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ASSEMBLY AND SENATE TRANSPORTATION COMMITTEES  
JOINT INFORMATIONAL HEARING  
SHORT TERM CRISIS AND LONG TERM TRANSFORMATION: HOW TO BRING BACK AND BUILD  
TRANSIT RIDERSHIP IN CALIFORNIA  
FEBRUARY 27, 2023  
BACKGROUND PAPER

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**Introduction**

The purpose of the hearing is to review the state of public transportation in California and how the state can partner with transit operators to both rebuild and transform the state's transit systems. Hearing panelists include transit operators, the California State Transportation Agency (CalSTA), regional partners responsible for management and coordination, academics, representatives from business and labor, and transit stakeholders. Panelists will detail the current state of transit systems, strategies to come back from COVID -19, and long-term innovation and reform to build ridership for the future.

To meet the state's climate goals and to develop more integrated, livable communities, the state must have a robust, efficient, and reliable public transit network. For many Californians transit is a lifeline, providing an affordable transportation option to get to work and school. It is estimated that almost 60% of California residents who commute via public transit have a household income below \$35,000. Over half a million California households own no vehicle and rely on public transit for their daily needs. For example, Alameda-Contra Costa (AC) Transit's, California's largest bus-only system, ridership is 65% low income, 75% people of color, and 43% of riders do not have access to a car. Additionally, transit also provides mobility for seniors and peoples with disabilities.

Transit also serves as a major component of the state's goal to reach carbon neutrality by 2045. According to the California Air Resource Board's (CARB) 2022 Scoping Plan, including the transition to cleaner vehicles and low-carbon fuels, the path to carbon neutrality by 2045 also depends on reducing the amount people drive or vehicle miles traveled (VMT) by 25% by 2030 and 30% by 2045. These goals heavily depend on a reliable and convenient public transit system. CARB identified the need to double the capacity and service frequencies of the existing local public transit networks by 2030, including having transit stops much closer to where people need to go and providing reliable, shorter frequencies.

The state must look at a variety of options for reform and transformation of our transit networks, and overhaul the funding and oversight structures to help them be successful. Due to the COVID-19 pandemic, the some of the state's transit agencies are facing fiscal emergencies. According to the Metropolitan Transportation Commission (MTC), Bay Area operators forecast annual shortfalls in the tens of millions of dollars in fiscal year 2023-24, growing to hundreds of millions of dollars beginning in fiscal year 2024-25. As the Legislature discusses options for this pending financial crisis, innovative, longer-term changes should also be addressed.

A recently published white paper from the University of Transportation Studies (UC ITS) at UCLA, entitled, *Options for the Future of State Funding for Transit Operations in California*, sets the stage, “the two markets transit serves—people who have few or no other means of mobility and people who choose to travel by transit because parking at their destination is difficult or and/or expensive—have become only more distinct during the COVID-19 pandemic. These changes in transit’s operating landscape prompt questions: what types of services and in what areas does transit need to operate to serve evolving needs? What mission makes sense for transit to have, when cars are getting cleaner, and downtown commutes may return slowly if at all?”

## **Background**

### **Transit Ridership was Declining Before COVID-19**

According to *Transit in the 2000s: Where Does it Stand and Where is it Headed?*, a characteristic of American public transportation is that most people in most places do not use it. The average U.S. resident made 32.2 transit trips in 2016, but the “average resident” is in this case an elusive creature, an artifact of many people never using transit, some using it occasionally, and a few riding a great deal. 20% of the U.S. population lives in neighborhoods where transit is not available, while 60% lives in a neighborhood with transit service, but has not used it in the previous month. The 10 largest U.S. transit operators, concentrated in “legacy” cities like New York, Chicago, Boston, Washington, and San Francisco, carried nearly two-thirds of all U.S. transit trips in 2016. In California, transit ridership is the highest in the Bay Area and Los Angeles. In 2018, 12% of Bay Area residents used public transit to get to work, while only 4.8% of people in Los Angeles used public transit to get to work.

