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Overview of California's State-Supported Intercity Rail Routes and Funding

PRESENTED TO:

Senate Committee on Transportation; Subcommittee
on LOSSAN Rail Corridor Resiliency
Hon. Catherine Blakespear, Chair



LEGISLATIVE ANALYST'S OFFICE

Overview of California's Rail System

Freight Rail. Freight rail transports goods throughout the state and links industries and consumers to markets in other states and overseas. Freight rail is operated by private companies. Much of the state's rail network is owned by private freight rail companies, which host intercity and regional rail on their right-of-way through various agreements.

Intercity Rail. Intercity rail provides transportation between metropolitan regions. Intercity rail can be divided into two groups: (1) Amtrak long-distance routes, which are funded by Amtrak and serve both California and interstate markets; and (2) state-supported routes, which are funded by the state and serve California markets. (The rest of this handout will focus on state-supported intercity rail routes.)

Regional Rail. Regional rail (also known as commuter rail) provides transportation across metropolitan regions. Regional rail services are provided by various local agencies across the state. Regional rail services include those such as Caltrain, Metrolink, and COASTER.

Urban Rail. Urban rail provides transportation within metropolitan regions. Services can include both heavy- and light-rail systems. Urban rail services are provided by various local agencies across the state, such as the San Diego Metropolitan Transit System, Bay Area Rapid Transit District, and Los Angeles County Metropolitan Transportation Authority.

High-Speed Rail. The state is in the process of constructing a high-speed rail system.



Roles of Various Entities in State-Supported Intercity Rail Routes

State Government. The state is responsible for supporting three state-supported intercity rail routes: Pacific Surfliner, Capitol Corridor, and San Joaquins. The state also provides various coordinating and oversight activities to monitor performance, address operational issues, and ensure services align with statewide plans. Prior to the COVID-19 pandemic, state support typically covered 30 to 50 percent of operating costs, with the exact share varying by route.

Joint Powers Authorities (JPAs). The state previously had a direct administrative role over the three state-supported routes. However, as of 2015, all administrative responsibilities were transferred to three JPAs. These agencies currently are responsible for managing operations and collecting fares to help support services. Prior to the pandemic, fare revenues typically covered 50 to 70 percent of operating costs, with the exact share varying by route. The JPAs are:

- Los Angeles–San Diego–San Luis Obispo (LOSSAN) Rail Corridor Agency: Administers the Pacific Surfliner, which provides services between San Luis Obispo, Los Angeles, and San Diego.
- Capitol Corridor JPA: Administers the Capitol Corridor, which provides services between San Jose, Oakland, and the Sacramento region.
- San Joaquin JPA: Administers the San Joaquins, which provides services from Oakland and Sacramento to Bakersfield.

Federal Government. The JPAs contract with Amtrak, which is overseen by the federal government, to provide passenger services on each corridor. The federal government also often provides funding to support infrastructure projects on state-supported routes through various grant programs, although the amount California receives varies by year. In response to the pandemic, the federal government also provided temporary financial support to the state-supported routes through various relief packages.



State Funding for State-Supported Intercity Rail Routes

Ongoing Funding. The state provides ongoing funding to the three state-supported routes through two major programs, both of which are supported by the state's sales tax on diesel fuel through the Public Transportation Account (PTA).

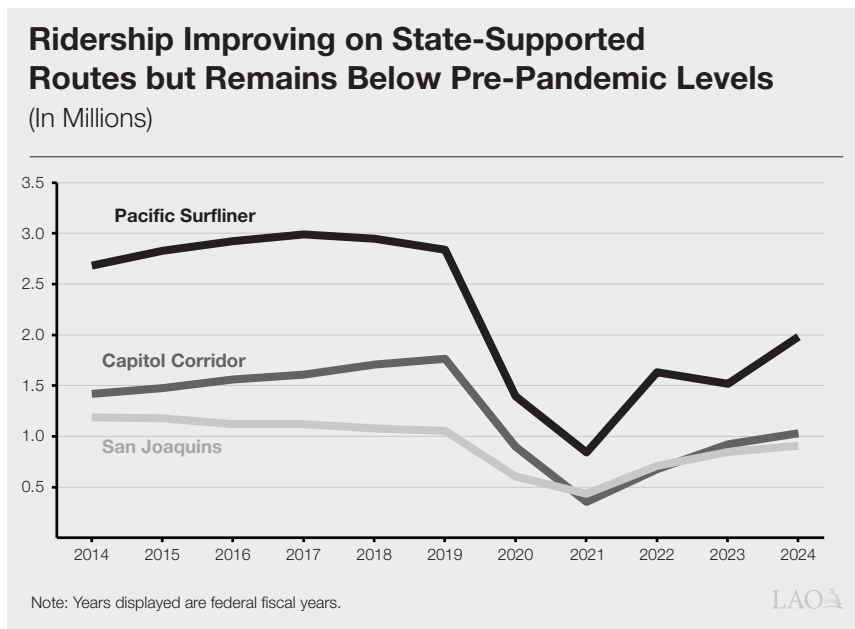
- **State-Supported Intercity Passenger Rail Program.** This program provides \$131 million annually to the three JPAs to administer and operate their respective services. The 2024-25 budget package provided a three-year augmentation to the program from PTA—\$66 million in 2024-25, \$72 million in 2025-26, and \$73 million in 2026-27.
- **State Rail Assistance.** This program provides operational and capital support for both commuter (regional) and intercity rail services. Funding is divided equally between commuter and intercity rail. Most of the intercity rail funding is provided directly to the three JPAs. Funding fluctuates each year based on diesel sales tax revenues. In 2024-25, total funding for both portions of the program is estimated to be \$60 million.

