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December 23, 2024

The Honorable Gavin Newsom, Governor
State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

The Honorable Mike McGuire, President pro Tempore
California State Senate
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas, Speaker
California State Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

RE: Cap-and-Trade Reauthorization Principles

Governor Newsom, pro Tem McGuire, Speaker Rivas:

On behalf of the California Transit Association, I write to you today to share the public transit industry's Cap-and-Trade reauthorization principles. The submittal of this letter follows the Association's November 25 meeting with the California State Senate's Cap-and-Trade Working Group, as well as additional meetings with Legislative and Administration staff, and is intended to satisfy my commitment to submit a letter to the Legislature by the end of the calendar year, formalizing the then-conceptual principles. I ask that you please consider these principles, and continue to engage the Association and its members, as discussions on Cap-and-Trade reauthorization continue in the State Capitol in 2025.

In advancing these principles to you, I wish to offer the following overarching observation: the Greenhouse Gas Reduction Fund (GGRF)-supported transit programs established under Senate Bill (SB) 862 (Committee on Budget & Fiscal Review) [Chapter 36, Statutes of 2014] are critical to the future of public transit in our state and foundational to the state's efforts to address the single largest greenhouse gas (GHG) emissions contributing sector and meet California's GHG reduction targets beyond 2030. These programs have facilitated the delivery of transformative transit projects and services statewide that substantially reduce greenhouse gas (GHG) emissions, leverage significant federal funds to maximize the benefits of state investment, and deliver a myriad of co-benefits to local communities, including air quality improvements and jobs (in manufacturing, construction, maintenance, and operations).

These principles are a product of the Association's newly established Cap-and-Trade Subcommittee, which was constituted by our Executive Committee to develop our principles, policy, and programmatic recommendations for Cap-and-Trade reauthorization. The Subcommittee is comprised of representatives from 9 transit agencies statewide, intentionally

chosen by our Executive Committee to represent the diverse perspectives and needs of transit agencies across the state that provide service to urban, suburban, and rural communities and that operate a variety of modes. The reauthorization principles presented below in this letter are a result of preliminary discussions with the Subcommittee, conducted in December 2024. As we continue to meet internally in 2025, we intend to provide you with more detailed policy and programmatic recommendations to, among other things, further improve the administration of GGRF-supported transit programs.

Protect Current Levels of Cap-and-Trade Funding for Public Transit: The Cap-and-Trade Expenditure Plan established by SB 862 recognized the mode shift to high-capacity public transit as an essential strategy to meeting the state's GHG emission reduction goals by establishing the Transit and Intercity Rail Capital Program (TIRCP) and Low Carbon Transit Operations Program (LCTOP) and directing continuous appropriations from the GGRF to these programs.

Over the nearly ten-year period since the enactment of SB 862, the TIRCP, which receives 10% of all auction proceeds deposited in the GGRF, has invested approximately \$2.5 billion in 245 transformative transit capital projects statewide, with 94% of this funding benefitting California's priority populations. According to the California Air Resources Board's (CARB) May 2024 Annual Report on Cap-and-Trade Auction Proceeds, this state investment in TIRCP will reduce 23 million metric tons (MMT) of carbon dioxide equivalent – the most of any Cap-and-Trade-supported program (and the equivalent of more than 5.3 million gas powered cars off the road annually). What's more, the TIRCP has leveraged significant federal funding from the Infrastructure Investment & Jobs Act (IIJA) programs, including, but not limited to the Capital Investment Grant Program, Bus & Bus Facilities Program, and Low or No Emissions Grant Program, allowing California to multiply the impact of the GGRF investments.

Meanwhile, the LCTOP, which receives 5% of all auction proceeds deposited into the GGRF, has invested approximately \$1.2 billion in 1,003 transit service and zero-emission vehicle projects statewide over the last ten years, with 94% of this funding benefitting California's priority populations. The CARB report outlines that investment in LCTOP will reduce 6.9 million metric tons of carbon dioxide emissions (the equivalent of more than 776 million gallons of gasoline).

In the years ahead, maintaining the level of funding these programs currently receive will be critical for ensuring the state makes continued progress in the delivery of transit projects and services that significantly reduce GHG emissions and that provide Californians with high-quality travel alternatives.

The Association recommends that the Legislature and the Administration protect the levels of GGRF funding for transit capital and operations established under SB 862.

Increase Current Levels of Cap-and-Trade Funding for Public Transit: While SB 862's investments in the TIRCP and LCTOP have built the foundation for improved public transit throughout California, data published by CARB shows that the state must do more to reduce vehicle miles traveled to reach its GHG emissions goals, requiring a 6-8 times increase in transit ridership.

Transit agencies understand – and have consistently communicated to the state through the California State Transportation Agency's Transit Transformation Task Force – that progress on this front will require heightened levels of state investment in transit capital projects and services as well as the enactment of state and local policy changes to, among other things, deliver transit

priority on shared transportation infrastructure, and improve coordination between state and local land use, housing, and transportation decisions. Together, these approaches would expand access to public transit service, increase its frequency and reliability, and more fully demonstrate that public transit can be a competitive travel option with driving.