Transit ridership was declining nationwide and in California prior to COVID-19. According to the UC ITS report *Falling Transit Ridership: California and Southern California*, California lost 62.2 million annual transit rides between 2012 and 2016. Ridership declines were the worst in southern California, with the six-county Southern California Association of Governments (SCAG) region losing 72 million annual rides. Because the majority of riders are concentrated on the largest systems, ridership losses were similarly concentrated to the region’s largest systems. Los Angeles County Metropolitan Transportation Authority (LA Metro), accounted for 72% of the state’s transit ridership losses between 2010 and 2016. Half of California’s total loss ridership at the time was attributable to 17 LA Metro routes (14 bus and 3 rail lines) and one Orange County Transportation Authority route.

UC ITS concluded that transit decline was largely attributable to increased car ownership. According to UC ITS, “Across the entire SCAG region, the share of households without vehicles fell 30% between 2000 and 2015, while the share of households with a vehicle deficit fell 14%. Among foreign-born households, these percent declines were larger — 42% and 22% — and among the foreign born from Mexico they were larger still. Among the foreign born from Mexico, the share of households without vehicles fell by two-thirds between 2000 and 2015, and the share with a vehicle deficit fell 28%. Thus car ownership rose across-the-board, but rose fastest among subgroups with a high propensity to ride transit.”

Transit ridership also started to decrease in the San Francisco Bay Area prior to the pandemic. According to the UC ITS Report, *What’s Behind the Recent Transit Ridership Trends in the Bay Area?*, in just two years, 2017 and 2018, the nine-county MTC region lost 27.5 million boardings, or 5.2% of its total trips. Per capita ridership in the Bay Area flattened from 2013 to 2016, with ridership failing to keep pace with regional population growth. While the Bay Area Rapid Transit District (BART) saw increased ridership from 2013-2016, AC Transit lost over 13 million annual trips since 2008, the most of any agency in the region. Caltrain, on the other hand, saw a 56% increase.

Much of the loss of transit ridership in the Bay Area was attributed to a loss of riders during non-peak travel times. Between 2015 and 2018 BART saw a 4% drop in ridership during non-peak hours during the week and a 16% drop in ridership on the weekends.

### **COVID-19 Devastated Ridership on Transit Systems**

With the onset of the COVID-19 pandemic during the first half of 2020, transit ridership plunged 50% to as much as 94% 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.

Transit ridership has improved since 2020, but is still far below pre-pandemic levels. In January of 2021, transit ridership nationally was at 48% of what it was prior to the pandemic. By the start of 2023 national ridership has returned to 73% of where it was pre-pandemic. The Pacific region of the United States has seen a smaller return to transit ridership than national trends, with ridership hovering at 67% of where it was pre-pandemic.

In California, ridership return has varied by agency. Fare dependent systems like BART and Caltrain have seen the slowest transit ridership returns and face the largest financial problems as a result. Prior to COVID-19, farebox revenues made up 70% of BART's operating budget, accounting for nearly \$600 million of their operating budget. For the 2023-24 fiscal year, BART anticipates the collection of \$255.2 million in operating revenue, down from \$578.8 million in 2019. BART anticipates that federal relief money will run out by fiscal year 2026-27, with projected annual deficits of \$140 million. Caltrain is likely to see its federal relief dollars run out in fiscal year 2024-25, facing a projected \$25 million budget deficit in 2024 and a \$49 million budget deficit in 2025.

