FY 2022-2023 Transit Revenue Forecast Roundtable

Metropolitan Transportation Commission

January 26, 2022

METROPOLITAN TRANSPORTATION COMMISSION

Why We Are Here

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- The Covid-19 pandemic has significantly impacted transit revenues
- While federal relief funds provided critical support, those funds are expected to be exhausted in the next two years for most operators
- Understanding trends and forecasts for revenues that drive transit funding are critical to budget planning for FY23
- This is an opportunity for an information exchange between budget & financial planning staff from:
    - Transit Operators
    - County Transportation Authorities
    - County Auditor Offices

Agenda

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1. **Presentation from California Dept. of Finance (15-20 mins)**

   Statewide trends and forecasts in:

   - Sales tax
   - Gas and diesel price and consumption
   - Vehicle registration
   - Cap & Trade Auction Revenue

2. **Presentation from MTC (15-20 mins)**

   Regional trends in:

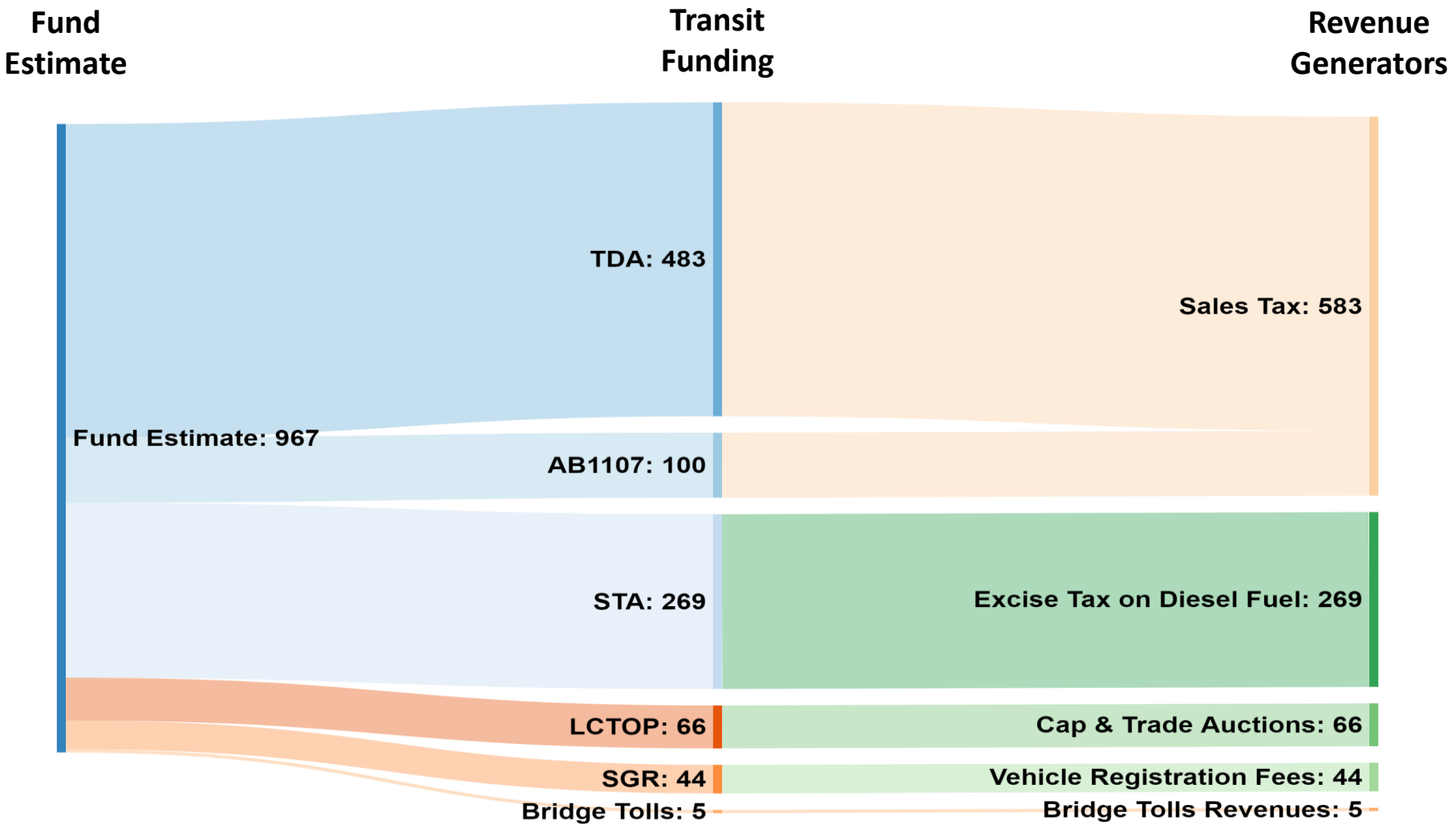
   - Sales tax
   - Consumer Price Index/Inflation
   - Employment
   - Transit Ridership and Bridge Crossings

