

APRIL 27, 2023

State of Transit in California

PRESENTED TO:

Senate Budget and Fiscal Review Subcommittee
No. 5 on Corrections, Public Safety, Judiciary, Labor
and Transportation
Hon. María Elena Durazo, Chair



LEGISLATIVE ANALYST'S OFFICE

Overview

- This handout provides an overview of the state of transit in California.
- Specifically, at the request of the committee, we (1) provide background on transit in California, (2) discuss the operational funding shortfalls that transit agencies are projecting, and (3) identify various options for the Legislature to provide short-term fiscal relief.



Transit Funding in California

- Over 200 transit agencies operate across the state, delivering services to the public through buses, trains, ferries, and paratransit vans. Transit systems are generally owned and operated by local governments, such as cities, counties, and local transit authorities.
- Funding for transit comes from fare revenues as well as local, state, and federal sources.

California's Transit Services Are Supported by Various Funding Sources

2019 (Dollars in Billions)

Source	Operations		Capital		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Local	\$3.6	44%	\$2.3	50%	\$5.9	46%
Fares and fees	2.1	26	0.1	2	2.2	17
State	1.6	19	0.9	20	2.5	20
Federal	0.9	11	1.3	28	2.2	17
Totals	\$8.2	100%	\$4.6	100%	\$12.8	100%



State Provides Transit Funding Through Several Programs

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

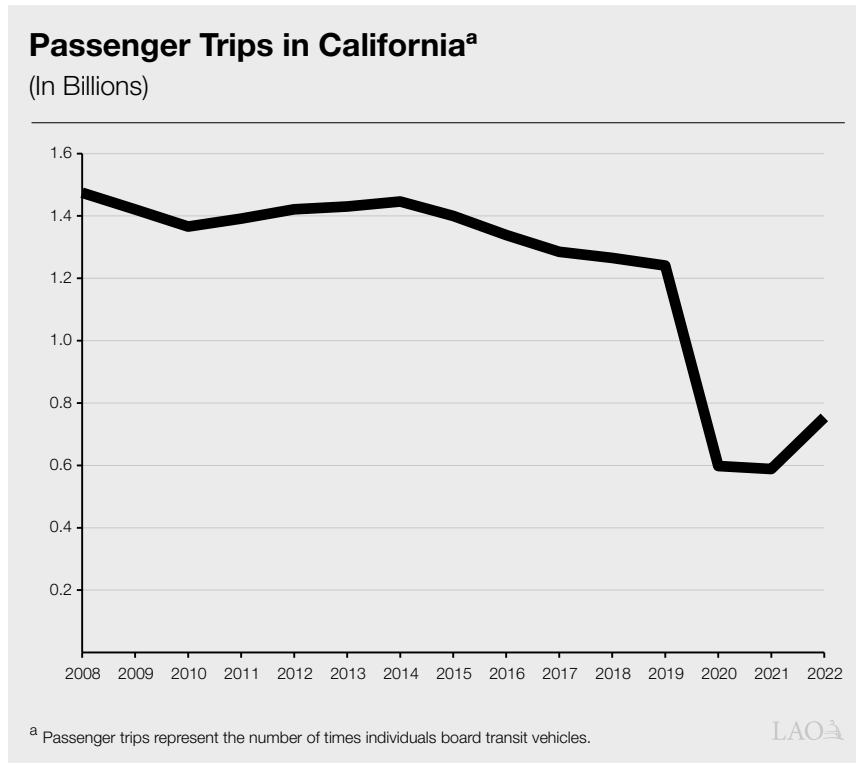
^a The 2022-23 budget package allocated an additional \$4 billion from the General Fund to temporarily augment the Transit and Intercity Rail Capital Program, not displayed in the figure.

GHG = greenhouse gas.

- As shown in the figure, 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.
- Not displayed in the figure, 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 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.



Transit Ridership Trends



- Transit ridership in California had been on a decline since 2014, but dropped dramatically when the pandemic began in 2020—falling by more than 50 percent compared to the previous year.
- In 2022, statewide ridership was roughly 40 percent lower compared to 2019.



