February 10, 2025

Re: TTTF Meeting #8 - Staff Report on Options for Additional Funding (Agenda Item 6)

Dear Mr. Tavares, Mr. Tollefson, Mr. Edison, and Mr. Brown,

The eighth meeting of the Transit Transformation Task Force offered rich discussion and healthy debate. I appreciate the immense amount of staff preparation that went into this meeting that enabled such a robust discussion. Due to limited time at the meeting, I offer the following reflections and ideas on the materials to inform Meeting #9.

The transit funding analysis and data presented in the staff report are welcome and informative. Having a clearer picture of the state's role in funding transit provides critical context for many of the Task Force's other areas of inquiry and recommendation. However, the analysis presented raises a number of questions, and more information would be helpful to make informed and impactful policy recommendations.

With regard to the methodology, we respectfully request that staff return to the Task Force with supplemental information in Meeting #9 that includes the following:

- **Clearly source the data:** The graphs and figures in the memo list various sources of information including the State Controller's office, US DOT and the National Transit Database. It is somewhat unclear which numbers come from which source and, as noted below, there are some significant differences in how these sources code various types of funding. It would be helpful to have funding numbers more specifically and clearly sourced.

- **Show funding over time:** While FY22-23 does not include SB125 funds as explained in the meeting, it remains an atypical year in many regards given that many operators were still spending down a significant balance of one-time federal relief funds, which distorts the funding mix and understates the historic role of local funds and fares as the primary sources of operating funding. Arguably, FY2022-2023 is a year that does not reflect past or future trends. Please present funding trends over time - specifically including funding numbers from before COVID.

- **Coding of LTF funds:** As the memo notes, the LTF program was created by the state and CalSTA considers this program to be "state funding." As discussed in the meeting, most transit operators code LTF funds as "local" transportation funding when they submit their reports to the National Transit Database. Similarly, the [LAO report] presented on February 6, 2025 also considers LTF to be local funding. We recommend changing the coding LTF funds as local funds or at least portraying them as a "hybrid" local / state category.

- **Distinguish between capital and operating funds:** The figures reported on page 2 of the memo combine capital and operating funding. This is helpful for measuring the total volume of funding going into the transit system, but also poses a number of challenges particularly when many transit operators are most focused on <u>operating</u> funding. Some large sources of capital funding are not flexible (e.g., federal grants for large capital projects) and others are minimally flexible (e.g., CMAQ can only be used for operations if it is for new or expanded transit service, not maintaining existing services). As the memo points out, capital funds are not consistent year over year depending on the volume of large projects and grants. It would be helpful to see a breakdown of funding by capital and operating.

- **Clarify funds received vs funds expended.** It is not clear if the analysis is showing funding "received" in FY 22 - 23 or funding "expended"? National Transit Database records of all funds *expended* by CA transit agencies in fiscal year 2023 for both capital and operations total to approximately $11.5 billion. This is a full $1 billion less than what's shown in the staff report.

- **Role of regions.** The report makes it clear that transit agencies <u>do not</u> receive the majority of their operating funding from state sources. This is true even if TDA is considered a state source. But it is not clear whether that is due to state programming decisions that favor capital projects, or because of decisions made at the MPO/ RTPA scale. Understanding where and why decisions are made to direct flexible funds to capital uses vs operating needs is critical to developing effective report recommendations. To that end:

    - **Evaluate the flexibility of fund sources**. It would be helpful to provide a table of information that documents all fund sources and the allowable uses and limitations of such funds, including whether they can be used for existing or new transit operations (see above).

    - **Provide regional comparisons**. The staff report suggests that a significant portion of funding flows through MPOs/ RTPAs and is flexible at the regional level. It would be helpful to understand how the trends in how MPOs/ RTPAs are spending those funds among public transit operations, public transit capital projects, road maintenance, road expansion, and active transportation. It may be useful to select a handful of specific regions to present a detailed analysis.

- As requested above, it is important to better understand these same data points for **state investments** by breaking out capital and operating investments and presenting the information over time.

With regard to the funding options presented, we observe that many of the options are technically possible but politically infeasible absent decisive intervention from the Administration and Legislature. Given that the survival of transit is at stake, it seems irresponsible to endorse strategies that are not realistic. Our sincere hope is that the report will make recommendations that answer: what will it take to make these feasible?

With all of this in mind, we offer the following strategies and recommendations for you to consider including in the Task Force report:

- Short-term: Increase flexibility in funding

  While we understand the financial pressures facing the state, creating flexibility or moving funds to transit is important-- but it is not a substitute for new funding sources for public transit. Quite simply, there is no way to sustain, let alone transform, public transit at a speed and scale that is required to achieve our goals without new funding. Nonetheless, we offer the following ideas for improving flexibility *as one part* of the funding strategy:

  - **Create additional flexibility in the TIRCP program**. Specifically, it would be helpful to allow TIRCP funding to be used for capitalized maintenance and operations for existing and new transit service. Funds for capitalized maintenance could be distributed by formula or some combination of asset conditions, reliability, ridership, or other indicators—not dissimilar to the prioritization process Caltrans uses to program their funding. This flexibility both provides critical funding for maintenance and can relieve capital budgets so that agencies can use more flexible funding for operations.

