Date of Hearing: July 13, 2015

ASSEMBLY COMMITTEE ON TRANSPORTATION
Jim Frazier, Chair
SB 508 (Beall) – As Amended May 12, 2015

SENATE VOTE: 28-8

SUBJECT: Transportation funds: transit operators: pedestrian safety.

SUMMARY: Modifies performance metrics related to state funding for public transit and updates related provisions. Specifically, **this bill**:

1) Adds pedestrian safety education programs to the list of eligible uses of Local Transportation Fund (LTF) moneys.

2) Excludes the principal and interest payments on all capital projects funded with certificates of participation (COPs) from the definition of "operating cost" used to calculate a transit operator's fare box recovery ratio.

3) Simplifies fare box recovery ratio requirements used to determine a transit operator's eligibility to receive state transit funds.

4) Excludes from the calculation of fare box recovery ratios increased costs that are beyond the change in the Consumer Price Index (CPI) for all of the following:

   a) Fuel;

   b) Alternative fuel programs;

   c) Power, including electricity;

   d) Insurance premiums and settlement payments; and

   e) State and federal mandates.

5) Further excludes, for two years, from the fare box recovery ratio equation startup costs for new services.

6) Provides transit operators greater flexibility in the use of local funds to satisfy fare box recovery ratio requirements.

7) Authorizes transit operators to use a portion of State Transit Assistance (STA) funds for operations even if they do not meet specified performance standards.

EXISTING LAW:

1) The Transportation Development Act (TDA) provides two state funding sources for public transit:

   a) LTF revenue is derived from a ¼-cent of the general sales tax collected statewide. These funds are distributed to each county according to the amount of tax collected in that county. LTF funds a wide variety of transportation programs, including planning and program activities, pedestrian and bicycle facilities, community transit services, public transportation, and bus and rail projects. In limited cases, counties may also use LTF moneys for local streets and roads construction and maintenance.

b) STA revenue is derived from the statewide sales tax on diesel fuel. STA funds are appropriated by the Legislature and are allocated by formula to planning agencies and other selected agencies. Existing law requires that 50% of STA funds be allocated according to population and 50% be allocated according to transit operator revenues from the prior fiscal year.

2) Requires transit operators to maintain a specified ratio of fare revenues to operating costs in order to be eligible to receive TDA funds. The required ratio varies. For operators that began providing service after 1979, their ratio is either 20% or 10%, depending on whether the service area is urban or non-urban. For operators that provided service prior to 1979, the required ratio is 20% or 10% (depending on whether the service area is urban or non-urban) or the ratio they attained in fiscal year 1978-79, whichever is greater.

3) Authorizes a transit operator to meet the fare box recovery ratio by combining fare revenues with certain local funds.

4) Defines "operating expenses" for purposes of calculating a transit operator's fare box recovery ratio; specifically excludes from the definition costs associated with depreciation and amortization, subsidies for commuter rail services, direct costs for providing charter services, and all vehicle lease costs.

5) Authorizes transit operators to use STA funds for operating expenses if their total operating costs per revenue vehicle-hour increases by no more than the changes in the CPI; excludes from this calculation costs beyond the CPI related to fuel, alternative fuel programs, power, insurance premiums and settlement payments, and federal and state mandates. Startup costs for new services are also excluded for two years.

6) Provides a one year extension, through the 2015–16 fiscal year, of an exemption to allow transit operators whose cost increases have exceeded the CPI to continue using STA funding for both operating and capital expenditures.

FISCAL EFFECT: The bill is keyed non-fiscal.

COMMENTS: The primary performance measure related to state transit funding is the fare box recovery ratio. Simply put, the fare box recovery ratio compares revenue from passenger fares to operating costs, as defined. Generally, to be eligible for state transit funding, transit operators in urban areas are required to recover at least 20% of their operating costs via fares; for rural transit operators, the required fare box recovery ratio is 10%. However, different standards apply to older transit operators, some of which are required to use whatever their ratio was in the 1978-79 fiscal year. Furthermore, the basis for calculating operating costs has morphed over the years in response to, for instance, insurance premium spikes after 9/11 and gas price spikes last decade.

The state uses another performance measure for transit operators that want to use STA funds for operating expenses. To be eligible for these funds, an operator's total operating costs per revenue vehicle hour must be maintained at or less than the previous year's costs, as adjusted by the CPI. Any increase in costs beyond the previous year, after adjusting for CPI, can cause an operator to forfeit the use of all STA funds for operating expenses.

