SPUR
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May 9, 2025

Governor Gavin Newsom
1021 O Street, Suite 9000
Sacramento, CA 95814

Assembly Speaker Robert Rivas
1021 O Street, Suite 8330
Sacramento, CA 95814

Senate Pro Tem Mike McGuire
1021 O Street, Suite 8518
Sacramento, CA 95814

Senator Monique Limon
Chair, Senate Climate Working Group
1021 I Street, Suite 7610
Sacramento, CA 95814

Assembly Member Jacqui Irwin
Chair, Assembly Cap & Trade Working Group
1021 O Street, Suite 6220
Sacramento, CA 95814

Senator Catherine Blakespear
Chair, Senate Environmental Quality Committee
1021 O Street, Suite 7720
Sacramento, CA 95814

Assembly Member Isaac Bryan
Chair, Assembly Natural Resources Committee
1021 O Street, Suite 5630
Sacramento, CA 95814

Re: Cap-and-Trade Reauthorization Priorities for Public Transit

Dear Speaker Rivas, Pro Tem McGuire, Senator Blakespear, Senator Limon, Assemblymember Bryan, and Assemblymember Irwin,

On behalf of SPUR, thank you for prioritizing the reauthorization of Cap-and-Trade in this legislative session. SPUR is a non-profit, member-supported urban policy organization that works to make the San Francisco Bay Area more sustainable, equitable, and prosperous through research, education, and advocacy.

As the Legislature and Administration consider reauthorizing the program to extend beyond 2030, SPUR offers the following principles and recommendations regarding the use of Greenhouse Gas Reduction Fund (GGRF) revenues to support public transit and a shift towards a more sustainable, equitable, and prosperous future.

1. Protect or expand current proportions of GGRF funding that are continuously appropriated to programs that support public transit.
2. Allow GGRF-funded public transit programs to be used for transit operating expenses.

3. Re-invest any interest generated by public transit programs back into those programs to create additional funding for public transit.
4. Funds that are available for transit operating uses should be distributed by formula, not on a competitive basis.
5. Allow high-speed rail allocations to be used to support existing regional rail corridors along the "bookends" of the future high-speed rail system.

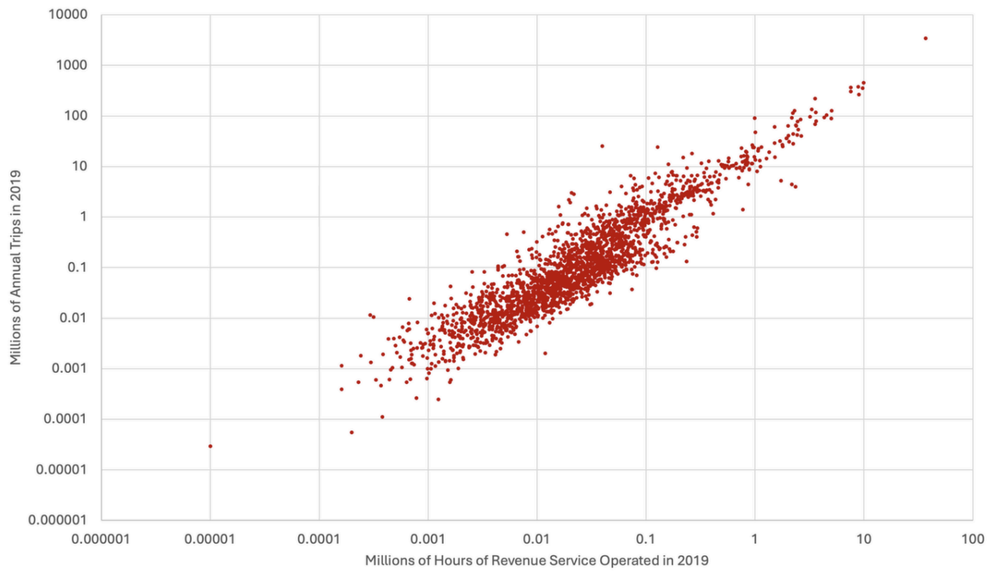
1. Protect or expand current proportions of GGRF funding that are continuously appropriated to programs that support public transit.

