California Transit Funding Crisis: A Message to the State Legislature

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HOW CAN THE STATE LEGISLATURE HELP?

Santa Cruz Metropolitan Transit District (METRO) is experiencing a capital and operating funding crisis. METRO needs new operating and capital resources with which to reduce dependence on one-time funding sources, such as reserves, that will also allow METRO to make an effort to dedicate more of its capital eligible funds to the Capital Program.

An increase in funding resources will help METRO reduce the anticipated backlog of $200 million in unfunded capital needs; stabilize the Operating Fund; and provide matching revenues with which to meet the local match requirements for State and Federal grants.

The State Legislature can help by taking the following actions:

1. Enact, in the context of a comprehensive, multi-modal transportation funding package, a significant component that provides new funds to public transit. METRO specifically supports enhancement of the funds flowing from and according to the statutes that govern the Transportation Development Act (TDA), in this priority order:

    a. Increase Local Transportation Funds (LTF), such as by dedicating a new one-quarter-percent sales tax to existing LTF expenditure purposes.
    b. Increase State Transit Assistance (STA) program funds, by increasing the State sales tax on diesel fuel.
    c. Create a new transit sales tax on gasoline that could be directed to LTF or STA.
    d. Preserve STA's current flexibility for use in both Operations and Capital Programs.

2. Authorize a new transportation capital infrastructure bond, as a successor to Proposition 1B, with a significant component dedicated to public transit projects. Proposition 1B grant funds were allocated over the decade following passage of the 2006 Bond Act.

Without additional funding from the State and Federal government, METRO will continue cutting costs and will not be able to keep up with the unavoidable obligation to purchase replacement buses.

This funding crisis is not unique to METRO. Small to mid-size transit properties across the country face similar funding challenges. As a result of the Great Recession, "Nearly 90% of transit systems in the country have had to cut service or raise fares in the past year." "To plug gaps in their operating budgets, many systems are being forced to shift capital funds into operations, with potential negative long-term impacts on system condition and reliability. Many see this as essentially robbing tomorrow's transit users, as it would reduce the ability to maintain and upgrade systems in the future, leading to further degradation. This could drag us into a dangerous downward spiral."

(Source: TheCityFix's series - Moving through the Recession, Part 2:
Service Cuts Continue, Megan McConville, February 23, 2010)

METRO IS A COMMUNITY ASSET

METRO serves the County of Santa Cruz, which has a population of over 262,000. Surveys show that 39% of METRO riders use the service to get to and from work. Reducing expense with service reductions will negatively impact the riding community and result in stranding thousands of commuters who depend on METRO to get to and from work, school, the grocery store, doctor's appointments and church. Santa Cruz County is home to the University of California, Santa Cruz (UCSC) and Cabrillo College. METRO's ridership data also reflects that nearly 50% of METRO riders are students and faculty of these institutions.

METRO helps implement the California Global Warming Solutions Act of 2006 (AB 32) by reducing greenhouse gas emissions with deployment of low-emission, high capacity buses. METRO's buses reduce fuel consumption by delivering more trips with fewer vehicle miles of travel than single-occupant vehicles. METRO's routes 69 A-W, 71 and 91X provide much needed traffic congestion relief to the gridlocked Highway 1, and "METRO has helped UCSC reduce single-occupant vehicle travel to 34% of all campus trips by accommodating 24% of all campus trips via public transit."

(Source: UCSC – 2016, Larry Pageler)

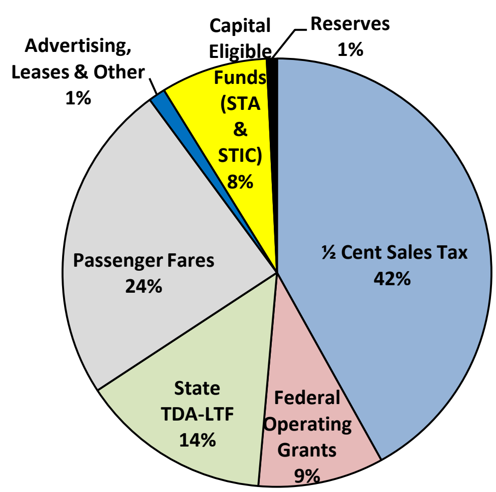
METRO, as a public business entity, is a major asset to the region, employing over 280 people and providing over 5.5 million passenger trips per year with an FY17 budget of $47 million. METRO supports the local economy through the purchase of goods and services for its operations. Labor costs (wages and benefits) represent approximately 83% (FY17 & FY18) of the operating costs and since 88% of METRO's employees reside in Santa Cruz County, the local multiplier effect of these labor dollars to the region is high as our employees' income is reinvested locally in housing, goods and services.