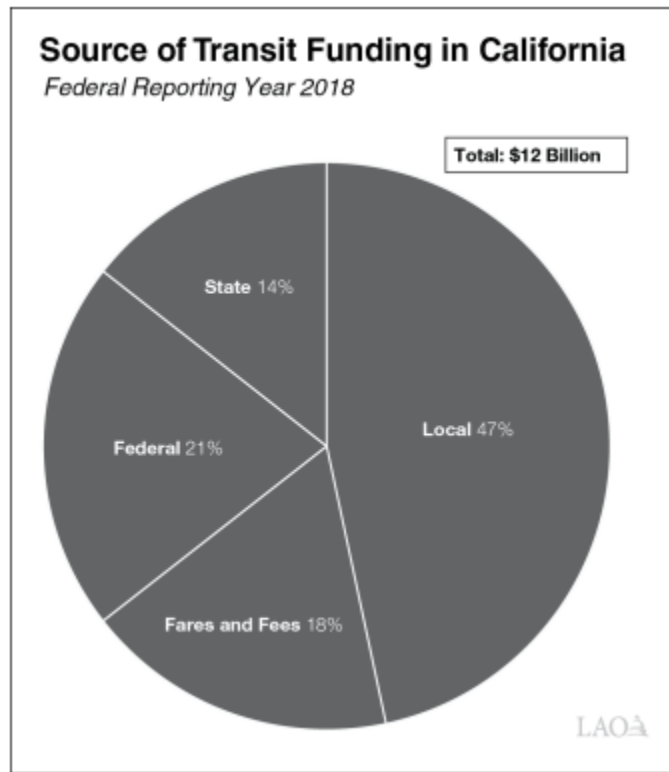
In southern California, Metrolink has also seen a drop in its farebox revenues, however unlike BART, Metrolink has traditionally been less reliant on fares for its operating budget. In 2019, fares made up \$70 million of their budget, accounting for 29%. In 2023, fares are projected to account for \$49.9 million of their revenue.

In 2022, UC ITS surveyed 44 transit agencies across California regarding the impacts on of COVID-19. Of that, 72% of the agencies anticipated some financial shortfalls once federal pandemic relief funding expires, with 44% foreseeing minor shortfalls and 28% forecasting major shortfalls.

However, it is important to note that financial shortfalls are dependent on many factors in addition to ridership levels. Some operators have avoided shortfalls by making changes to their operations such as changing or eliminating underutilized routes. Generally, making these types of changes in response to changes in demand is more easily done by smaller transit systems operating bus lines and less likely to be something that operators of fixed rail systems such as BART and Caltrain can use to decrease costs. Fixed rail maintains its relatively high operating costs because the route cannot be changed in response to demand and generally must continue to run even when ridership is low.

## Sources of Transit Funding

Transit services are provided by over 200 operators, including cities, counties, independent special districts, transportation planning agencies, private nonprofit organizations, universities, and tribes. According to the Legislative Analyst's Office, in 2018, prior to the COVID-19 pandemic, transit systems in California were funded at roughly \$12 billion annually using federal, state and local funding, and various fares and fees, as shown in the figure below. Nearly half of funding for transit comes from local sources. The main local source is the Local Transportation Fund (LTF), derived from a portion of the statewide sales tax. In recent years, more local governments have passed local sales tax measures and dedicated a portion of the funding for transit.



Source: Legislative Analyst's Office

The state provides approximately 14% of transit funding annually, as shown in the figure above. The Legislative passed the most recent increase in direct state assistance for transit with the Road Repair and Accountability Act, SB 1 (Beall), Chapter 5, Statutes of 2017. SB 1 provided over \$750 million in new annual funding for transit operations and capital. The main dedicated state source of transit funding is the State Transit Assistance (STA, discussed in more detail below). Other state programs dedicated to funding transit include the Low Carbon Transit Operations Program (LCTOP) and the State of Good Repair Program, which are allocated on a formula basis, as well as the Transit and Intercity Rail Capital Program (TIRCP), a competitive grant program. Transit may also receive funding through other state programs, such as the Solutions for Congested Corridors and the State Transportation Improvement Program (STIP). These programs also support state highway and local street and roads projects.

