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# Options for Providing Short-Term Fiscal Relief to Transit Agencies

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PRESENTED TO:

Assembly Budget Subcommittee No. 3 on Climate  
Crisis, Resources, Energy, and Transportation  
Hon. Steve Bennett, Chair



LEGISLATIVE ANALYST'S OFFICE

## Overview

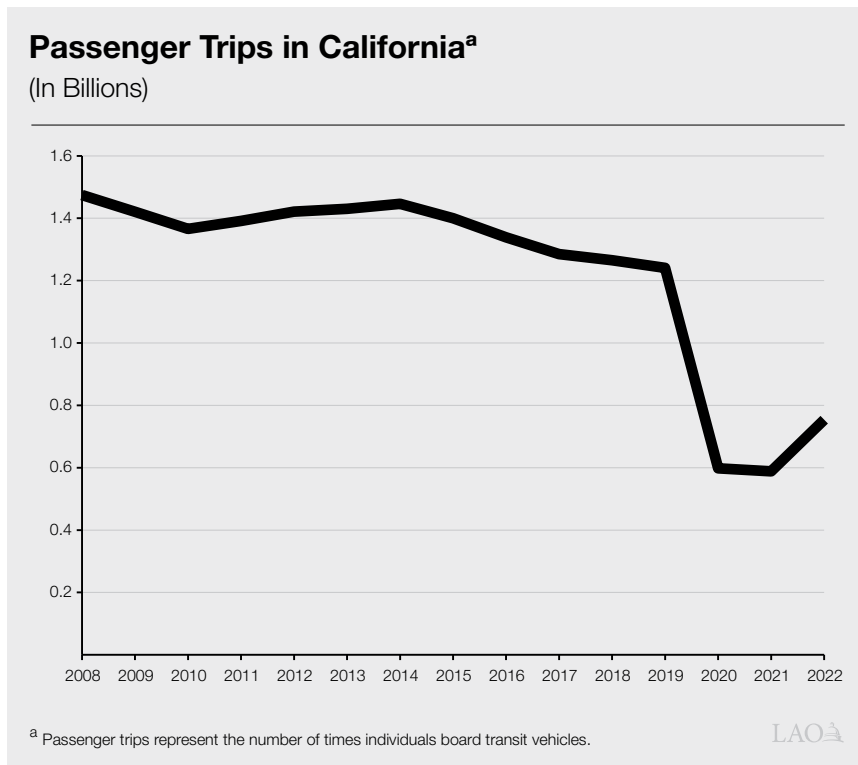
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- This handout provides an overview of various options the Legislature could consider to provide short-term fiscal relief to transit agencies, and to evaluate the associated benefits and trade-offs.
- Specifically, at the request of the committee, we:
  - Provide background on the operational funding shortfalls that transit agencies are projecting.
  - Identify various options the Legislature has in providing short-term fiscal relief and assess the corresponding benefits and trade-offs.
  - Discuss potential accountability measures the Legislature could adopt to accompany such relief.
  - Identify potential statutory changes the Legislature could consider to help transit agencies address their funding shortfalls.
  - Discuss steps the Legislature could take now to begin longer-term reforms for transit across the state.
- We provide this analysis within the context of the multibillion-dollar budget deficit the state is facing, which could be even larger than previously projected.



## Background

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- Transit ridership in California dropped dramatically when the pandemic began in 2020—falling by more than 50 percent compared to the previous year.
- 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.
- In response, the federal government provided nearly \$70 billion nationwide in operational relief to stabilize transit agencies. In total, transit agencies across California received \$9.8 billion in federal relief.
- 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.



# Overview of Key Considerations

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## Key Considerations in Providing Relief to Transit Agencies

### Key Goals

- **Time for Change.** Provide time for transit agencies to determine long-term modifications?
- **Equity.** Mitigate near-term equity impacts of potential fare increases and service reductions?
- **Climate Goals.** Ensure transit agencies are well-positioned to help state reduce greenhouse gas emissions?

### Structure

- **Timing.** Provide relief in the budget year or in a future year?
- **Duration.** Provide relief on a one-time basis or over multiple years?
- **Magnitude.** Provide relief that fully or only partially covers operational funding shortfalls?
- **Repayment Requirements.** Allocate relief as a grant or as a loan?
- **Distribution.** Distribute relief based on need or via an existing formula?

### Fund Source

- **Existing Capital Funds.** Allow transit agencies to use existing and planned transit capital funds for operations?
- **Existing Transportation Funds.** Shift funding from certain existing transportation funds and programs to support transit operations?
- **Greenhouse Gas Reduction Fund.** Redirect or provide additional funds from the Greenhouse Gas Reduction Fund?
- **General Fund.** Redirect funds from General Fund-supported programs?
- **New Revenues.** Temporarily raise state fuel taxes, vehicle fees, or other taxes to generate additional revenues?

### Potential Accountability Measures to Accompany Relief

- **Future Planning.** Require agencies to conduct analyses of potential operational changes and future ridership?
- **Data Reporting.** Require agencies to collect and report additional data to the state?
- **State Oversight.** Increase state oversight and management of transit?

