Newsom Wisely Avoids Transit Bailout in May Budget Revise

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Governor Newsom's FY 2023-24 budget update included a larger projected deficit and more balancing measures than his January budget. But, despite pressure from Senator Scott Wiener (D-San Francisco) and transit agencies, the May Revise excluded emergency funding for local bus and rail systems around the state. The agencies' proposed transit bailout was at best premature, and the Governor should be applauded for omitting it.

The California Transit Association (CTA) is asking for a total of $5.15 billion in aid over the next five fiscal years. CTA lobbies Sacramento on behalf of its public transit agencies—an activity that is largely funded by taxpayer money. The group argues that the funds are needed because "California's transit agencies are facing a critical moment, and working families' access to transportation is in danger" and "if we allow severe cuts to transportation budgets and do not provide new transit operations funding, California's most vulnerable communities will suffer the most."

It is true that transit agencies are facing a fiscal cliff. Their already heavy pre-pandemic tax subsidies proved insufficient as ridership collapsed in the wake of COVID-19. Congress came to the rescue, granting these agencies hefty support packages in 2020 and again in 2021. The thinking at the time was that ridership would bounce back after the pandemic and systems would once again be able to balance their budgets with 2019-vintage sales tax rates and federal/state funding formulae.

But the ridership decline appears to have become permanent, so a return to 2019 arrangements will no longer work. Given divided government in Washington, D.C. and controversy over persistent federal deficits, agencies recognize that their best chance for extraordinary funding is at the state level. This approach has worked in New York State where Governor Kathy Hochul recently announced a massive support package for the Metropolitan Transportation Authority (MTA).

But California may be a different case. Although both New York and California have progressive income tax systems, California's rate structure is steeper, making it even more dependent on high income taxpayers. Also, California's tech sector weakened faster in late 2022 and early 2023 than did the financial industry that drives New York State's income tax receipts. As a result, New York does not have nearly as large a revenue problem as California does.

Facing a $31.5 billion budget gap and future uncertainty, it will be hard for Newsom to follow Hochul's lead. Also, New York City's transit system is more crucial to the state's economy than any California transit system given their relatively low ridership. In March, MTA carried more than three times the number of passengers than all California systems combined (based on this author's analysis of National Transit Database data).

Finally, there is not much need for Newsom to act during this budget cycle. The pandemic-era federal subsidies were so large that they will carry major California systems into FY 2024-2025. They can maintain business as usual through at least June 30, 2024 (the end of this upcoming fiscal year) without a state bailout. So, in this rare case, it makes sense for Newsom and the state Legislature to kick the can down the road for a year and then revisit CTA's request during the next budget cycle.

While they wait, hopefully transit agencies can find ways to economize and reduce the size of their ask. Unfortunately, plans for cuts thus far have mostly included threats of massive service reductions when the federal funds are exhausted. While it may make sense to eliminate bus lines that have especially low ridership, agencies should try to maintain or even increase service frequency on their most used bus and rail lines. The problem with 30-minute or 60-minute headways is that riders do not like waiting at stations and bus stops for long periods of time. As a result, many will drive or use rideshare instead.

Rather than cut services, agencies should find savings that do not directly impact riders. For example, they should consider retirement benefits. While pensions are legally protected, retiree health coverage should be on the table. Rather than get transit agency insurance benefits, retirees can rely on Medicare and Covered California (for those under 65) to get affordable coverage.

Also, there are opportunities to reduce the number of employees who are not directly involved in serving passengers. For example, does LA Metro need an Office of Equity and Race and does BART need an Office of Civil Rights? If so, can these offices be staffed with fewer employees receiving more modest compensation packages?

Finally, in an era of reduced ridership, transit agencies should reduce spending on costly rail extensions like the $29 billion second subway tunnel under San Francisco Bay. The governor and state Legislature could assist transit agencies by authorizing them to repurpose capital funds being spent on building rail extensions to fund operations.

That California will eventually dole out more taxpayer money for transit is almost inevitable. But the majority of Californians who use transit rarely (or never) have every right to expect that their tax dollars will be spent wisely, after careful consideration of the future of ridership and cost savings that don't require gutting service. State leaders shouldn't rush to fund a massive transit bailout to maintain the status quo.

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