Other State Funding. The three JPAs are eligible to receive capital funding from various other state programs, such as the Transit and Intercity Rail Capital Program and Solutions for Congested Corridors Program. Capital improvements on state-supported routes sometimes also take place when state funds are provided to other local agencies, such as when funded projects affect infrastructure shared by both state-supported routes and regional rail services. Additionally, the state's portion of the State Transportation Improvement Program can be used to fund improvements on state-supported routes.



State-Supported Intercity Rail Routes Face Fiscal Challenges and Climate Impacts

Revenue Losses From Reduced Ridership. During the pandemic, ridership on state-supported routes declined, leading to a decrease in fare revenues. Ridership levels have started to recover, but remain below pre-pandemic levels.



Funding Gap From Expiration of Limited-Term Federal and State Funding. State-supported intercity rail routes received limited-term federal relief to help maintain operations. The winding down of this support has created additional fiscal pressures. Recent augmentations provided by the state in the 2024-25 budget package are expected to help, however, ongoing fiscal pressures may persist without a long-term funding solution if ridership does not return.

Costs of Adapting to Climate Change Impacts. Rail corridors will need to continue investing in infrastructure to adapt to climate change impacts. In particular, in some parts of the state, rail corridors are projected to experience or are already experiencing impacts from sea-level rise and coastal flooding and erosion. Adaptation costs will vary based on the vulnerability of specific corridors and the solutions implemented to enhance long-term resilience.



Legislative Considerations Around Funding for State-Supported Intercity Rail Routes

State Would Have Some Rationale for Providing Additional Support to Help Ensure Success...

- ***State Has a Key Role in Funding for State-Supported Routes.*** A rationale for the state's involvement in this space is that these services connect metropolitan regions—an area that typically falls beyond the scope of local agencies, which tend to focus on services across and within metropolitan regions. Maintaining or even increasing state support aligns with the state's historical role for these lines.
- ***State-Supported Routes and Related Infrastructure Are an Important Component of State's Transportation System and Climate Goals.*** State-supported routes enhance regional connectivity and improve access to economic opportunities. They also contribute to the state's efforts to reduce emissions by shifting travel from personal vehicles to rail. These corridors also are important for moving goods throughout the state. Additional support to maintain or expand services and improve infrastructure could enhance these benefits.
- ***Funding Challenges Could Result in Increased Fares and/or Reduced Services.*** Absent additional funding, state-supported routes may need to either reduce service levels or generate new revenues by raising fares. Such actions could make traveling by rail less convenient and/or less affordable for passengers. Riders may respond by shifting to other modes of transportation, leading to lower ridership levels and exacerbating funding challenges.



Legislative Considerations Around Funding for State-Supported Intercity Rail Routes

(Continued)

...And Legislature Has a Few Options It Could Use to Provide Additional Support...

- ***Could Provide Ongoing Operations Funding and/or One-Time Support for Specific Efforts.*** The Legislature could increase ongoing operations funding which could help ensure state-supported routes can maintain and potentially improve services. Alternatively, or in addition, the Legislature could provide one-time funding to “buy time” to address continuing revenue gaps or to support high-priority infrastructure projects.
- ***Could Consider Various Fund Sources for Increasing Support.*** The Legislature could consider various fund sources for increasing intercity rail support. This could include directing additional funding from transportation-specific special funds, the General Fund, or the Greenhouse Gas Reduction Fund. The Legislature also could consider raising new revenues such as through bonds, transportation taxes and fees, or broad-based taxes.



Legislative Considerations Around Funding for State-Supported Intercity Rail Routes

(Continued)

...But Increasing Funding for State-Supported Intercity Rail Routes Would Involve Some Significant Trade-Offs.

- ***Would Compete With Other State Funding Priorities.*** Depending on which funding source the Legislature were to use, providing additional funding for state-supported routes would mean less funding available for other state priorities within the transportation sector and/or other areas of the budget. This could be particularly challenging given the current and projected General Fund condition. As such, the Legislature will want to weigh the relative urgency of funding needs of state-supported routes in the context of its other priorities.
- ***Important to Consider How Additional State Support Could Change Existing Incentives.*** While the state currently provides a share of operational funding for state-supported routes, fare revenues historically have covered 50 to 70 percent of operating costs. This has created a strong incentive for state-supported routes to design their services to maximize ridership. If the state were to provide additional funding—particularly on an ongoing basis—it may want to consider how to ensure that the state-supported routes continue to be incentivized to provide cost-effective services.