These performance measures served the state well when they were established decades ago by ensuring that the state's then-new investment in public transit was appropriately leveraged with local funds and that state funds went to transit operators that could establish at least minimum levels of efficiency.

Now, however, these measures complicate operators' ability to deliver reliable services year to year because, for example:

1) Sudden, unplanned, and unavoidable cost increases jeopardize transit operators' LTF and STA funding.

2) LTF funding eligibility criteria are outdated and no longer reflect or allow for, for example, changing local economic conditions or political preferences, such as a desire to offer free or reduced transit for students.

3) Existing STA funding eligibility criteria impose an unforgiving and unreasonable "pass/fail" standard. A transit operator that fails to cap operating expenses by even 1% loses 100% of STA funds for operating expenses.

The author has introduced SB 508 to chip away at these problems that, left unchecked, would continue to threaten transit operators' receipt of LTF and STA funding. Specifically, SB 508:

1) Makes fare box recovery ratios uniform, regardless of when a transit operator began providing service. Transit operators will be required to meet a fare box recovery ratio of 20% if they serve an urban area and 10% if they serve a non-urban area.

2) Synchronizes LTF and STA eligibility criteria and operating cost exclusions, thus making it easier to administer both programs and to comply with program requirements.

3) Minimizes the impact to operators that fail to comply with the all-or-nothing STA performance measure for operating funds. Establishes instead a proportional scale whereby some, but not all, of an operator's STA funds may be withheld for operating purposes if the transit operator fails to restrain operating costs from one year to the next. For example, an operator that exceeds allowable growth by 5% will lose 5% of its STA funds for operating expenses.

4) Makes other, non-substantive modifications to update provisions governing LTF and STA.

Given the evolving role of transit in the context of state priorities (e.g., greenhouse gas emission reductions), it may be that even the simplified fare box recovery ratios proposed by SB 508 are obsolete. Nonetheless, rather than abandon performance measures all together, the simplified fare box recovery ratio requirements proposed in SB 508 are an incremental step in the right direction.

Furthermore, provisions governing the LTF and STA programs are unnecessarily complicated. Aligning the eligibility criteria for both programs, including consistent calculations for operating expenses, is reasonable and should make it easier to administer the programs and for transit operators to comply with performance standards. Moreover, updating other provisions that provide transit operators greater flexibility in the use of state transit dollars, such as broadening the source of supplemental local funds, are similarly reasonable.

Undoubtedly, there will be a downside to relaxing fare box recovery ratio requirements and to authorizing a proportional use of STA funds for operating expenses in the event a transit operator fails to cap operating expense growth. The impacts of these changes should be closely monitored. Relative benefits of greater uniformity and flexibility should be weighed against any unintentional consequences that might arise, such as unreasonable growth in transit operating expenses. In the meantime, however, the state's transit performance metrics are broken and SB 508 proposes a reasonable approach to improving them.

Technical amendment: Recently enacted legislation related to the budget [AB 95 (Committee on Budget), Chapter 12, Statutes of 2015], extended by one year, through the 2015-16 fiscal year, an exemption to allow transit operators whose cost increases have exceeded the CPI to continue using STA funding for both operating and capital expenditures. SB 508 (specifically Section 99314.6 of the Public Utilities Code) should be amended to delay, until July 1, 2016, the operative date of provisions that authorize a portion of STA funds to be used for operations even if a transit operator exceeds last year's operating costs so that SB 508 does not conflict with AB 95.

Previous legislation: AB 95 (Committee on Budget), Chapter 12, Statutes of 2015, extended by one year, through the 2015–16 fiscal year, of an exemption to allow transit operators whose cost increases have exceeded the CPI to continue using STA funding for both operating and capital expenditures.

REGISTERED SUPPORT / OPPOSITION:

Support

California Transit Association (Sponsor)
Central Contra Costa Transit Authority
Gold Coast Transit
Mendocino Transit Authority
Monterey-Salinas Transit
Orange County Transportation Authority
Planning and Conservation League
Sacramento Area Council of Governments
Santa Clara Valley Transportation Authority
Santa Cruz Metropolitan Transit District
TransForm
Transportation Agency for Monterey County
United Transportation Union
Ventura County Transportation Commission

Opposition

None on file

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