



CITY COUNCIL AGENDA REPORT

Meeting Date: Thursday, May 1, 2025

From: Jeremy Dennis, City Manager

Subject: Support for SB 63- Regional Transportation Funding

Recommendation

Staff recommend Council indicated their interest in signing a support letter for SB 63

Background

Senators Scott Wiener (D-San Francisco) and Jesse Arreguín (D-Berkeley) have introduced Senate Bill 63, the Connect Bay Area Act. The funding measure authorized by SB 63 will appear as a sales tax in San Francisco, Contra Costa, and Alameda Counties, with an opportunity for San Mateo and Santa Clara Counties to opt in by July 31, 2025. The default rate is set at ½-cent, with the exception that San Francisco may have up to 1 cent to provide additional support for MUNI. The exact rates must be negotiated and finalized by July 31, 2025, by which time the transit agencies and local governments must also submit a spending plan to allocate revenue generated by the measure.

SB 63 will also require transportation agencies to make changes to improve financial efficiency and coordination with other systems to receive funding. BART, MUNI, Caltrain, and AC Transit will be required to comply with the Municipal Transportation Commission's (MTC) Regional Network Management policies and programs, and MTC will be required to conduct an independent third-party financial efficiency review to identify cost-saving measures for those operators. After the assessment, they will be required to submit implementation plans to MTC detailing cost-efficiency measures they plan to implement.

Discussion:

The City/County Association of Governments (C/CAG) issued a letter to State Senators Cortese and McNerney indicating parameters San Mateo County would need to see addressed before issuing any support for a regional transit tax measure (SB 63 Wiener and Arreguin - Regional Transportation Funding). The tax revenues from this measure could support BART and Caltrain operations in San Mateo County.

The Board of Directors from Commute.org will consider at a future meeting of the San Francisco Bay Area Planning and Urban Research Association's (SPUR) request to sign on to a letter supporting state Senator Arreguin's request for \$2 billion in the state budget to support transit.

Staff recommend the Council discuss whether they would like to issue their own support letter.

Attachments

1. C/CAG Letter
2. SPUR Letter of Support



Jeremy Dennis, City Manager



April 21, 2025

The Honorable Dave Cortese
Chair, Senate Transportation Committee
State Capitol, Room 405
Sacramento, CA 95814

The Honorable Jerry McNerney
Senate Revenue and Taxation Committee
State Capitol, Room 410
Sacramento, CA 95814

RE: SB 63 (Wiener and Arreguin) Regional Transportation Funding

Dear Chairs Cortese and McNerney:

San Mateo County is committed to maintaining a strong regional public transit network in the Bay Area. We thank the authors for their thoughtful and inclusive approach to developing SB 63. Leaders of the San Mateo County Transit District (SamTrans), the San Mateo County Transportation Authority (SMCTA), and the City/County Association of Governments of San Mateo County (C/CAG) are in regular discussions together with County leaders. Our joint goal is to determine the best approach for San Mateo County to provide additional operating assistance for Caltrain and BART, while protecting the renewal of a current County transportation sales tax (Measure A) in 2028.

We appreciate the proactive engagement of the bill authors who provided a path for San Mateo County to "opt in" to the Regional Measure. However, before San Mateo County can seriously consider opting into the Regional Measure, several provisions within SB 63 warrant further discussion. We look forward to collaborating with the bill authors and the legislature to develop specific amendment language related to the following ideas:

- **The Transportation Authorities of the included counties should govern the Transportation Revenue Measure District (TRMD).** Existing local sales tax authorities in each county covered by SB 63 already distribute transportation sales taxes. The most efficient and fiscally-responsible pathway for administering a new sales tax is to leverage existing agencies, not create a new one. The existing transportation authorities could function jointly as one new district, or individually but in coordination. Voters are more likely to trust their local elected officials to administer new taxes, which will help build support for the measure.
- **Timing Limitations:** The TRMD must be permitted to go to the ballot only once, in 2026, and the TRMD must sunset when the tax expires.

