Metropolitan Transportation Commission

April 26, 2023 **Agenda Item 15a - 23-0591**

Transit Fiscal Cliff Recovery Program: Proposed Funding Advocacy Framework

Subject:

Staff recommendation for funding sources and overall advocacy approach to addressing the transit fiscal cliff and supporting investment in rider-focused enhancements to attract new riders.

Background:

Bay Area transit agencies face an approximately $2.5 billion fiscal cliff over the next five years as they struggle to recover their ridership from before the COVID-19 pandemic and face costs that are far outpacing revenue. Transit agencies rely on fare revenue, among other funding sources – such as sales taxes – to pay for their operating costs, including staffing, fuel/electricity, and maintenance. While almost a million trips are taken every day on transit in the Bay Area, overall recovery is currently around 54 percent of 2019 levels. Yet transit is vital to the Bay Area's transportation system, serving a critical mobility function in key congested corridors and providing a lifeline for low-income residents, essential workers, students, seniors, those without a vehicle and Bay Area residents with disabilities that make driving impossible. It's also foundational to the region's equity and climate goals as well as those of the state, serving as a fundamental pillar of the Air Resources Board's Scoping Plan for achieving its greenhouse gas reduction targets.

Ridership Recovery & Reasons for Fiscal Cliff Vary By Operator

In general, the Bay Area has embraced remote work more readily than any other region in North America and this is affecting ridership across the region, with the greatest impact on commute-focused systems and routes serving downtown San Francisco. As such, some operators face much greater financial challenges than others, with systems that were primarily serving commute trips, such as BART and Caltrain seeing the lowest ridership recovery rates at 40 percent and 32 percent, respectively. These agencies also had very high fare-box recovery ratios (the share of operating costs that were covered by fare revenue) making them especially vulnerable to the reduced number of riders.

Some agencies that didn't have especially high farebox recovery ratios are still greatly affected by the rise in remote work. For instance, Golden Gate Transit relies heavily on bridge tolls for its operating costs but with weekday trips into San Francisco from the North Bay down substantially and bridge maintenance taking priority over transit, their fiscal cliff is significant and will begin in FY 2023-24 one year before most agencies. In the case of S.F. Muni, which has recovered about 60 percent of their 2019 ridership, their budget relies significantly on revenue from San Francisco parking receipts and traffic fines, both of which have dropped substantially due to significantly fewer work-related trips into San Francisco. The region's deficit begins with about $70 million in fiscal year (FY) 2023-24 but grows to almost $400 million in FY 2024-25 and then jumps over $700 million in FY 2025-26 and thereafter.

Strategy:

Since last fall, staff has been participating in a strong and growing coalition of stakeholders, including transit agencies, transit rider advocacy organizations, the business community, labor, environmental advocates, equity advocates and more to coordinate our advocacy and communications efforts in support of state funding to both address the fiscal cliff and fund transformative initiatives aimed at attracting new riders. Known informally as the "Survive and Thrive" coalition, this collaborative approach has generated two sign-on letters with close to or over 100 organizations (see Attachment A for most recent letter) and record numbers of speakers at budget hearings. The California Transit Association has also made the fiscal cliff a focus of their work this year, testifying at numerous policy and budget hearings and amplifying their own efforts on social media. MTC's communications team has also been actively coordinating with Bay Area transit agency communication staff and launched a social media awareness campaign on Facebook, Instagram and Reddit with the theme "We Can't Afford to Lose Transit" (#savetransit) in English, Spanish and Chinese. See Attachment B for details.

These efforts have garnered significant attention in Sacramento. Senator Scott Wiener and Senator Dave Cortese have each led sign-on letters highlighting the importance of addressing the issue in this year's budget, as was shared with the Commission previously. Budget hearings have highlighted the issue and representatives of the Newsom Administration have acknowledged it as a significant concern.

With just under two months to the state's budget deadline, energy has shifted to agreeing upon **a specific funding request** to help close the funding shortfall and support transit transformation.

Staff has been participating in a California Transit Association (CTA) subcommittee on this topic since the beginning of the year. As illustrated in Attachment C, CTA has unanimously endorsed two **new** revenue options: Cap and Trade discretionary funds and shifting a portion of the diesel sales tax to transit that currently goes to local government and four **"flexing"** options. Under the State's Constitution, a shift of the diesel sales tax funds must be backfilled by the state, so the General Fund would bear that cost.

Staff recommends the Commission endorse two additional **new** revenue sources to provide a bigger funding envelope to address the state's significant transit funding needs, anticipated to total $6 billion. Specifically, staff recommends we endorse a five-year shift of up to $500 million per year in federal highway funds to transit and a modest increase in the Transportation Improvement Fee (a vehicle registration surcharge) for five years. At the maximum proposed funding levels, these two items have the potential to generate approximately $3.5 billion over five years.

While it would be ideal to have 100% overlap with the budget request pursued by CTA, they have indicated they won't actively oppose any of the funding options advocated by others to address transit's needs. Given the magnitude of the transit funding shortfall statewide, staff finds it prudent to offer additional options in the "new" revenue category that comfortably exceed $6 billion and the four proposed options would sum to $7.4 billion.

Additionally, staff is concerned that two of the flexing options proposed (State Transit Assistance - State of Good Repair and the Low Carbon Transit Operations Program (LCTOP) will not reduce Bay Area operator's forecasted deficits as they are currently available for operating purposes (under COVID relief provisions already in place) while the remaining flexing options divert Transit and Intercity Rail Capital Program (TIRCP) funds on which the region is relying for multiple Bay Area transit capital priorities identified in the Major Project Advancement Policy, including BART Core Capacity, BART to SV Phase II, for the Portal (formerly known as Caltrain Downtown Extension/DTX), Valley Link, as well as SFMTA and AC Transit Zero Emission Bus/Fleet Replacement.

Recommendation: Endorse the new revenue options (Items 1-4) set forth in the Attachment C and remain neutral on Items 5-8.

Attachments:

- Attachment A: Most Recent Coalition Letter
- Attachment B: Social Media Support Transit Campaign Summary
- Attachment C: Presentation

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