Operational Funding Shortfalls

- ***Pandemic Significantly Impacted Transit.*** As a result of the disruptions from the pandemic, transit agencies faced significant declines in fare revenues and state and local funds dedicated to transit.
- ***Federal Government Provided Relief in Response to the Pandemic.*** The federal government provided nearly \$70 billion nationwide in operational relief to stabilize agencies' budgets, prevent layoffs, and maintain service levels. In total, transit agencies across California received \$9.8 billion in federal relief. The federal government historically has focused its funding for transit primarily for capital expenditures, however, it deemed this substantial and unprecedented operational support to be necessary to sustain agencies during the pandemic.
- ***While Federal Relief Helped Transit Agencies Sustain Operations, Some Continue to Face Operational Funding Shortfalls.*** Despite ridership and fare revenues not fully recovering, many transit agencies have been able to utilize federal relief funding to sustain their operations. Some individual transit agencies across the state are projecting ongoing operational funding shortfalls as they begin to exhaust federal relief funding and as ridership is projected to remain below pre-pandemic levels.
- ***Operational or Funding Changes Likely Needed.*** While some agencies are projecting operational funding shortfalls in 2023-24, the bulk of these shortfalls will arise in 2024-25. Unless these structural budget deficits are addressed, transit agencies face a threat to their solvency. This could lead to the need for some combination of fare increases and service cuts.



Options for Providing Short-Term Relief

Potential Fund Sources for Providing Relief

- ***Flexibility Over Existing and Planned Funds.*** The Legislature could allow transit agencies to use existing and agreed to funds on operations. This includes the General Fund resources for the population-based Transit and Intercity Rail Capital Program and existing formula transit programs.
- ***Transportation Accounts and Existing Programs.*** The Legislature could redirect funding from transportation accounts and existing programs, to the extent allowable under the California Constitution.
- ***GGRF.*** The Legislature could provide funding from the discretionary portion of GGRF or redirect funds from existing statutory continuous appropriations.
- ***General Fund.*** The Legislature could (1) redirect funding from the one-time and limited-term augmentations provided from the state's recent budget surpluses (within transportation or other program areas), (2) reject and redirect new General Fund spending proposed in the Governor's January budget, or (3) redirect funding from ongoing activities.
- ***Additional Revenues.*** The Legislature could generate additional revenues by temporarily increasing state fuel taxes, vehicle fees, or other taxes.

Potential Statutory Changes

- ***Continue Program Allocation Adjustments and Suspension of Certain Financial Penalties.*** The Legislature could extend statutory changes that adjusted allocations for formula transit programs and suspended certain financial penalties for transit agencies. These measures are set to expire at the end of 2022-23.
- ***Adjust Innovative Clean Transit (ICT) Regulations.*** The Legislature could consider providing relief to transit agencies by directing CARB to adjust the time lines for its ICT regulations—which phase in a requirement for transit agencies to purchase only zero-emission buses by 2029.



Key Legislative Considerations

Goals of Relief

- Determining the Legislature’s primary short- and long-term goals for providing support to transit agencies will be key to informing the extent, structure, and conditions associated with any relief it chooses to provide.
- These goals could include (1) providing time for transit agencies to determine longer-term changes, (2) mitigating equity impacts of potential fare increases and service reductions, and/or (3) ensuring that transit agencies are able to help the state meet its climate goals.

Structure of Relief

- To the extent the Legislature wants to provide relief, it will want to consider the structure of the relief.
- This includes timing (in the budget year or in a future year), duration (for one year or over multiple years), magnitude (to fully address the gaps or only partially), structure (a grant or a loan), and the distribution (need based or formula based) of such relief.

Accountability Measures to Accompany Relief

- It will be important to consider an appropriate level of accountability measures with any potential relief package.
- Such measures could include (1) requiring transit agencies to submit analyses of operations and future ridership, (2) requiring increased data reporting from transit agencies, and/or (3) increasing state oversight and management.