SAN MATEO COUNTY TRANSIT DISTRICT
1250 San Carlos Avenue
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- **Percentage funding:** SB 63 or its authorized tax measure should designate a percentage share of revenues to fund each operator, not specific dollar amounts. The percentages should reflect agreed-upon levels of support based on current projected tax revenue.
- **Remove MTC's Transit Transformation category from the regional measure.** SB 63 must authorize an emergency self-help tax measure to save critical rail and bus service for passengers, not to fund enhancements. Allocating 10% of tax revenues for MTC's Transit Transformation efforts would divert tens of millions of dollars away from basic needs of the region's transit systems. MTC's Transit Transformation is a worthwhile program that should be funded by state funds or a different mechanism (such as with funds from all nine bay area counties – not just those participating in the SB 63 tax), but it does not address the region's transit funding emergency.
- **Return to source requirement:** SB 63 should specify that excess funds – beyond the agreed-upon contributions towards specific agencies' operating deficits – must be returned to the counties where they are generated. Additionally, if an operator receiving regional support under SB 63 no longer faces an unmanageable fiscal crisis, tax dollars should be redirected to the contributing counties.

Accountability is a top priority for San Mateo County leaders and likely voters:

- Funds should be withheld from transit operators that fail to comply with reporting, cost savings, and financial stability measures.
- The county transportation authorities should work together, in consultation with operators, to develop accountability metrics, key milestones and benchmarks, enforcement, and reporting requirements to the state legislature.
- Operators must specify exactly how they will spend new SB 63 tax dollars within each county and publish their plans for financial recovery and long-term sustainability, including cost savings, ridership growth and non-tax revenue generation.
- Each participating county should be treated equitably relative to all elements of the funded regional transit systems' station maintenance, service enhancements or cuts.
- The State of California convened a Transit Transformation Taskforce. The Taskforce's findings and recommendations should be considered in developing and finalizing accountability measures.

We look forward to discussing amendments to SB 63 with you. If you have any questions please contact Jessica Epstein, SamTrans and SMCTA Government and Community Affairs Director, at epsteinj@samtrans.com and Sean Charpentier, C/CAG Executive Director, at scharpentier@smcgov.org.

Sincerely,



Jeff Gee

Chair, San Mateo County Transit District Board of Directors

Chairs Cortese and McNerney

April 21, 2025

Page 2 of 3



Carlos Romero

Chair, San Mateo County Transportation Authority Board of Directors



Adam Rak

Chair, City/County Association of Governments San Mateo County

Cc: San Mateo County Transit District Board of Directors

San Mateo County Transportation Authority Board of Directors

City/County Association of Governments San Mateo County Board of Directors

Peninsula Corridor Joint Powers Board (PCJPB) Board of Directors

Santa Clara Valley Transportation Authority and San Francisco Board of Supervisors (as member agencies of the PCJPB)

Senator Scott Wiener

Senator Jesse Arreguín

Assemblymember Catherine Stefani

David Canepa, Commissioner, Metropolitan Transportation Commission

Gina Papan, Commissioner, Metropolitan Transportation Commission

Legislative Delegations of the San Mateo County Transit District, San Mateo County Transportation Authority, City/County Association of Governments and Peninsula Corridor Joint Powers Board



The Honorable Mike McGuire
President pro Tem
1021 O Street, Ste 8518
Sacramento, CA 95814

The Honorable Robert Rivas
Speaker
California State Assembly
1021 O Street, Ste 8330

Senator Scott Wiener
California State Senate
1021 O Street, Ste 8620
Sacramento, CA 95814

Senator Laura Richardson
California State Senate
1021 O Street, Ste #7340
Sacramento, CA 95814

Assemblymember Jesse Gabriel
California State Assembly
P.O. Box 942849
Sacramento, CA 94249

Assemblymember Steve Bennett
California State Assembly
P.O. Box 942849
Sacramento, CA 94249

March 5, 2025

Re: Request for \$2 billion in new funding to save and improve public transit

Dear Pro Tem McGuire, Speaker Rivas, Senator Wiener, Assemblymember Gabriel, Senator Richardson, and Assemblymember Bennett:

The undersigned organizations care deeply about public transit across California. **The undersigned organizations are deeply grateful for preserving \$4 billion for TIRCP and providing an additional \$1.1 billion in flexible funding for public transit in 2023.** This relief funding allowed transit agencies to avert severe service cuts and to continue providing high-quality service that is critical for access, mobility, and economic recovery. It also provided the funding needed to help operators offer safer, cleaner, and more reliable service that better meets the needs of customers.