Pre-pandemic roughly 20% of transit funding came from fares and fees. Users of transit services pay providers fares to use their services and operators generate additional revenues from users through auxiliary fees, such as for park and ride services, concessions, and advertising.

### **Transportation Development Act (TDA) and State Transit Assistance (STA)**

In 1971, the Legislature enacted the Mills-Alquist-Deddeh Act, otherwise known as the TDA, which dedicated a statewide 1/4 cent sales tax to local transportation. That 1/4 cent sales tax, now known as the LTF, generates roughly \$1.5 billion annually primarily for public transit. Later, the Legislature created a second state funding source for public transit under the TDA called the STA. The STA, which generates roughly \$700 million annually, is derived from a portion of the sales tax on diesel fuel and is distributed to local agencies based on population and transit operator revenues.

For a transit operator to receive its full share of TDA, it must meet a specified ratio of fare revenues to operating cost, called the farebox recovery ratio. Generally, the minimum ratio necessary to receive funding is either 20% for urban operators, or 10% for operators in a non-urbanized area. If a transit operator fails to meet its specified farebox recovery ratio, regional transportation planning agencies (RTPA) are required to withhold a percentage of funding equal to the percentage by which the operator missed its expected ratio.

As noted by UC ITS, “this TDA “death penalty” has consequences that are so severe that it is seldom used, pointing both to the goal conflict in the metric (i.e., it is not in the state’s interest for a transit agency to fail) and the importance of reliable state funding. Instead, the legislature has added numerous exceptions over the years, defanging the draconian penalty, but leaving the TDA without a clear performance incentive.”

Since the pandemic, the Legislature has given relief to transit operators by suspending these financial penalties, and other funding and reporting requirements through the 2022-2023 budget year.

UC ITS also points out that STA is on the decline, “perhaps the biggest fiscal issue facing California transit operators in the coming decades is that State environmental policy seeks to reduce and eventually eliminate the underlying fuel behind the state’s largest dedicated funding source for transit. The State Transit Assistance (STA) fund, a major source of operating funds for state transit operators, is funded by taxes on the sale of diesel fuel, which will steadily decline as the sale of new diesel trucks will be phased out completely by 2045.”

### **Transit Transformation for the Future**

#### **Challenges to Bringing Back and Building Transit Ridership**

##### *Workforce Shortage*

In addition to funding losses, transit agencies have also had to cut service because of an ever increasing driver shortage. Nationwide, according to *Transit Workforce Shortage*, a study prepared for the American Public Transit Association, in October of 2022, 96% of transit agencies surveyed reported experiencing a workforce shortage, 84% of which said the shortage is affecting their ability to provide service. Among the top 50 agencies in the country, 41% are reporting that the worker shortage is substantially affecting operations and service.

Much of the shortage is related to the age of the existing workforce. 24% of all departing workers are retirees, a major issue considering 43% of transit workers are over 55. By comparison, just 24% of the broader transportation workforce was 55 or older. Surveyed agencies indicated that concerns about schedule and compensation were responsible for more departures than assault and harassment or concern about contracting COVID-19.

Workforce shortages have also impacted California transit agencies. For example, in the beginning of 2022, several bus lines at LA Metro had to cancel 20% or more of bus trips due to the shortage resulting in bus lines running five to 10 minutes less frequently on average throughout the day. LA Metro also had to reduce trains from a once every 10 minutes schedule to a once every 15 minutes schedule during peak hours. In August of 2022, LA Metro approved a \$5 hourly pay increase to starting salaries for bus drivers, and by the end of the year was able to restore service levels back to pre-pandemic levels.

#### *Change in Work Patterns*

Survey results from the Bay Area Council, who works with Bay Area businesses, suggests both a change in commuting behavior and remote work are contributing to the decline in transit ridership. Bay Area employers report that only 17% of their workforce works in person 5 or more days a week, 48% of the workforce is only working in person 1-3 days a week, while 25% of the workforce is permanently working remotely. This may be the new normal, as employers in the Bay Area do not anticipate much of a change in the percentage of their employees working in person six months from now, and have reported reducing, eliminating or consolidating their office space.

