recommend Transit Improvements and Reforms.* The budget package requires CalSTA to convene a stakeholder group to develop policy recommendations to grow transit ridership and improve the transit experience for riders. In addition, the language directs the taskforce to provide an analysis of various other topics such as reforming the Transportation Development Act (TDA). The taskforce must submit a report on its findings and recommendations to the Legislature by October 31, 2025.

Governor's Budget and Implementation Update. The Governor's budget maintains the $5.1 billion included in prior budgets for the TIRCP and ZETCP. CalSTA is currently administering these funds as well as implementing the accountability and reporting requirements.

As of November 2024, 40 agencies have submitted a regional short-term financial plan and CalSTA has approved roughly $2.2 billion. Of that amount, more than $600 million was requested specifically to support transit operations.

In addition, CalSTA has convened the Task Force in December 2023. The Task Force has 25 members from the department, various local agencies, academic institutions, nongovernmental organizations, and other stakeholders. Currently, the task force meets every two months to discuss various relevant topics, such as TDA (which provides two major funding streams for transit, LTF and State Transit Assistance) reform, workforce development, and land use policies, in various locations across the state.

Issues for Consideration. Transit is integral to the state's climate goals, specifically in reducing vehicle miles traveled and emissions from a carbon-intensive transportation system. In addition, transit is important to ensure mobility for all, particularly to those who do not have other transportation options. In this unique juncture for transit in California, the Legislature may want to consider the following:

- *Program Oversight.* In 2023, the budget included a significant one-time General Fund and Greenhouse Gas Reduction Fund expenditure towards transit. This unprecedented investment came with several accountability and reporting requirements, specifically requiring agencies to provide short- and long-term financial plans. What has the state learned from these accountability measures thus far? How have the state funds been used? Which strategies have been most effective in improving ridership and supporting the long-term viability of transit? Are there any potential lessons learned for future state funding for transit?

- *Ridership.* Nearly five years after the initial pandemic-related shut-downs, transit ridership still has not fully recovered at many agencies. There are many factors that have contributed to this, including issues outside of agencies' control, such as shifts in commuting patterns. How can transit agencies continue to adapt to this changing environment? What innovative strategies are transit operators currently implementing to grow ridership, such as coordinated scheduling, real time information, and easy payment? How can the state incentivize all operators to adopt these best practices, where appropriate?

- *State Funding.* As the state shifts towards zero-emission vehicles, the LAO estimates "notable revenue declines over the next decade from the state's gasoline excise tax ($5 billion or 64 percent), diesel excise tax ($290 million or 20 percent), and diesel sales tax ($420 million or 20 percent)." (LAO, "Assessing California's Climate Policies—Implications for State Transportation Funding and Programs") Without policy intervention, this projected decline in revenues will result in significant reductions in state funding for transit. In the coming years, the Legislature may want to consider how and to what extent transit should be funded at the state level, as well as what types of performance and accountability measures to promote ridership growth and sustainability of transit operations. In addition, the Task Force is currently discussing and working towards recommendations on TDA reform, which could potentially inform longer-term state funding strategies for transit as well as the role of the state, locals, and operators in transit policy, operations, and budget.