Unfortunately, while many agencies work toward new local funding solutions, they still continue to face significant fiscal pressures. These pressures come from the lingering effects of the pandemic on remote work, ongoing impacts of the pandemic on local and regional economies, safety concerns of transit riders and operators, capital costs associated with maintenance, modernization, replacement, and expansion, as well as rising operating and capital costs.

Therefore, the undersigned organizations respectfully urge the state to provide \$2 billion in new funding over two years for public transit beginning in fiscal year 2025 -2026 until other solutions are secured. Because recovery has been uneven and no two agencies are

alike, it is critical that both operating needs and capital projects are eligible uses of the funding.

Why are transit operators facing budget shortfalls?

Unfortunately, California's largest and most productive transit systems continue to face a severe and imminent operating deficit, but almost all agencies have significant operating needs.

Many transit agencies in the state continue to face fiscal challenges due to a combination of the lingering effects of the pandemic on remote work, ongoing impacts of the pandemic on local and regional economies, capital costs associated with maintenance, modernization, replacement, and expansion, as well as inflationary pressures. These continued financial challenges are not the result of mismanagement or inefficiency, but rather due to factors largely beyond their control.

The effects of the pandemic have been dramatic and ongoing, and they have impacted agencies unevenly because each agency has a different mix of revenue sources. Those that were largely self-supporting pre-pandemic through fares, parking fees, and local taxes - such as BART and Muni - continue to suffer the most and have the large, acute operating shortfalls starting in FY2026.

The largest and most productive operators in the state have the most acute operating shortfalls. Muni, BART, AC Transit, and Caltrain- account for more than 80% of the Bay Area's transit ridership and nearly a third of all ridership in the state. Given that they account for so much of California's transit ridership, their vulnerability jeopardizes the state's ability to reduce climate pollution and improve equity and affordability.

While some agencies have acute operating shortfalls, almost all agencies have significant needs for operating funding. Additional expenses to improve the cleanliness and safety, such as enhanced cleanings, fare inspectors, and crisis intervention specialists come from agencies' operating budgets. Other agencies also have operating needs that predated the pandemic. For example, Inland California has grown faster than any other part of the state and these communities need additional transit service to meet their needs. Additionally, agencies that are expanding their systems require both new capital funding *and* new operating funding because it will cost more to operate and maintain the larger systems. For all these reasons, many transit operators across the state have significant operating needs.

Transit agencies also need funding for capital investments.

Most transit agencies also have significant capital needs. Transit agencies must comply with the CARB ICT rule, which requires transit operators to replace their buses with zero-emission buses that are significantly more expensive than existing fleets, requiring significant capital funding. Additionally, the Olympics, Paralympics, and World Cup will draw attention to California and are all reasons to accelerate capital investments. Importantly, transit expansions require both new capital funding and new operating funding because it will cost more to operate and maintain larger systems.

The state also has 4 projects in the FTA Capital Investment Grant pipeline, and two - the extension of BART to San José and Santa Clara and the Portal - are expecting full funding grant agreements. In light of the new federal administration, these projects and agreements face an uncertain future. Many of these projects are already very expensive, are already supported through local taxes, and face inflationary pressures. A four year construction delay will increase the costs of these projects significantly.

Soon, our state will be on the world stage as host to the World Cup, the Olympic and Paralympic Games, and the Super Bowl. Hundreds of thousands of spectators will need to use public transit to get to events. Providing a safe, clean and comfortable experience for spectators requires substantial investment. Further, completing new rail and bus lines and making first- and last-mile connections are needed to help spectators move safely and comfortably. Yet there is significant uncertainty about whether the federal government will approve outstanding funding requests to prepare for these events. Further, when Los Angeles and Paris were awarded the honor of hosting the 2024 and 2028 summer olympics, both cities committed to hosting games that helped support climate goals and left lasting benefits to the cities and their residents. Both cities committed to achieving this through transportation. Paris used the opportunity to expand their bicycle network –now one of the best in the world. Los Angeles committed to a Car-Free Olympics, but we remain far from achieving that commitment. This is the time to accelerate our investments for the benefit of both visitors and residents.

Transit operators need more financial support now while they simultaneously work towards self-help options.