Employers also report fewer of their employees use transit to get to work. Pre-pandemic employers estimated 51% of their workforce took transit to work. Today, they estimate only 30% take transit to work.

#### *Safety and Security*

One of the concerns of many current and potential transit riders is safety and security on the system, especially women. According to a University of California, San Diego Center on Gender Equity and Health report *Measuring #MeToo in California: A Statewide Assessment of Sexual Harassment and Assault*, a survey of women in California found that 77% of women reported being harassed in public, including 29% of women on public transit.

A UCLA study *Public Transit Safety Among University Students* found that 72% of respondents using the bus system and 48% of respondents using the rail system reporting having experienced at least one sexual harassment behavior at a transit setting in the last five years. While 45% of male students reported “always” feeling safe waiting or riding the bus during the day, only about 26% of female students felt the same. The feeling of safety dropped to 20% for women on rail lines. 65% of female students reported the need to take precautions during their transit trips, compared to 30% of male students who did the same.

Incidents of harassment have been going up. According to a LA Metro report in 2019, *Understanding How Women Travel*, the share of female riders who report experiencing sexual harassment within the past six months of 2018 was greater than it was when LA Metro first began asking riders in 2014 (25% of LA Metro women bus riders and 33% of women rail riders reported experiencing sexual harassment in that survey).

#### *Homeless on Transit*

Transit agencies are seeing an increase in people experiencing homelessness using transit regularly for both shelter and transportation. With few other places for unhoused individuals to turn, transit settings such as buses, train cars, bus stops, and transit stations, often represent sites of visible homelessness, especially since the pandemic. According to a survey of transit operators conducted by UC ITS in spring of 2021, homelessness is common on transit with most operators reporting at least 100 unhoused people on their systems daily and some report up to 500 or more people. This increased during the pandemic, with LA Metro reporting counts at rail stations.

UC ITS also found that, “those experiencing homelessness in transit settings are more likely than their unhoused peers elsewhere to be chronically unhoused and structurally disadvantaged. Various surveys have shown that those sheltering on transit are more likely to be men, to be Black, to have low incomes, to have experienced homelessness for at least a year, to have been incarcerated, or to have a mental illness.”

Transit agencies are exploring options to help, including deploying additional law enforcement, social service and mental health outreach professionals. For example, in 2020, LA Metro launched “Operation Shelter the Unsheltered,” in which police officers and outreach staff at key end-of-line stations ask unsheltered riders to disembark and give them referrals and transport them to open shelters.

## **Strategies to Increase Transit Ridership**

### *Changes in Land Use Can Increase Transit Use and Reduce Vehicle Miles Traveled*

The greatest increase in public transit ridership ultimately would come from land use changes. The regions with the highest public transit ridership (New York City, San Francisco Bay Area, and the Washington D.C. Metropolitan area) have the highest share of commuters using public transit in the United States. According to *Making the Most of Transit: Density, Employment Growth, and Ridership Around New Stations*, the Transportation Research Board (2009) concluded that doubling residential density would lead to a 5–12% reduction in VMT, and possibly up to a 25% reduction with complementary changes in transit availability, the jobs-housing balance, and other factors. The TRB report also considered a scenario of higher density *plus* complementary changes like transit availability that would lead to twice as large a VMT reduction as the upper-bound estimate of higher density alone.

In California, the UC ITS noted in the TDA white paper, that recent changes to state law to promote development near transit is likely to increase ridership. Specifically, “recent state legislation to standardize zoning and development bonuses among the state’s 482 cities and 58 counties has strengthened the connection between frequent transit service and the development potential of land near this “high quality” service.” Further, “in general, policies that discourage giving more land over to parking and driving are favorable to improving transit ridership and effectiveness.”