As we have engaged in these discussions, we have noted the tremendous demand for transit capital funding demonstrated by transit agencies and local communities. Today, demand for TIRCP funding outstrips the funding available in the program 2-to-1, a dynamic that will be further exacerbated as transit agencies work to comply with the state-mandated transition to zero-emission vehicles (across all transit modes) and as California navigates an increasingly difficult federal funding landscape. Put plainly, the state must provide further support to transit agencies to help them transition to zero-emission vehicles that are on average 2-3 times more expensive than the conventionally fueled technologies they replace or risk forcing transit agencies to make counterproductive trade-offs between capital and operational investment. Additionally, should the state consider implementing changes to GGRF-supported transit program prior to 2030, the state should factor in that California will receive few federal grant awards from the remaining IIJA funding over the next four years and prepare to continue to advance transit projects and services with only state and local support.

Additionally, while transit agencies are making strong progress on their recovery from the pandemic thanks to the state's investment of funding from SB 125 (Committee on Budget and Fiscal Review) [Chapter, Statutes of 2023], we must now address the historic chronic underfunding of transit operations – at all levels of government. This will require broader discussion in the years ahead on a variety of new revenue sources to support the delivery of fast and frequent transit service but must begin with serious consideration of directing additional and flexible GGRF funds to transit operations.

Furthermore, in 2014, when SB 862 was being negotiated, the Affordable Housing and Sustainable Communities Program (AHSCP) was created as an additional funding program for public transit and active transportation, with up to half of the revenues supporting the AHSCP available for these purposes. However, the AHSCP has instead prioritized housing investment (a significant priority for the state) at the expense of transit and active transportation. The AHSCP, if it continues, should be made to better ensure its investments include more impactful public transit projects and services in order to meet GHG reduction goals.

The Association recommends that the Legislature and the Administration increase the levels of GGRF funding for transit capital and operations beyond those established under SB 862. Additionally, the Association recommends that any new transit capital funding be available to transit agencies to support their transition to zero-emission vehicles, including infrastructure buildout, as mandated by the state.

Ensure Any Dedicated High-Speed Rail Revenue Supports Current Regional Rail Corridors to Prepare for High-Speed Rail Implementation Throughout the State: The High-Speed Rail Project (Project) has been a priority for California for over a decade and as such, has received the largest percentage of the continuously appropriated Cap-and-Trade funding. Initially, when the Legislature and Governor agreed, under SB 862, to direct 25% of all auction proceeds deposited in the GGRF to the Project, the amount estimated for the project was \$500-\$600 million annually.

In recent years, according to the Project's 2024 Business Plan, high-speed rail has received over \$1 billion annually in GGRF funds, with the trend expected to continue for the foreseeable future. While the Project currently has no dedicated ongoing revenue outside the GGRF, its

success is heavily reliant on local and regional systems that support the Project. In the Bay Area and Southern California, the Project is sharing tracks, stations, and systems with existing rail operators (e.g. Caltrain, Metrolink) and significant investment is needed in these corridors to ready them for high-speed rail operations, while also supporting their stand-alone operations and delivering near-term travel benefits to Californians.

As such, we recommend that the Legislature and the Administration allow these local and regional rail and transit systems to benefit from any GGRF funding set aside for the Project in support of the future project and/or projects that have direct connections to the high-speed rail system, including its transportation hubs (e.g. Salesforce Transit Center, Diridon Station, LA Union Station, Fresno Station, Anaheim Regional Transportation Intermodal Center).

Reform Funding Programs to Streamline Grant Administration, Delivery of Funds, and Enhance Funding Certainty: Since SB 862 was enacted, the Association has sponsored a series of bills and engaged in program guideline development processes with administering agencies to streamline grant administration and to ensure that GGRF funds are available to meet local transit capital and service priorities. Cap-and-Trade reauthorization provides an opportunity for the Legislature and the Administration to advance improvements to the administration of the GGRF-supported transit programs. The goal of this effort is to get funding to agencies more quickly with fewer administrative impediments and more flexibility so that agencies can build and operate transit projects and programs faster, while still supporting the state's air quality goals.

We recommend that the Legislature and the Administration engage the Association and its members to better understand issues faced by transit agencies related to the structure, guidelines, eligible projects, application, and funding allocation process for GGRF-supported transit programs.

Thank you for allowing the Association to share our principles for Cap-and-Trade reauthorization. As always, the Association appreciates the opportunity to engage the Legislature and the Administration in funding and policy discussions that benefit the people of California. If you have any questions about this letter, please contact me at (916) 446-4656 x1034 or michael@caltransit.org.

Sincerely,



Michael Pimentel
Executive Director

cc: Members, California State Legislature
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Toks Omishakin, Secretary, California State Transportation Agency
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