   Fund Estimate Overview

   - Current projections for TDA, STA and AB1107 revenues

3. **Questions & Information Exchange (15-25 mins)**

Fund Estimate Overview



Numbers in $millions, Based on FY23 Fund Estimate

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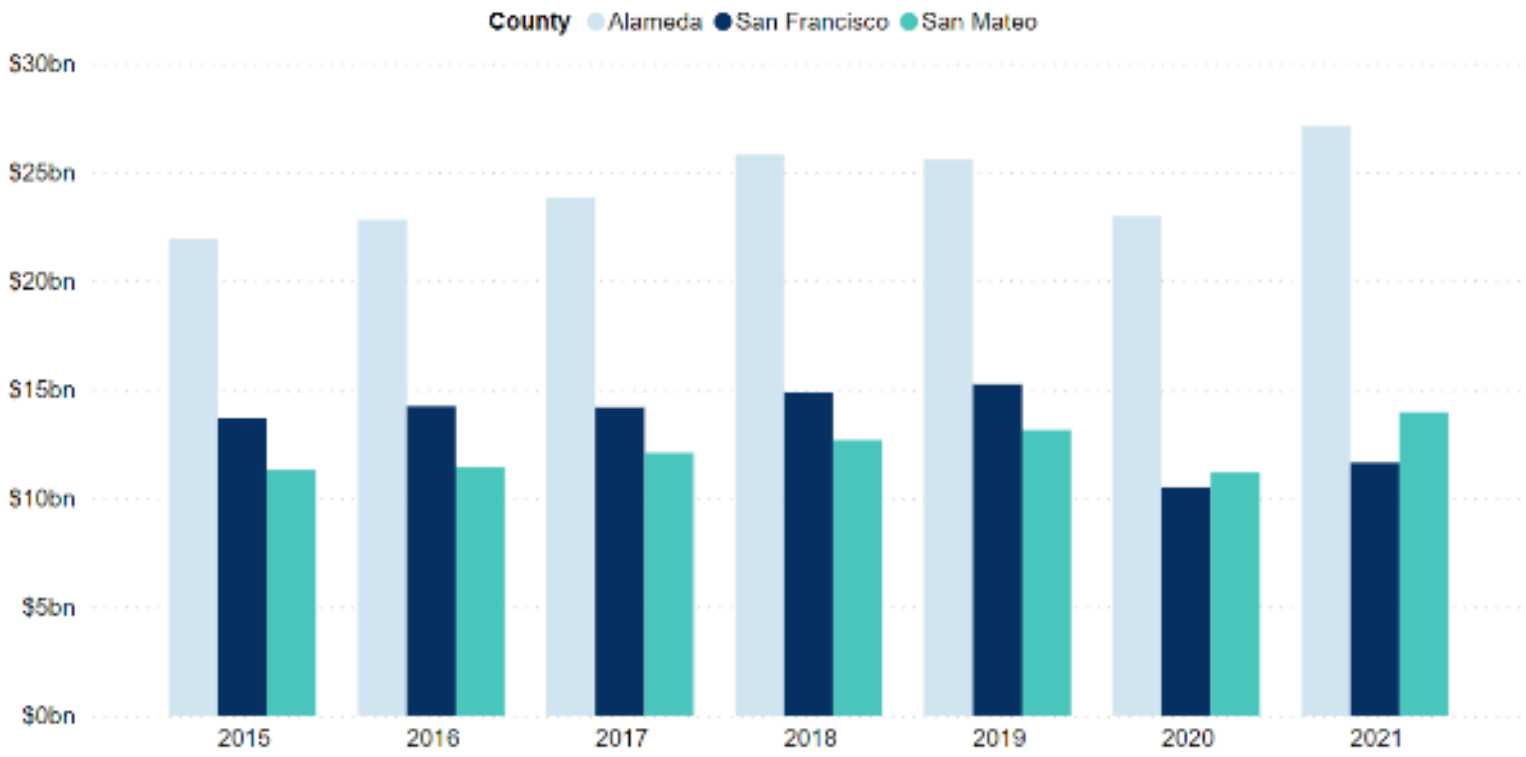
Statewide Sales & Fuel Tax Trends