### *More Frequent and Reliable Transit*

Increasing transit frequency is key to increasing ridership. Frequency can be increased with additional bus drivers or with more efficient service such as transit-only lanes or bus rapid transit. According to *Best Practices in Implementing Tactical Transit Lanes*, a guide produced by UCLA ITS, transit-only lanes have been able to improve peak congestion travel times by 20-28%. These lanes can produce dramatic decreases in the variability of transit travel times. Research suggests that reducing the total amount of time it take a transit rider to go door-to-door by 5-15% can increase urban peak ridership by 2-9%.

Frequency can also be increased by updating bus networks. According to Transit Center, in 2018 when transit ridership was declining across the board, seven cities saw an increase in ridership. Seattle, Houston and Austin all restructured their service to provide more frequency. Austin saw a 4.5% increase in ridership in a single year after making significant changes to their bus network.

The San Mateo County Transportation Authority (SamTrans), completed a successful three year effort to refresh the bus system with the goal of improving service and responding to the changing ridership needs in San Mateo County. As a result of the new route network, SamTrans saw a total ridership increase of 89,000 rides, or 18%, in the four-week period following the implementation of the new system.

### *Real Time Information*

Research has consistently shown that travel time is the strongest predictor of mode choice when deciding between riding transit or driving a car. Waiting time, in particular, tends to be perceived negatively by transit users, with riders often perceiving wait times for transit vehicles to arrive as significantly longer than they really are, anywhere between 1.2 to 4.4 times longer. According to *Where is my Bus? Impact of Mobile Real-Time Information on the Perceived and Actual Wait Time of Transit Riders*, lacking real-time updates leads transit riders to perceive they are waiting 30% longer for a bus. Providing transit riders with easily accessible real time updates on when their buses will arrive is a simple way to improve the transit experience and increase ridership.

### *Coordinated Fares and Service*

As part of a Blue Ribbon Transit Recovery Task Force spearheaded by the MTC, Bay Area transit agencies initiated a Fare Coordination and Integration Study and Business Case that found that existing fragmented fare policies were significant barriers to access; and that fare integration policies like free transfers, multi-agency passes, and a common fare structure for regional services could increase transit ridership by tens of thousands of daily new riders and meaningfully reduce VMT cost-effectively in comparison to most other types of transportation investments. MTC is working to pilot a multi-agency pass product, introduction of free transfers across the system, and in the longer term, implementation of a common fare structure for regional transit services and make multi-agency passes broadly available to the public.

### *Easy Fare Payment and Discount Pricing*

The California Integrated Travel Project (Cal-ITP), spearheaded by CalSTA, aims to improve the experience and cost-effectiveness of public transit for riders and operators through three actions: (1) installing an open loop contactless payment system that uses tap to pay enabled mobile devices, bank cards, or prepaid cards, to enable seamless travel across transit providers in order to make payment more convenient, (2) automating pricing flexibility, and (3) developing a platform for transit operators to share static and eventually real-time route information. In addition, Cal-ITP created a dashboard that integrates data from riders that use contactless payment including the number of riders per route, number of fare-adjusted rides, rider volume by day, total revenue per day, and total dollars riders save from each fare capping type (daily cap, monthly cap, or other).

In 2021, Cal-ITP conducted a pilot program in Los Angeles, Sacramento, Monterey-Salinas, and Santa Barbara. After adopting contactless payment technology, the Los Angeles World Airports (LAWA) saw faster boarding times. Contactless payments enabled Sacramento Regional Transit and Monterey-Salinas Transit (MST) to implement fare capping, benefiting low income frequent transit users by giving them access to discounts without requiring a steep upfront cost. MST also implemented an online digital verification process for riders, age 65 and older, to receive reduced fares. Finally, Santa Barbara Metropolitan Transit District piloted “pre-tax transit benefit debit cards” for UCSB employees who use MTD to get to campus to simplify utilization of employer-transit incentive programs.

