

This item is being brought directly to the Commission for consideration as the Joint MTC ABAG Legislation Committee did not meet.

**Metropolitan Transportation Commission and Association of Bay Area Governments
Joint MTC ABAG Legislation Committee**

May 12, 2023

Agenda Item 3a

Fiscal Year (FY) 2023-24 State Budget Update

Subject:

Update on FY 2023-24 State Budget Negotiations, including an overview of the May Revise and advocacy related to transit operating assistance.

Summary:

State budget negotiations are heating up this month. On April 26, Senate Democrats released their FY 2023-24 budget blueprint, the “Protect our Progress” plan available at this [link](#). This plan is a response to the Governor’s January Budget. It stakes out the Senate Democratic caucus’ priorities for the upcoming budget year. Notably, the Protect our Progress plan would reject the Governor’s proposed cuts to transportation capital programs that were included in last year’s transportation package, including rejecting proposed cuts to the Transit and Intercity Rail Capital Program (TIRCP). Encouragingly, the plan also includes the following **new** Senate proposal:

“Sets expectation of working with stakeholders, Assembly, and the Administration in establishing local flexibility opportunities with various transportation funding streams to assist transit agencies with operations expenses. This will be paired with reform and accountability measures and will serve as a bridge until additional long-term operations funding can be established. Critical infrastructure projects will be identified and protected in these discussions.”

Senator Wiener released an updated transit operations budget request letter in anticipation of this budget proposal (Attachment A) reiterating the request that this year’s budget “support our public transit systems with transit operating assistance so they can continue providing the essential service of moving Californians around our communities and across the state.” His letter also outlined a suite of revenue options and policy changes – aligned with those endorsed by the California Transit Association and MTC – to meet the statewide funding need.

On April 27, the Senate Budget Subcommittee No. 5 held a hearing that included a discussion of the transit fiscal cliff. At the hearing Chair Durazo expressed her support for addressing the problem and an interest in reforms aimed at attracting back riders. Representatives of the Administration also stated that this is a major issue that needs to be solved. The Legislative Analyst's Office presented a handout that detailed the challenges facing transit agencies and offered a high-level overview of options available to the Legislature to address the shortfall, inclusive of options endorsed by the California Transit Association and MTC. The handout is available at this [link](#).

As it relates to housing, the Protect our Progress plan would restore cuts to housing and homelessness programs that were proposed in the January budget. It would also newly provide \$1 billion in *ongoing* funding to the Homeless Housing, Assistance and Prevention (HHAP) program, which provides local governments with funding to support regional coordination and expand or develop local capacity to address homelessness challenges.

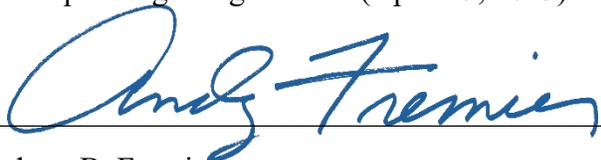
Given the May Revise may not be released until the day of the committee meeting, staff will provide a verbal update with any late breaking news.

Recommendation:

Information

Attachments:

- Attachment A: Senator Wiener Transit Operating Budget Letter (April 25, 2023)



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CHAIR

April 25, 2023

The Honorable Gavin Newsom
Governor of the State of California

The Honorable Toni G. Atkins
Senate President Pro Tempore
California State Senate

The Honorable Nancy Skinner
Chair, Senate Budget Committee
California State Senate

The Honorable María Elena Durazo
Chair, Budget Subcommittee No. 5
California State Senate

The Honorable Anthony Rendon
Speaker of the Assembly
California State Assembly

The Honorable Phil Y. Ting
Chair, Assembly Budget Committee
California State Assembly

The Honorable Steve Bennett
Chair, Budget Subcommittee No. 3
California State Assembly

Re: State Budget Funding to Avoid Public Transportation Fiscal Cliff

Dear Governor Newsom, Pro Tempore Atkins, Speaker Rendon, Senator Skinner, Assemblymember Ting, Senator Durazo, and Assemblymember Bennett,

After months of diligent stakeholder engagement and building a large coalition of transit advocates, policy experts, and other stakeholders to identify solutions to challenges transit agencies are facing, I am proud to submit this updated and detailed budget request (supplementing our previously submitted request) to support our public transit systems with transit operating assistance so they can continue providing the essential service of moving Californians around our communities and across the state.

California's transit agencies are facing major funding shortfalls — in some cases, as early as this coming year — that will knee cap their ability to maintain service for Californians, including our most vulnerable, transit-reliant residents. **The state budget must provide desperately needed transit operations bridge funding to help agencies avoid these shortfalls as federal emergency funding ends and as agencies' fare revenue continues to recover. The budget must also provide flexibility of funds to help our transit systems through this difficult time.**

Transit systems across California are at risk of drastic service cuts due to large near-term operating budget shortfalls precipitated by slower than expected ridership recovery, inflation-driven increases in operating and capital costs, and the exhaustion of federal relief funds.