  - The staff report suggests that several fund sources are highly flexible at the regional level through MPOs/ RTPAs. If additional analysis (as described above) shows that the sources can be used for existing transit operations and that MPOs/RTPAs are not using those funds for that purpose, the state could **direct MPOs/ RTPAs to direct a larger portion of those funds** to transit operations.

- **The state should allocate the maximum amount allowed by law of the August Redistribution to transit operation**s. Additionally, to claim the maximum amount of August Redistribution, we recommend working with regional and local entities to ensure funds are obligated in a timely fashion. Nonetheless, it is not a panacea. The August Redistribution is a strong contender as a stopgap measure for operators facing near-term needs, but not predictable and operators need multiyear certainty in their budgets.

- **The state should create a "public transit trust fund" out of the August Redistribution, in perpetuity.** According to Caltrans, California has been historically very successful in the August Redistribution, accumulating $4.4 billion over the last ten years. This funding can be applied to projects that are in construction and some types of maintenance. According to an 2023 FHWA memorandum, this funding may also be used to capitalize state infrastructure bank.

- Medium-term: Improve operational and capital cost efficiency

    - Regarding operational cost efficiency, we recommend that the state begin collecting and tracking financial information that helps develop a clearer picture of the relative impact of its investments and highlights opportunities to reduce costs. This is particularly important as the state revisits the TDA program and farebox recovery. The state could consider requiring operators to report information about how funds from specific programs are spent, as well as indicators of financial performance, such as cost per passenger mile and cost per service hours, among others.

    - Further, the cost of providing service has escalated faster than revenue. This is due to many factors that are beyond operators' control, such as escalating health care costs, electricity costs, policing and crisis intervention, atop high housing costs. These are problems that they did not create, but nonetheless cannot ignore and it is their operating budgets that absorb the cost. Just as the state has intervened on hazard insurance, the state should intervene to bring down costs for public transit agencies. Additionally, the state should give mental health and related social service funding directly to transit operators to provide budget relief.

    - Regarding capital cost efficiency, the state created a CEQA exemption that has been used for 92 sustainable transportation projects in less than four years. We recommend that the state make this exemption permanent by passing SB71 (Wiener). Further, a CEQA exemption is necessary but not sufficient to fully streamline and bring down the cost of transit projects. We recommend that the state legislature make CEQA-exempted projects eligible for other funding and regulatory benefits, such as (1) providing full funding for projects that are eligible for the CEQA exemption; (2) requiring local jurisdictions, state agencies, special districts, and utilities to use a standard project review application for projects that qualify for the CEQA exemption.

- Long-term: Grow new sources of revenue

    - Transit agencies need both an adequate amount of funding *and* predictability in that funding year over year in order to make staffing, service, and capital investment decisions. Formula funding offers more predictability than competitive grant programs. As conversations regarding Cap + Trade reauthorization unfold, we encourage the state to identify ways to introduce consistent and predictable funding in the Greenhouse Gas Reduction Fund in either new continuous funds or modifications to existing continuous funds.

    - The hardest funds to raise at the ballot are transit operating funds. In contrast, the easiest funds to raise are those that maintain and repair roadways and bridges. Further, to pass local option sales taxes, jurisdictions must compile a package of projects that often lead to more driving, poorer climate outcomes, and more sprawl—all of which undercut the viability of public transit and the state's policy goals. Given this dynamic, the state should consider raising a new statewide source of funding for public transit while raising funds for roads at the local level.

    - I am skeptical of the effectiveness of efforts to provide incentives to regions to increase their investments in transit, either capital or operating. Raising funding at the regional level for transit is challenging for the same reasons it is challenging at the local level. To that end, if additional analysis shows that MPOs and RTPAs are not doing their part to support transit, we recommend that the state require regions to allocate a higher portion of flexible funds to transit operating funds. The specified portion could be higher initially while needs are greatest, and ramp down as additional operating funds are secured. Of course, this too has tradeoffs unless additional capital funding is made available from another source.

    - If this Task Force is looking at transformative changes, the report should offer a recommendation regarding road user charges and other forms of pricing.

Finally, the discussion at the Task Force meeting brought forth several questions about how CalSTA will prioritize the recommendations in the report. Succeeding in this approach requires sustained focus and long-term thinking on the part of policy makers, operators and stakeholders. In our view, it is critical that the report lay out a sustained, strategic, and coordinated program of transformation over time with specific actions assigned to specific entities. Further, the inherent length of time that will be required to transform transit's business model also increases the exposure of a fragile system to the likelihood of additional external shocks (e.g., reduced federal funding, economic downturns)—further emphasizing the need to adaptive capacity and state financial support during the transition.

Sincerely,

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