



**CALIFORNIA  
TRANSIT  
ASSOCIATION**

September 10, 2009

1415 L Street, Suite 200 • Sacramento, CA 95814

Phone (916) 446-4656 • FAX (916) 446-4318

E-Mail: [info@caltransit.org](mailto:info@caltransit.org)

[www.caltransit.org](http://www.caltransit.org)

Mr. Gerald Parsky, Chair  
Commission on the 21st Century Economy  
c/o State of California Department of Finance  
915 L Street, 8th Floor  
Sacramento, California 95814

Dear Chairman Parsky:

Please accept the following comments as correspondence from the California Transit Association to the Commission on the 21st Century Economy, for consideration by you and the Commission as you prepare your final report. We respectfully request that you distribute these comments to the members of the Commission.

Comprised of nearly 190 member organizations, the California Transit Association is the non-profit statewide trade organization representing the public transit industry. Our Association attracts and retains all of California's largest urban public transportation operators, as well as dozens of agencies in suburban and rural areas. Our members also include commuter rail agencies, transit support groups such as regional and local planning agencies and air quality management districts, national and international transit suppliers, and other government agencies.

Our long-range vision for the transit industry portrays the desired future the Association seeks to achieve: *Fully funded, efficient, and effective public transit systems operating in a balanced transportation network.* In turn, our mission statement describes how the Association will accomplish its vision; thus, our Association's mission is: *Support the needs of California's public transit systems through advocacy and education.*

We understand that Governor Schwarzenegger's Executive Order establishing the Commission on the 21st Century Economy directs the Commission to deliver a report to the Governor and to the Legislature suggesting changes to state and local revenues that will result in a revenue stream that is more stable and reflective of the California economy. We also understand that the bipartisan Commission is to re-examine and suggest ways to modernize California's out-of-date revenue laws that contribute to feast-or-famine state budget cycles. Finally, we further understand that in carrying out its mission the Commission shall apply these principles, first outlined in the Governor's Executive Order creating the Commission:

- a. Establish 21st century tax structure that fits with state's 21st century economy;
- b. Stabilize state revenues and reduce volatility;
- c. Promote the long-term economic prosperity of the state and its citizens;
- d. Improve California's ability to successfully compete with other states and nations for jobs and investments;
- e. Reflect principles of sound tax policy including simplicity, competitiveness, efficiency, predictability, stability and ease of compliance and administration;
- f. Ensure that tax structure is fair and equitable.

The Association strongly believes that an investment in public transportation will help the state reduce traffic congestion, ease the burden on the state's outdated infrastructure, achieve its greenhouse gas (GHG) emission reduction goals, as well as provide safe and reliable mobility options for millions of Californians, including the elderly, disabled, school children, and commuters. Unfortunately, the state has moved in the opposite direction by eviscerating funding for public transportation through its actions over the past few years.

Over \$4.6 billion has been diverted away from the Public Transportation Account (PTA), since the 2007-08 State Budget was enacted. This amount includes a \$2.4 billion raid of the State Transit Assistance (STA) program, which is a subaccount of the PTA that transit operators rely upon primarily to fund operations but can be used to pay for capital projects as well. The STA program provides the only source of state operating dollars for local and regional public transportation agencies, and is needed in order to accommodate current ridership demands. Many transit agencies also use this program for capital purchases and infrastructure investments, such as the acquisition of new, clean-fueled buses, or the construction of rail systems. Yet, just when more Californians than ever are choosing to take public transit, or find that they have to because they've unfortunately been priced out of their cars due to the high cost of gasoline, the legislature and governor in February of this year completely eliminated the STA program until at least the 2012-2013 fiscal year.

The elimination of the STA program has already caused some transit agencies to raise fares on those who can least afford it, or to reduce or even eliminate service on the street. Other transit agencies have taken the painful steps of laying off bus and train operators, while still others have had to defer capital expansion or needed rehabilitation projects.

Public transit should be playing a much larger role in helping the state meet its clean air goals: better and more frequent transit service attracts more people from their cars, thus reducing vehicle miles traveled and leading to concurrent reductions in GHG. Use of public transportation produces 95 percent less carbon monoxide and about half as much carbon dioxide and nitrogen oxides per passenger mile, compared to private vehicles. Transit use in California also reduces carbon dioxide emissions by nearly 3.6 million metric tons annually. Clearly, regional and local governments will never meet their GHG emission reduction targets under AB 32 (the Global Warming Solutions Act of 2006) and SB 375 (Steinberg) if state funding for public transit is eliminated.

While we understand that the Commission's goal is to ensure that state's tax structure is fair and equitable and does not overburden the taxpayer, we believe that it is important to invest in public transportation in order to offset some of the cost-prohibitive obligations that exist in maintaining our infrastructure, improving air quality and increasing mobility. The California Transportation Commission estimates that the state's transportation infrastructure needs exceed \$200 billion. Yet, investments in public transportation help stimulate the economy. In fact, the American Public Transportation Association estimates that \$6 in economic activity is generated for every dollar that is spent on transit.

In our April 7<sup>th</sup> letter to the Commission, we referenced several principles and offered a host of possible solutions for investing in public transportation. In addition to the items referenced in that letter, the California Transit Association respectfully requests that the Commission consider a few additional proposals below to assist public transportation. We hope that while we are offering proposals that generate revenue, that the Commission can find other opportunities through its work to neutralize the tax burden on taxpayers.