The GGRF is one of the only sources of state transportation funds that are specifically dedicated to projects and programs that help the state attain a more sustainable and equitable future. At the same time, these programs are just 2% of the state's transportation spending (according to the report completed under the direction of AB285). Given that these are some of the only transportation programs mandated to support the state's climate goals, it is essential to protect, if not grow, the transit programs funded by GGRF.

In addition, the state has set policy goals that require a significant increase in public transit ridership, which requires new investment in service. Achieving our climate goals could require a five-to-ten-fold increase in transit ridership above pre-covid levels by 2045, according to CalSTA. There is an extremely strong correlation between the provision of service (measured in service hours), the cost of operations, and ridership (see Figures 1 and 2). This means that much more funding will be needed in order to grow transit ridership five-fold to ten-fold.

Ridership, quantity of service, and total operating costs are strongly correlated, meaning much more funding will be needed if California is to grow its transit ridership five-fold to ten-fold.

Figure 1. Total 2019 revenue service hours and total 2019 ridership for all U.S. agencies



Source: SPUR analysis of National Transit Database 2019 data

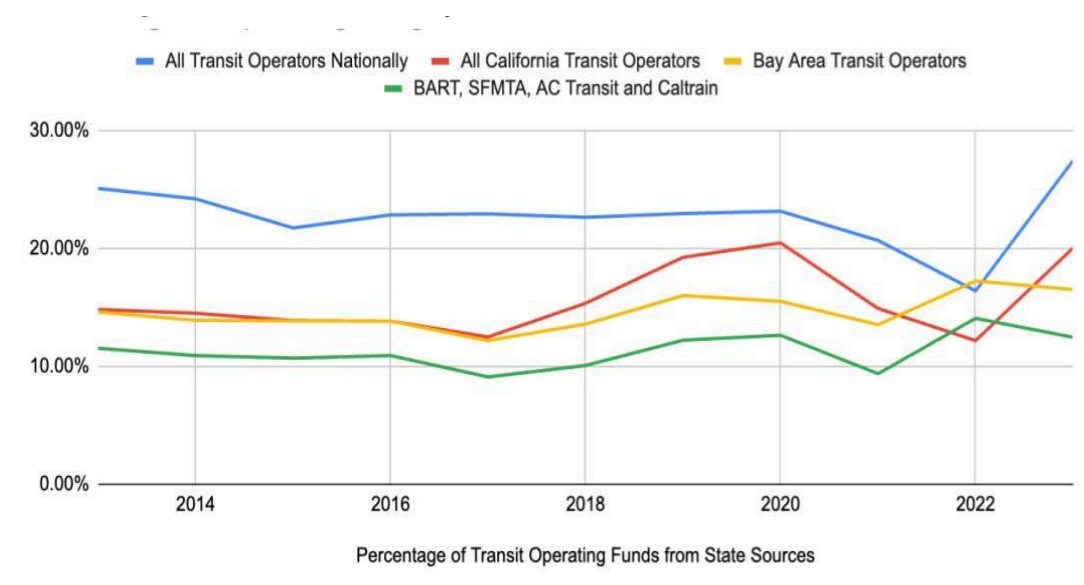
Figure 2. Total 2019 operating expenses and total 2019 ridership for all U.S. transit agencies

Source: SPUR analysis of National Transit Database 2019 data

In addition, the state has established high expectations for public transit, and relies on public transit as a cornerstone of the state's climate goals, housing production strategy, and as an engine of economic growth.

And yet, public transit operations in this state have been chronically underfunded. California provides a smaller share of funds for transit operations than the national average (see Figure 3), despite setting ambitious expectations for public transit as a foundation of many policy goals. In fact, recent academic research has shown that metropolitan regions in the United States with highly productive transit systems (as measured by passenger miles traveled per miles of service provided) are also the regions where the per capita level of public subsidy for transit is highest.