In the absence of new state funding to address these budget shortfalls, many agencies may soon be forced to implement major service cuts. If transit service becomes less frequent, and thus less attractive to riders, these potential cuts would result in further ridership and revenue losses, which would necessitate still more service cuts. Additionally, some agencies may need to increase fares or slow down much needed capital projects.

Failing to provide public transit agencies with operating funding support, as they continue to recover and stabilize operations from pandemic ridership declines, is not a viable option for California. The resulting service cuts would lead to fewer mobility options for Californians and increased driving, congestion, and greenhouse gas emissions, thus undermining our shared equity, access, mobility, and climate goals.

Our public transportation systems have faced their share of difficulties — both longstanding and new — since the onset of the pandemic. Near-term operations funding from the state will help provide agencies with time to identify long-term, sustainable funding and operational models that will improve transit service and protect against future service declines.

Recognizing the difficult budget outlook that the state is facing for Fiscal Year 2023-24, The California Transit Association has, through its Transit Operations Funding Subcommittee and through a unanimous vote of its Association's leadership the week of April 16, identified its state funding request and policy recommendations to address the near-term operating deficits faced by California transit agencies. I support the Association's funding request:

Provide \$5.15 billion in multi-year funding over five years for transit operations from a collection of state funding sources that have historically supported transit capital and operations.

- **An Additional Appropriation of Revenue from Sales Tax on Diesel Fuel (\$1.35B from FY 24 - 28)**
- **An Additional Appropriation of Unallocated Cap and Trade Revenue (\$2.5B from FY 24 - 28)**
- **The Conversion of Transit Capital Funding to Transit Operations Funding (\$300M in FYs 27 & 28)**
- **Flexibility to Use Transit Capital Funding for Transit Operations (Up to \$1B in FY 24 - 28): The adopted FY 23 budget commits \$4 billion in General Fund revenue in FYs 2023-24 and 2024-25 for transit capital projects, to be distributed to regions via a population-based formula. The Governor's proposed FY 24 budget proposes to reduce that commitment by \$2 billion. This \$2 billion reduction should be reversed in the state budget.**

Additionally, the state should maintain existing flexibility in the State Transit Assistance-State of Good Repair Program and Expand Flexibility in the Low Carbon Transit

Governor Newsom, Pro Tempore Atkins, Speaker Rendon, Senator Skinner,
Assemblymember Ting, Senator Durazo, and Assemblymember Bennett
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Operations Program through FY 28. The general fund impact of the above request is limited - it would only result in a \$213 million reduction to General Fund revenue in FY 24.

Because the above request would not fully meet the statewide need for the transit agencies, in addition to the California Transit Association's request, I also believe the state should explore additional opportunities for flexible state and federal sources to address capital and operations expenses. **Specifically, the state could explore an increase to the Transportation Improvement Fee for higher-valued vehicles. Also, to better align statewide transportation spending with our climate goals, I support a limited term redirection of a portion of California's increase in federal highway funding to mitigate serious potential cuts for transit agencies.** Because California is receiving over \$1 billion annually more than anticipated in federal highway funds, there's plenty of highway funding to support this flexibility. This approach is consistent with President Biden's fiscal year 2024 Budget, which "encourages States to support their transit systems by transferring available Federal-Aid Highway funding for transit operating needs" (page 110 of the [President's FY 24 Budget](#)). This shift could be scaled to ensure that an increased level of funding for highway programs remains, while ensuring that California continues to meet its SB1 Roadway Asset management targets.

I understand the state is projecting a budget shortfall and that the options presented above represent difficult choices and tradeoffs. However, allowing the state's transit systems to unravel would have long-term, possibly irreversible, devastating impacts on California's transportation system and climate goals. Transit is not optional — it is an essential service for millions of Californians as they go about their daily lives, whether going to work, school, home, doctor's appointments, grocery shopping, or any other number of trips. Transit is also an essential tool in meeting the ambitious goals that science and our constituents demand to reduce our greenhouse gas emissions and avoid increased traffic congestion.

Thank you for considering this request. If you have any questions, please do not hesitate to contact me or have your staff reach out to Raayan Mohtashemi on my staff at (916) 651-4011 or Raayan.Mohtashemi@sen.ca.gov.

Sincerely,



Scott Wiener
Senator, 11th District

Cc:

CalSTA Secretary Toks Omishakin
CalSTA Undersecretary Mark Tollefson
CalSTA Chief Deputy Secretary for Rail and Transit Chad Edison
Deputy Cabinet Secretary James Hacker
California Air Resources Board Executive Officer Steve Cliff