### Potential Statutory Changes

- **Extend Suspension of Revenue-Related Provisions.** Continue pandemic-related program allocation adjustments and suspension of financial penalties?
- **Innovative Clean Transit Regulations.** Adjust time line for agencies to purchase zero-emission buses?



# Timing of Relief

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## Provide Relief Beginning in 2023-24

- **Potential Benefits:** Would provide transit agencies greater confidence that they could maintain existing operations and potentially would prevent immediate changes to service levels or fares.
- **Trade-Offs:** Would require the Legislature to make cuts in other areas of the state budget or raise additional revenues. Would require the Legislature to develop a relief package and any associated accountability measures relatively quickly.

## Provide Relief Beginning in 2024-25 or Later

- **Potential Benefits:** Would allow relief to be provided when most funding shortfalls are expected to occur for transit agencies. Would provide the Legislature more time to develop a relief package and to establish accountability measures.
- **Trade-Offs:** Would require transit agencies facing funding shortfalls in the budget year to develop alternative solutions in the interim, such as service cuts or fare increases.



## Duration of Relief

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### One Time

- **Potential Benefits:** Would provide the Legislature an opportunity to conduct oversight of how transit agencies are utilizing funding and how they are planning for the long term. Would prevent the state from committing expenditures in future years.
- **Trade-Offs:** Would provide transit agencies less certainty about relief in future years, which could impact their development of longer-term solutions and would require service cuts or fare increases.

### Multiyear

- **Potential Benefits:** Would provide transit agencies with more certainty regarding future funding and additional planning time, as well as further delay the need for potential service cuts and fare increases.
- **Trade-Offs:** Would commit a larger amount of state resources in the near term and/or future years when the state is experiencing its own budget deficits.



# Magnitude of Relief

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## Fully Cover Shortfall

- **Potential Benefits:** Would allow transit agencies to potentially maintain service levels and fares without needing to make any other changes, at least in the near term.
- **Trade-Offs:** Would require the Legislature to commit a significant amount of state resources. Could reduce incentives for transit agencies to consider alternative options to address their funding gaps.

## Partially Cover Shortfall

- **Potential Benefits:** Would reduce the need for the Legislature to redirect funding from other purposes, make substantial cuts elsewhere in the state budget, or raise additional revenues.
- **Trade-Offs:** Would require transit agencies to make cuts to services or increase fares in the near term if they are unable to identify other options to address any remaining funding shortfalls.



# Repayment Requirements for Relief

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## Loans

- **Potential Benefits:** Would require the Legislature to commit funding in the near term, but could be budget-neutral depending on the terms of the loans. Could create an incentive for transit agencies to consider other potential options to address funding shortfalls before relying on relief.
- **Trade-Offs:** Would create an additional long-term financial burden for transit agencies.

## Grants

- **Potential Benefits:** Would be less administratively challenging to implement and distribute. Would not create an additional long-term financial burden for transit agencies.
- **Trade-Offs:** Would result in greater long-term costs for the state. Might not provide transit agencies with incentives to take alternative actions to address funding shortfalls.





# Distribution of Relief

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## Need-Based

- **Potential Benefits:** Would align funding provided with identified needs at each agency.
- **Trade-Offs:** Would be administratively burdensome and would require some time to implement given that the state does not currently collect this data.

## Formula-Based

- **Potential Benefits:** Would reduce administrative complexity and would expedite the distribution of relief.
- **Trade-Offs:** Existing formulas would not necessarily align with needs.



# Potential Fund Sources for Providing Relief

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## Flexibility Over Existing and Planned Transit Capital Funds

The Legislature could allow transit agencies to use existing and planned funds for operations instead of capital expenditures. This could include General Fund planned for the population-based Transit and Intercity Rail Capital Program (\$2 billion in both 2023-24 and 2024-25) and funding for existing formula-based transit programs, such as the State of Good Repair Program.

- **Potential Benefits:** Would not place additional cost pressures on the General Fund given that (1) funding is already scheduled to be provided and/or (2) programs are supported by special funds. Would allow transit agencies and regional entities to determine how best to utilize funding to address shortfalls.
- **Trade-Offs:** Would result in less spending on the activities the Legislature originally intended to support with these funds and programs.

## Redirect Funding From Existing Transportation Funds and Programs

The Legislature could redirect funding from transportation funds and existing programs, to the extent allowable under the California Constitution. For example, this could include redirecting funding from vehicle fees that are eligible to support transit operations.

- **Potential Benefits:** Would not place additional cost pressures on the General Fund.
- **Trade-Offs:** Would result in less spending on highway maintenance and rehabilitation, local streets and roads, or transit capital projects.



## Potential Fund Sources for Providing Relief

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### Greenhouse Gas Reduction Fund (GGRF)

The Legislature could provide funding from the discretionary portion of GGRF or redirect funds from existing statutory GGRF continuous appropriations.