As traffic worsens, investments in public transit will become even more critical. The Texas Transportation Institute's 2010 nationwide study documented that traffic in California's major metropolitan regions costs residents as much as two full days per year in wasted time and related fuel consumption.

(Source: All Aboard - How California can increase investments in public transit, July 2011)

CURRENT FUNDING FOR OPERATIONS

The Operations side of the business is substantially supported by the ½ cent local sales tax approved by the voters in 1978, State and Federal grants and customer fares.



Due to the Great Recession of 2008, METRO's ½ cent county-wide sales tax revenue did not return to FY08 levels until FY14 and sales tax revenue growth has been sluggish year-over-year through 2015. Since ridership has been relatively flat, fare revenues have also been flat. However, during the same period of time, expenses have grown at a rate of 1 – 10% year-over-year. Revenue growth has not kept pace with expense growth.

METRO also funds operations by using State Transportation Development Act (TDA) funds. TDA is composed of two programs, the State Transit Assistance (STA) Program and the Local Transportation Fund (LTF). Since FY14, STA has been on the decline and since FY12, LTF has been growing at a slow pace. STA is derived from the statewide sales tax on diesel fuel, currently at 4.125%, and LTF is derived from a ¼ cent of the general sales tax collected statewide.

There needs to be a bipartisan collaborative effort in the State Legislature to both increase the funds flowing to LTF, as well as increase the sales tax on diesel fuel currently going to transit, and to add an additional gasoline sales tax dedicated to public transit. In FY17, METRO's STA revenues dropped by an estimated $1 million due to declining diesel fuel prices and consumption. Increasing STA funds will require that the State increase the rate of State sales tax on diesel fuel and dedicating the new revenues to the STA Program. Adding an additional gasoline sales tax and dedicating it to public transit via STA or LTF will also help. And, it has been suggested that the ¼ cent sales tax currently scheduled to expire on 12/31/16 could be extended now, during the final days of the Special Session on Transportation & Infrastructure Funding, as part of a comprehensive, multi-modal transportation funding package. If this existing revenue source, which is otherwise scheduled to go away next year, were allocated starting in 2017 – through the existing TDA statutes – then more than $1 billion could be available for LTF's local transit purposes, as well as hundreds of millions of dollars more for local streets & roads, all without increasing current taxation levels.

Some fuel tax opponents argue that declining consumption and lower fuel prices make fuel tax funding sources unstable and unreliable. Instead, some argue that we need a more stable transit funding source such as Vehicle Miles Travel (VMT) fees. No argument there. To that end, we need a **<u>very</u>** <u>short-term</u> strategy as well as a slightly longer-term strategy. VMTs have been debated and studied for years. Unfortunately, as the debate continues, transit has fallen further and further behind in State of Good Repair and operating funds. Tough times call for difficult bipartisan decisions. In the very short-term, the Legislature should increase the diesel fuel taxes and add a new transit-dedicated gasoline sales tax, while simultaneously continuing the debate about VMTs and growing more stable funding sources.

Inadequate funding for transit means local transit operators have less money to operate and maintain their existing services. Moreover, they have few resources available for expanding the existing infrastructure. Stabilizing and improving funds for transit will be necessary for California to improve its transit system and achieve the resulting benefits.

(Source: All Aboard - How California can increase investments in public transit, July 2011)

RESOLVING THE STRUCTURAL DEFICIT

In its FY17 budget, METRO was faced with an Operating budget structural deficit of $6.3 million. Resolving the structural deficit was challenging and included a yearlong commitment to a Comprehensive Operational Analysis (COA) which resulted in a 15% service reduction. The adopted FY17/18 budget includes an assumption that a county transportation sales tax measure on the ballot will pass in November 2016. If it does not, METRO will need to reduce service further.

Finally, the five-year budget projection shows the structural deficit beginning to return in FY19. Absent new local, State and Federal funding, METRO will need to continue to look for ways to trim further service in an effort to balance the budget in the coming years. At the same time, METRO needs to reduce the operating fund's dependency on capital eligible revenues such as the State Transit Assistance (STA) and the FTA Small Transit Intensive Cities (STIC) grant programs. In FY17, METRO budgeted $3.7 million of STA and STIC revenues in the operating budget. In the coming years, funds from these two programs are needed for the backlog of unfunded Capital Projects (State of Good Repair). Further operating assistance from the State will help expedite the transition of these two capital eligible funding sources away from the operating budget and back to the Capital Program.