Many operators and counties are considering new revenue streams in light of financial challenges. However, these could take multiple election cycles; by then, it will be too late. Many operators hit a fiscal cliff in FY26-FY27 and will have to take drastic actions. Multi-year funding from the state can prevent these drastic actions.

For example, San Diego MTS expects a budget deficit of roughly \$100 million per year starting in 2027, and is exploring fare increases, service cuts, and a ballot measure to fill the gap—though recent ballot measures have not passed. Counties in the Bay Area are progressing towards a new multi-county tax measure for transportation, it could take multiple election cycles for voters to pass such a measure. If that happens, BART, Caltrain, AC Transit, and other smaller operators will also be facing a fiscal cliff before 2028. And even if the measure were to pass in 2026, Muni would still have a significant funding shortfall. A multicounty measure as currently discussed by MTC would significantly help BART, Caltrain, and AC Transit but would not solve Muni’s operating shortfall.

Simply put, additional funding is again needed as a bridge until additional sources are secured.

What will happen without intervention?

Without intervention, transit agencies will have no choice but to cut service, defer maintenance, and halt capital investments and construction.

Transit agencies will be forced to cut service will make it impossible to recover and grow ridership, which is counterproductive to the state’s goal of increasing ridership, as frequency is foundational for ridership. This is especially true for rail agencies, which cannot cut their way to a balanced budget due to high fixed costs.

Transit agencies are also deferring maintenance and delaying capital investments to save money. To close budget deficits, some transit agencies have started to defer vehicle maintenance, which is simply borrowing against the future. This is ultimately more costly in the end because maintenance is more cost-effective than repair and replacement. Infrastructure that falls into disrepair can lead to safety and reliability problems, which can dissuade people from riding.

To close a \$35 million deficit in FY2026, BART is deferring capital investments. Among other approaches such as significant reductions in service or delaying the move to zero emissions technologies, San Diego MTS is considering shifting \$160 million of federal and state money now devoted to capital projects and maintenance to operations. MTC shifted \$130 million in federal transit funds from its transit capital program to operating costs to help sustain transit operations. When maintenance and capital investments are halted, there are fewer opportunities for high-quality unionized workers and capital costs will increase due to delays.

California will not be able to meaningfully improve affordability without public transit.

In addition to the critical role that public transit plays in achieving the state’s climate goals, it must also be part of any strategy to make California more affordable. The state's overreliance on

cars is fueling the affordability crisis in new ways. Today, car ownership is the second largest expense for Californians, second only to housing.¹ Without predictable and adequate funding for public transit, California will not be able to tackle the affordability crisis in any real way nor realize the dream of a *California for All*.

Put simply, there is no affordable substitute for high-quality public transit. In places that have little or no public transit, people own more cars, drive more, and therefore pay more for mobility, with the median income household paying between \$1100-\$1600 per month for transportation. In high-cost housing markets, the ability to rely on transit for some or all of their mobility needs is how many people make ends meet. Californians are undoubtedly going to feel it in their wallets when they have to rely on ride-hailing services or purchase a car if transit agencies are forced to cut down service.

California will undermine its housing policies if public transit declines.

In recent years, California has passed countless laws that make it easier to build housing near transit in order to make the state more affordable to middle- and low-income households. These include streamlined approvals for housing in transit-oriented locations, waiving parking minimums in order to reduce the cost of building, extra density bonuses for affordable housing, and more.

Yet major budget shortfalls are causing transit operators to reduce transit frequency and to consider eliminating stops entirely. These landmark housing laws will be significantly weakened or rendered ineffective without high-quality public transit. This, in turn, will undermine California's efforts to produce desperately-needed housing and will reduce good-paying jobs from transit-oriented construction.

For all these reasons, the undersigned organizations respectfully urge the state to provide \$2 billion in new funding over two years for public transit beginning in fiscal year 2025-2026 until other solutions are secured. Because recovery has been uneven and no two agencies are alike, it is critical that both operating needs and capital projects are eligible uses of the funding.

California has ambitious goals that depend on high-quality public transit across the state. To achieve those goals, public transit will need more funding. Thank you for considering our request and for once again recognizing the critical role of public transit in California, now and in the future.

¹ Most households pay more than 15% of their income on transportation, and that number is growing.

Sincerely,

Laura Tolhoff
Transportation Policy Director
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