### *Improving the Transit Experience -- Safety and Security*

As previously discussed, multiple studies have found that safety is a primary concern for many while riding public transit. A 2009 study from the Mineta Transportation Institute entitled, *How to Ease Women’s Fear of Transportation Environments: Case Studies and Best Practices*, noted that “gender emerges as the most significant factor related to anxiety and fear about victimization in transit environments. Researches have also identified more pronounced levels of fear of public settings among the elderly, certain ethnic groups, and low income people, who typically tend to live in high-crime neighborhoods.” The study finds that “Crime surveys and empirical studies from different parts of the world show that a majority of women are fearful of the potential violence against them when in public spaces.”



The report points out that while security cameras help ease the concerns that men have with safety and public transit, women feel more comfortable when there is a transit employee or security officer nearby. Recently several California transit agencies have hired unarmed transit ambassadors to provide a security role. BART, for example, has hired 10 transit ambassadors and 15 Crisis Intervention Specialist who work in coordination with sworn officers. LA Metro plans to deploy 300 transit ambassadors to enhance safety.

Charging fares is another way to increase safety, as it provides a barrier to entry for passengers that may use transit for shelter instead of a means of getting from place to place.

Finally, increasing transit frequency and providing real time updates on transit enhances safety because it can reduce the amount of time a person waits for the next bus to come.

#### *Free or Reduced Transit Fares*

Free or reduced fare transit has had mixed results in terms of increasing transit ridership. The COVID-19 pandemic recovery funds allowed many transit agencies to provide free fares to bring riders back. For example, LA Metro provided free transit rides on all bus services, paid for by emergency funding grants from the Federal Government. However, transit agencies experienced some unintended consequences.

According to a UCITS report, *Transit(ory) Finance, The Past, Present, and Future Fiscal Effects of COVID-19 on Public Transit in Southern California*, transit agencies that offered free transit during the early stages of the pandemic “cited benefits of charging fares and expressed a desire to maintain them. Some staff mentioned an observed rise in homelessness on fare-free vehicles as one significant reason, especially given increases in homelessness during the pandemic. Homelessness was the second-most commonly given drawback in our survey. In the view of several interviewees, housed travelers stopped riding transit, decided not to start riding, or felt unsafe when they did ride, due to behaviors of unhoused riders (or those perceived to be unhoused).”

According to *Full Free Fare Public transport: Objectives and Alternatives*, “Passenger surveys reveal that user preferences are more impacted by the quality of the public transport service than its price. Indeed several studies have shown that, even though value for money is often a source of discontent, the price of public transport comes well after reliability, punctuality, frequency, comfort, security and geographical coverage, in terms of priority criteria.” The study looked at various systems in Europe that transitioned to a fare free system and generally found that while transit ridership increased in these areas, the majority of new riders were people who previously walked or biked.

Currently, transit agencies in California offer a wide variety of free and reduced fare programs. In 2019, UC ITS conducted a statewide survey of transit agencies to learn more about these programs. UC ITS found that three-quarters of the respondent transit agencies offered one or more free or reduced fare programs, with the most common being programs for students and for the elderly, and only a few programs targeting a certain income level. The study found that free or reduced fare transit programs increase ridership, but transit agencies had concerns over the long term fiscal health of their agency to support them. Most transit agencies subsidize the free or reduced fare programs as part of their existing operating budget or utilize funding from other state, local, or private sources. They determined that the most successful programs are ones that are partnerships between the recipients and the transit agencies, such as a University. As noted, many transit agencies offer free or reduced transit passes for specific student groups. In many cases, students pay a portion of the fare through student fees and the transit agencies subsidizes the remainder of the cost. This is referred to as an “insurance model.”