1. The California Transit Association urges the Commission to support continuation and strengthening of the transportation funding mechanism first put into place by the state in 1971, through the Transportation Development Act (Senate Bill 325, Mills-Alquist-Deddeh [Chapter 1400, Statutes of 1971]). Recognizing that all citizens benefit from an enhanced transportation system, whether they regularly use public transit and / or automobiles, the TDA dedicated one-quarter of one percent of the state's then-existing sales tax rate to counties agreeing to spend the revenues on local public transportation (and streets & roads expenses in some counties). To make up for the loss of these General Fund revenues, the state sales tax was also extended to gasoline sales, and these funds were kept in the General Fund (and were subsequently dedicated to broader transportation purposes by Proposition 42 of 2002). We call on the Commission to preserve TDA funds as the "lifblood" of public transit funding in California, and to explore ways to enhance TDA funding.

Furthermore, we suggest that the Commission consider the option of having the legislature double TDA by adding an additional one-quarter of one percent increase in local sales and use tax for local transportation purposes. This would provide local jurisdictions with more predictability and stability in providing vital transit service. An alternative approach to this proposal would be to authorize a county or a city and county to impose an additional one-quarter of one percent local sales and use tax for local transportation purposes by a majority vote of the people.

2. As an alternative to #1, we also encourage the Commission to consider the option of funding transit operations with a portion of the property tax revenue generated by a transit-oriented development (TOD). This proposal would not generate as much funding for transit statewide since it would advantage urban areas that have a transit-oriented development, however it would significantly provide revenue to those areas that do and typically have high service volumes. This would be accomplished by taking property tax generated from development within 1/4 mile of transit corridors that would normally flow to schools through the Education Revenue Augmentation Fund (ERAF) shift and reallocating those funds to transit operations on a county-by-county basis. Similar to the "Triple Flip" proposal of 2004-05, the ERAF funds redirected to transit would be backfilled by the General Fund in order to fulfill the State's obligations under Proposition 98. Under ERAF, taxes on real property are divided among cities, counties special districts and school districts. These funds are typically allocated as follows: counties 18 percent, cities 11 percent, schools (school districts and community colleges) 53 percent, and special districts 18 percent.

In the early 1990s, schools retained a smaller portion of property tax revenue and instead, a larger portion of the State's Proposition 98 obligations were paid from the State's General Fund. However, in 1992 and 1993, the State reduced its Proposition 98 burden, by requiring counties to shift a portion of the property tax revenue in their counties into an Education Revenue Augmentation Fund (ERAF). This reduced the non-educational agency share of property tax from 65 to 48 percent.

In 2004-05, a portion of the ERAF shift was redirected back to local government when voters approved the California Recovery Act, which implemented the "Triple Flip", allowing local government to replace a shifting of 1/4-cent sales tax to the State with ERAF revenues. In turn, ERAF would be reimbursed by State aid from the General Fund.

Reallocating property tax funding that is generated in a TOD to transit districts ensure that dramatic shifts in regional land use and transportation planning policies are reinforced by transit systems that are robust enough to support the impact of the state's GHG reduction strategies

With the implementation of SB 375 (Steinberg), Chapter 728, Statutes of 2008, it is apparent that public transportation will shoulder much of the burden as the State endeavors to reduce GHG in accordance with AB 32. SB 375 will result in changes to land-use and transportation planning policies, encouraging more development near transit corridors through regional implementation of a Sustainable Communities Strategy.

Without increased funding, transit systems will be unable to accommodate demand for more service and expanded operations. Instead, population and employment growth will be increasingly consolidated in the urban corridor near underfunded and underdeveloped transit operations.

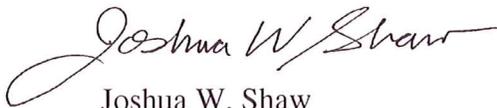
3. Finally, we understand that the Commission is considering a "Pollution Tax" which would impose an additional 18-cent per gallon tax on gasoline which would be adjusted by the Consumer Price Index (CPI) and an additional 7-cent per gallon increase per year for ten years. This proposal raises over \$3 billion in the first year of implementation for the following:
  - \$1 billion to the State Highway Operation and Protection Program (SHOPP);
  - \$1 billion to cities and counties for maintenance and rehabilitation of local streets and roads;
  - \$600 million to reimburse the state general fund for the cost of paying rebates to low income motorists under this proposal;
  - \$500 million to the state general fund for debt service relief on transportation-related bonds;
  - \$400 million for direct grants to metropolitan planning organizations (MPOs) and regional transportation planning agencies (RTPAs) around the state for "SB 375 and Blueprint"-related projects. The statewide distribution formula is not yet defined, and;
  - \$100 million to the Strategic Growth Council grants and loans to local agencies to fund SB 375/Blueprint-related planning activities.

While these are worthy investments, funding for public transportation is conspicuously absent from consideration in this proposal. As we understand it, Article XIX of the California Constitution precludes using these funds for operations. We would urge the Commission to consider language that would specifically carve out a pot of money in order to allocate revenue for transit capital expenditures, and specify that transit districts are eligible to receive funding from the pot of money made available for SB 375 and Blueprint-related projects.

In closing, we again urge the Commission to recommend that the Legislature and Governor restore, stabilize and protect those historic sources of transit revenue as we referenced in our April 7<sup>th</sup> letter. However, if the Commission determines for whatever reason not to recommend restoring those historic funding sources, whether because doing so would jeopardize other important programs now supported by the General Fund (i.e. to which those historic transit revenues have recently been diverted), or because the nature of the revenues do not match the Commission's vision of a transit system for the 21<sup>st</sup> Century, or for any other reason, then we urge the Commission to consider recommending a variety of alternative or new replacement funding mechanisms, to meet the needs of a 21<sup>st</sup> Century transit system going forward.

Thank you for consideration of our comments. Please let me know if you or Commission members have any questions about our comments.

Respectfully,



Joshua W. Shaw  
Executive Director

Cc: Members of the Commission on the 21<sup>st</sup> Century Economy  
Governor Arnold Schwarzenegger  
Members of the California Legislature