CA Department of Finance

Sales Tax Receipts during COVID-19

- Forecasted sales tax revenue in our most recent forecast was higher for FY 2021-22 and FY 2022-23 than the forecasts published pre-pandemic.

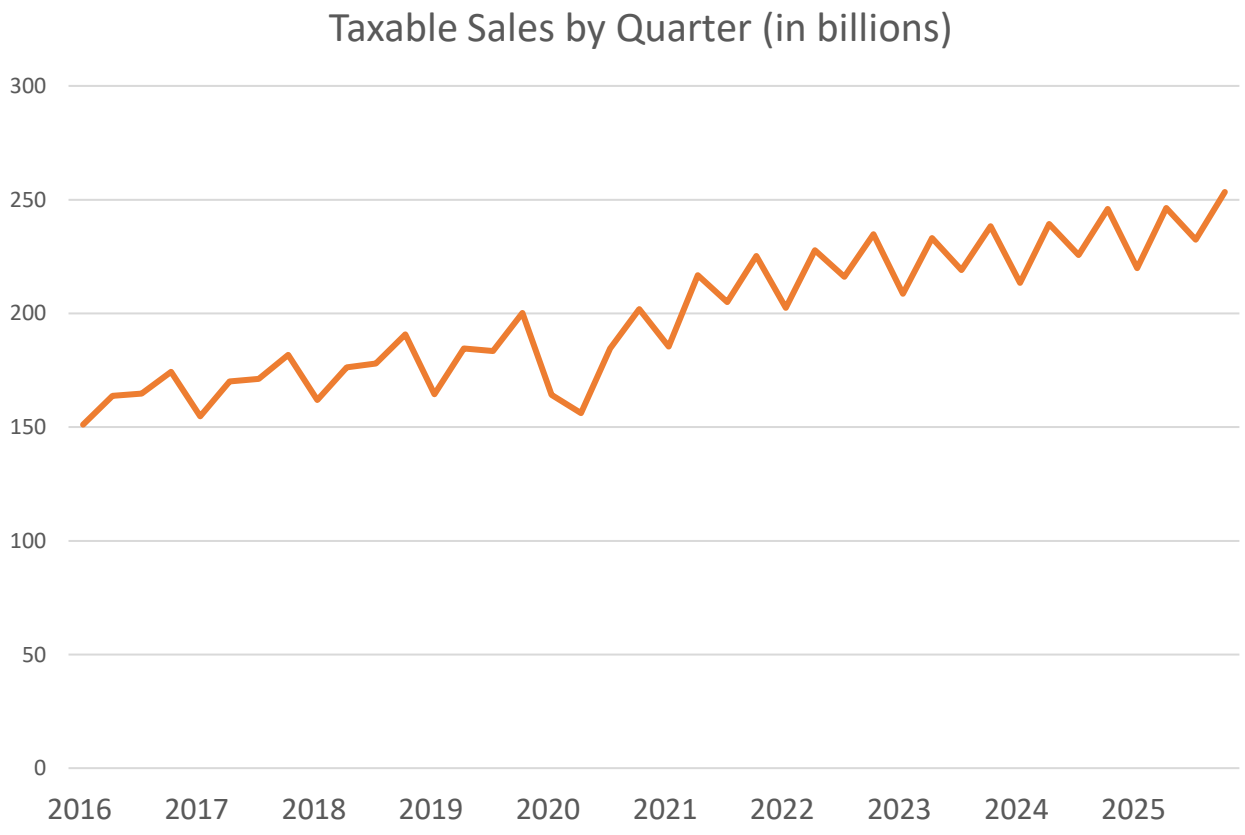
- While statewide sales have been strong, taxable sales changes have been more variable at the local level. San Mateo, San Francisco, and Alameda counties saw some of the largest drops in revenue during the pandemic as some workers relocated and sales shifted from physical locations to online sales fulfilled elsewhere.