- **Potential Benefits:** Would not place additional cost pressures on the General Fund. Somewhat consistent with how the state has historically utilized GGRF since the fund supports several transit programs on an ongoing basis.
- **Trade-Offs:** Would result in less GGRF available to support other programs or to achieve General Fund budget solutions.

### General Fund

The Legislature could (1) redirect funding from some one-time and limited-term augmentations provided from the state's recent budget surpluses (within transportation and/or other program areas), (2) reject and redirect new General Fund spending proposed in the Governor's January budget, or (3) redirect funding from existing ongoing activities.

- **Potential Benefits:** Redirecting General Fund might have merit in cases where existing planned expenditures do not align with current legislative priorities or where additional federal funds are available to help support the same activities.
- **Trade-Offs:** Could necessitate defunding some existing commitments. Also, given indications that the state's budget deficit could be worsening, the Legislature may have to make additional General Fund reductions to solve its shortfall, which could make this approach more difficult.



## Potential Fund Sources for Providing Relief

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*(Continued)*

### Generate Additional Revenues

The Legislature could generate additional revenues by temporarily increasing state fuel taxes, vehicle fees, or other taxes.

- **Potential Benefits:** Would not place additional cost pressures on the General Fund.
- **Trade-Offs:** Depending on which charges were increased, this approach could have disproportionate impacts on certain populations who would have to pay higher costs. Would require approval by a two-thirds vote of the Legislature.



# Potential Accountability Measures to Accompany Relief

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## Analysis of Operations and Future Ridership

The Legislature could require agencies to complete analyses that (1) examine future ridership trends and travel behavior, (2) identify potential improvements to make their operations more effective and efficient, (3) develop a series of scenarios to maximize services within the confines of available resources, and/or (4) assess options for generating additional revenues.

- The Legislature could structure such analyses to be a condition of receiving relief, or potentially as a requirement to have loans forgiven.
- Identifying which state agency would collect and review these plans would be an additional decision-point for the Legislature, as no such direct state-local oversight relationship currently exists for transit.

## Increased Data Reporting

The Legislature could consider requiring transit agencies to submit data that would be helpful in conducting effective oversight of any relief it provides.

- For instance, the Legislature could require transit agencies to submit certain information before they access relief, such as (1) past and projected ridership levels, (2) past and projected expenditures and revenues, (3) a description of how they will use relief funding, and/or (4) estimates on how relief will impact their operational funding shortfalls.
- The Legislature also could consider whether collecting certain data from transit agencies might be helpful on a more long-term basis.



# Potential Accountability Measures to Accompany Relief

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## **Increased State Oversight and Management**

The Legislature could consider adopting a model similar to the one the state uses when it has to provide emergency loans to school districts and require that a state-appointed administrator oversee fiscal restructuring at any transit agency that accepts state relief to sustain its operations.

- However, such an approach would create a new role for the state and involve significant new administrative workload at both the state and local levels.
- In contrast to local school districts, no existing fiscal management structure exists for transit at the state or regional level to help implement such a significant oversight role.



## Potential Statutory Changes

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### Continue Program Allocation Adjustments and Suspension of Certain Financial Penalties

The Legislature could extend the time line for two temporary statutory changes it adopted in response to the pandemic: (1) base formula transit program allocations on pre-pandemic metrics and (2) suspend certain financial penalties for transit agencies. These measures currently are set to expire at the end of 2022-23.

- **Potential Benefits:** Would provide additional funding certainty to transit agencies.
- **Trade-Offs:** Would create a potential disincentive for transit agencies to improve their performance if they know existing funding from these programs will continue regardless of their ridership levels.

### Adjust Innovative Clean Transit (ICT) Regulations

The Legislature could consider providing relief to transit agencies by directing the California Air Resources Board to make short-term adjustments to the time lines for its ICT regulations—which phase in a requirement for transit agencies to purchase only zero-emission buses by 2029.

- **Potential Benefits:** Would delay transit agencies from incurring additional costs associated with purchasing zero-emission buses and building associated refueling infrastructure.
- **Trade-Offs:** Likely would result in transit agencies taking longer to convert their fleets to zero-emission buses. Amount of relief could be minor depending on how long the time lines were delayed.



## **Longer-Term Measures**

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### **Conduct Analysis of Potential Changes to Statewide Transit Policies**

As transit agencies begin to plan for the future, the state could take actions to support local efforts and ensure that transit systems are structured to reflect state goals.

- To better understand possible actions, the Legislature could conduct an analysis of potential changes it could make to statewide transit policies.
- This analysis could be completed in several ways, such as by a legislative task force; blue-ribbon committee; or a state agency in coordination with representatives from various state and local agencies, academia, and stakeholder groups.

### **Adjust Current Transit Programs to Incentivize Improved Performance**

The Legislature could consider basing some amount of state funding allocations on a metric that incentivizes improved performance and aligns with legislative goals for transit.

- The state currently allocates most of its formula transit funding based on population and agencies' operating revenues—which do not create a particularly strong incentive for agencies to improve their performance.