Figure 3. Share of transit operating funds that come from state-controlled sources



Caption: The state has not right-sized the scale of its transit operations funding to its policy goals. The state's share of operating funding is lower than the national average. The share of operating funding for the Bay Area, and particularly the most financially vulnerable agencies, has been even lower.
Source: SPUR analysis of National Transit Database reports

Finally, the state has enacted many new laws that promote the production of housing and hold local jurisdictions accountable for zoning for new housing. Many of the sites that cities are zoning for housing are located on transit corridors. For example, San Francisco's zoning plan contemplates 35-64 floor buildings on the Van Ness transit corridor in order to reach its state mandated housing targets. There is simply no way to incorporate tens of thousands of new housing units in existing neighborhoods without the public transit to support them.

2. Allow GGRF-funded public transit programs to be used for transit operating expenses.

First, high-quality, abundant transit is also critical to meeting California's ambitious climate and sustainability goals. More than 40% of the state's greenhouse gas emissions come from the transportation sector, primarily from cars. The state is already falling dangerously short of its statutory goal to reduce greenhouse gasses by 48% below 1990 levels by 2030. Making sure that people have the option to take transit to work, to the grocery store, or to see their friends is one of the most impactful policy actions the state can take to help reduce greenhouse gas emissions. The California Air Resources Board recently set a goal of doubling transit ridership to reduce emissions, improve public health, and support sustainable, compact growth — an ambitious goal that would have stretched the financial and operational capacity of the state's transit agencies *before* taking into account their current struggles.

Concerningly, according to a recent UC-ITS study, 70% of transit operators in the state will face large operating shortfalls in coming years due to the lingering impacts of the pandemic, inflationary pressures, and structural challenges.

Capital projects are still a worthy use of GGRF funds. Nonetheless, the GGRF is intended for purposes that reduce greenhouse gas emissions. Dedicating a larger portion of auction revenues to transit services that are *already* in use *today* deliver more environmental benefit than capital projects that take decades to fund and deliver.

3. Re-invest any interest generated by public transit programs back into those programs to create additional funding for public transit.

The interest from unspent GGRF funds accrue to the fund balance. The Legislature has the authority to allocate that interest for one-time uses/ programs. Instead, we recommend that the legislature direct the interest on unspent TIRCP, LCTOP, and HSR funds back into those programs. Further, we recommend making this additional increment available for transit operating expenses.

4. Funds that are available for transit operating uses should be distributed by formula, not on a competitive basis.

Public transit agencies need operating funds to be predictable from year to year. Competitive processes may be appropriate for large capital funding grants but are administratively burdensome for both state agencies and transit operators and undermine the predictability that is required for operating needs. In our view, funds that can be used for operations should be distributed based on metrics related to ridership and revenues as a baseline. As an incentive, the state could award a small percentage of funds to those agencies with high transit performance.

5. Allow high-speed rail allocations to be used to support existing regional rail corridors along the "bookends" of the future high-speed rail system.

The success of the high-speed rail system is heavily reliant on local and regional systems that will bring riders to and from stations. In many cases, the future high-speed rail system will share tracks and other facilities with regional and intercity rail services. Early investment in these bookend systems will help prepare for future high-speed rail operations while delivering improvements - and associated climate benefits- for riders and nearby residents today.

Concerningly, there is a real risk that the high-speed rail project in its current form will not be delivered due a lack of funding beyond the initial operating segment. Until a plausible and large enough fund source is identified, investing in regional and local rail systems that benefit a future high-speed system allows the state to both advance its long term goal of delivering the project while making investments that can attract more riders and reduce greenhouse gas emissions more quickly.

Thank you for considering these recommendations as you move forward towards reauthorization. Please reach out if you have any questions at 415-644-4295.

Sincerely,

Laura Tolkoff
Transportation Policy Director