STATE OF GOOD REPAIR

Today, 62% of METRO's bus fleet (60 buses) are past their useful life of 12-years and METRO's average age of the fleet is 12 years. METRO's Paratransit fleet of vans and cutaways are also in need of replacement, with 39 of the 41 vehicles overdue for replacement. Compounding matters further, METRO's unfunded Capital Program requires an investment in excess of $200 million over the next ten-years in order to achieve a State of Good Repair (SGR). A contributing factor to this capital funding crisis is the end of Proposition 1B, which has provided METRO with over $36.5 million in capital resources over the life of the program.

The looming bus capital crisis is far from a laughing matter. Aging bus fleets are less safe, cost significantly more to operate and greatly contribute to the poor community image of many transit systems.
(Source: Metro Magazine Sept/Oct 2015, Scott Bogren – Looming bus capital crisis fuels fight for dedicated investment)

As transit fleets become increasingly deficient relative to demand, interruptions and their costs are expected to impose an increasing burden on the economy, especially in the growing demand-response transit sector, which serves nondriving (and often nonurban) populations with fewer alternative transportation options.
(Source: ASCE 2011 - Failure to Act, The economic impact of current investment trends in surface transportation infrastructure)

This 2010 National State of Good Repair Assessment evaluates the level of investment required to bring all U.S. transit assets – including the assets of all urbanized area and rural transit operators – to a state of good repair. The analysis presented here describes a current national SGR backlog of an estimated $77.7 billion ($2009).
(Source: FTA – 2010 National State of Good Repair Assessment)

METRO is facing a daunting challenge over the next ten years to find the resources with which to achieve an SGR. In a basic sense, the system is in an SGR when all maintenance is performed at scheduled intervals, all facilities are properly maintained and all vehicles receive mid-life overhauls on-time and are replaced as scheduled.

METRO's unfunded capital needs list, estimated at over $200 million over ten-years, includes replacing fixed-route and Paratransit revenue vehicles; replacing non-revenue vehicles; reconstruction/replacement of the Pacific Station Transit Center; reconstruction/replacement of the Watsonville Transit Center; a new Operations and Maintenance facility in the south county; a Paratransit Operations facility; and timely mid-life bus overhauls.

In spite of the Capital and Operating fiscal challenges,
METRO wants to assure the Legislature, and our customers,
that we will always dedicate off-the-top the first dollars needed
to insure that we run a safe system. Safety is always first.

STATE (CALIFORNIA) CAPITAL FUNDING

On the State funding side of Capital, California Proposition 1B of 2006 provided over $36.5 million in capital funds to METRO through three different programs:

1. Public Transportation, Modernization, Improvement, and Service Enhancement Account (PTMISEA);
2. California Transit Security Grant Program (CTSGP); and
3. State and Local Partnership Program (SLPP).

   Proposition 1B grant funds were allocated over the decade following passage of the 2006 Bond Act.

A new State infrastructure bond program needs to be
developed and approved by the State legislature and then
approved by the voters which will provide METRO and transit
properties throughout the State with new Capital funding.

CLOSING COMMENTS

This analysis of the Capital funding side of the business provides a quick sense that if something on both the State and Federal sides of Capital funding does not change dramatically, and soon, METRO will not have the ability fund the average of $20 million/year it needs for the unfunded Capital Program. Not keeping up with SGR will result in potentially deep service reductions, loss of ridership and dramatic impacts to service reliability. Not keeping up with SGR results in escalating and compounding Capital costs when trying to catch-up later. Finally, not keeping up with SGR results in escalating and compounding annual Operating costs as the maintenance department attempts to keep buses in revenue service that have reached the end of their useful life.

This analysis of the operation funding side of the business provides a quick sense that if Operating revenues do not increase, METRO will have to again look at reducing service as soon as FY19. If the State Legislature will approve a new comprehensive transportation funding package (highways, roadways & transit) that includes a significant public transit component, METRO will be able to stabilize the Operating budget and avoid harsh service reductions.

In closing, these public transit financial challenges are not unique to METRO. Avoiding deep service reductions will require urgent action by both the State and Federal governments to provide stable and growing Operating and Capital transit funding assistance.

It is important to mobility, congestion relief and air quality goals that
public transit becomes sustainable and is able to grow ridership.