The report concluded that “free or reduced transit fare programs have an important role to play in transportation policy at a time when transit ridership remains well below its peak and keeps on declining in many parts of California. In particular, the “insurance” model, where a large group of potential transit riders (such as all students at a college or all employees in a large firm) periodically pays a lump sum to a transit agency while only a subset of that group actually uses transit, has the potential to enhance mobility and increase transit ridership, while improving the financial health of the participating transit agency.”

### **Restructure Transit Funding to Better Meet State Goals**

As discussed above, UC ITS recently detailed the need for the Legislature to look at restructuring the state’s funding for transit so the state can “more effectively shape what transit service is provided in service of state goals.”

Specifically UC ITS recommends:

- *Remove the punitive “farebox ratio” funding eligibility requirement.* UC ITS finds that the farebox ratio was outdated even before the era of the pandemic and recovery when many operators were struggling, due to its misalignment with many contemporary state goals for transit.
- *Update transit performance assessments.* The TDA has no performance or ridership goals and some of its stipulations are based on outdated references to geographies. Updating the TDA to assess transit agencies based on their local ridership “market” and service quality could help to improve ridership.
- *Use subsidies as incentives.* Current state funding does not provide clear incentives to improve performance, efficiency, or effectiveness, other than to avoid a (rarely enforced) penalty. Some additional requirements motivate cost containment, but likely deter performance improvements as well. Providing subsidies on a per-trip basis, as is done in some European countries, or expanding existing user-side subsidy programs would provide stronger incentives for agencies to increase ridership.
- *Disburse funds using RTPA expertise.* The TDA’s current STA funding is uncoordinated across regions and not aligned with state goals. Disbursing funds through the RTPAs would facilitate more coordinated planning of transit service and better enable RTPAs to align state spending with Regional Transportation Plans/Sustainable Communities Strategies.
- *Provide a replacement source of funding for declining diesel sales tax revenues.* The state is exploring a road use charge to replacing declining gas tax revenues as the state transitions to electric vehicles. Similarly, a funding source to transition from a reliance on diesel sales tax revenues to support transit operations needs to be identified. UC ITS suggests creating a new TDA fund and posit that it could be funded initially by a portion of the quarter-cent sales tax revenue currently collected for the TDA’s LTF. Later, it could be funded through road user charges, the Greenhouse Gas Reduction Fund, or regionally through VMT mitigation banks. VMT banks are being discussed as a way to offset VMT-increasing transportation and housing projects.
- *Adjust LTF to focus on transit.* Currently, counties can spend TDA funds from the LTF for local streets and roads projects if they certify that all “reasonable” public transit needs have been met. This eligible use was included in the original TDA Act. UC ITS suggests that by restructuring the transit funding streams, the state could better determine how much funding is going to transit versus non-transit transportation projects.

## Conclusion

Transit operators nationally and in California were struggling with declining ridership prior to the COVID-19 pandemic. The pandemic exacerbated the problem, causing serious operating and financial challenges. With federal relief funding for transit being exhausted, many operators are facing an immediate fiscal crisis mainly due to revenue losses at the farebox.

As the Legislature discusses possible options for this pending financial crisis, innovative, longer-term changes also should be considered as robust transit systems are critical to providing mobility for those who do not have access to other transportation options and to helping the state achieve its climate goals. The state's current approach to funding transit, providing oversight, and measuring performance is not helping to facilitate the innovation that is necessary to increase transit ridership. As discussed, to achieve the state's goals of building better communities and reducing emissions, we need to double the capacity and service frequencies of the existing transit networks by 2030. The Legislature may want to consider:

- What near-term and long-term challenges do California's transit operators face and how do they vary by region and populations served?
- 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?
- How do safety and security issues affect ridership? How can transit operators improve the transit experience for riders?
- Do reduced fare programs increase ridership? How are transit agencies funding these programs and can they be sustained?
- Are current state oversight and performance measures effective? What should the state's role be in overseeing transit operators and how should performance be measured?
- As some state funding streams for transit decline, what other funding options should be considered for both capital and operations costs?