Sales Tax Forecast Assumptions

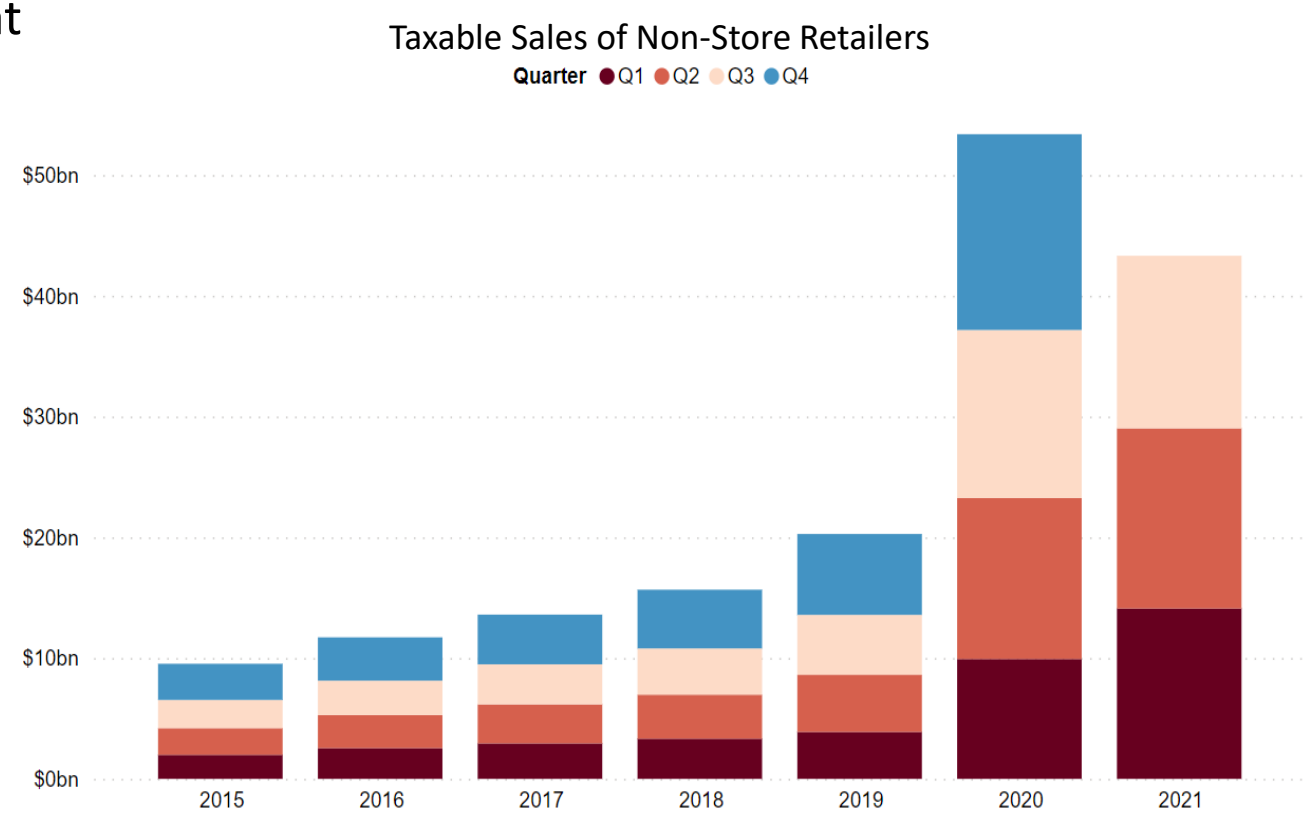
- Sales tax strength is expected to continue given high levels of consumer spending and increased inflation.

- Growth is expected to slow from double digits in 2020-21 to around 5% in 2021-22 and 2022-23 because of supply chain issues constraining private investment and a shift in spending from durable goods to non-taxed services.



Impacts of Wayfair

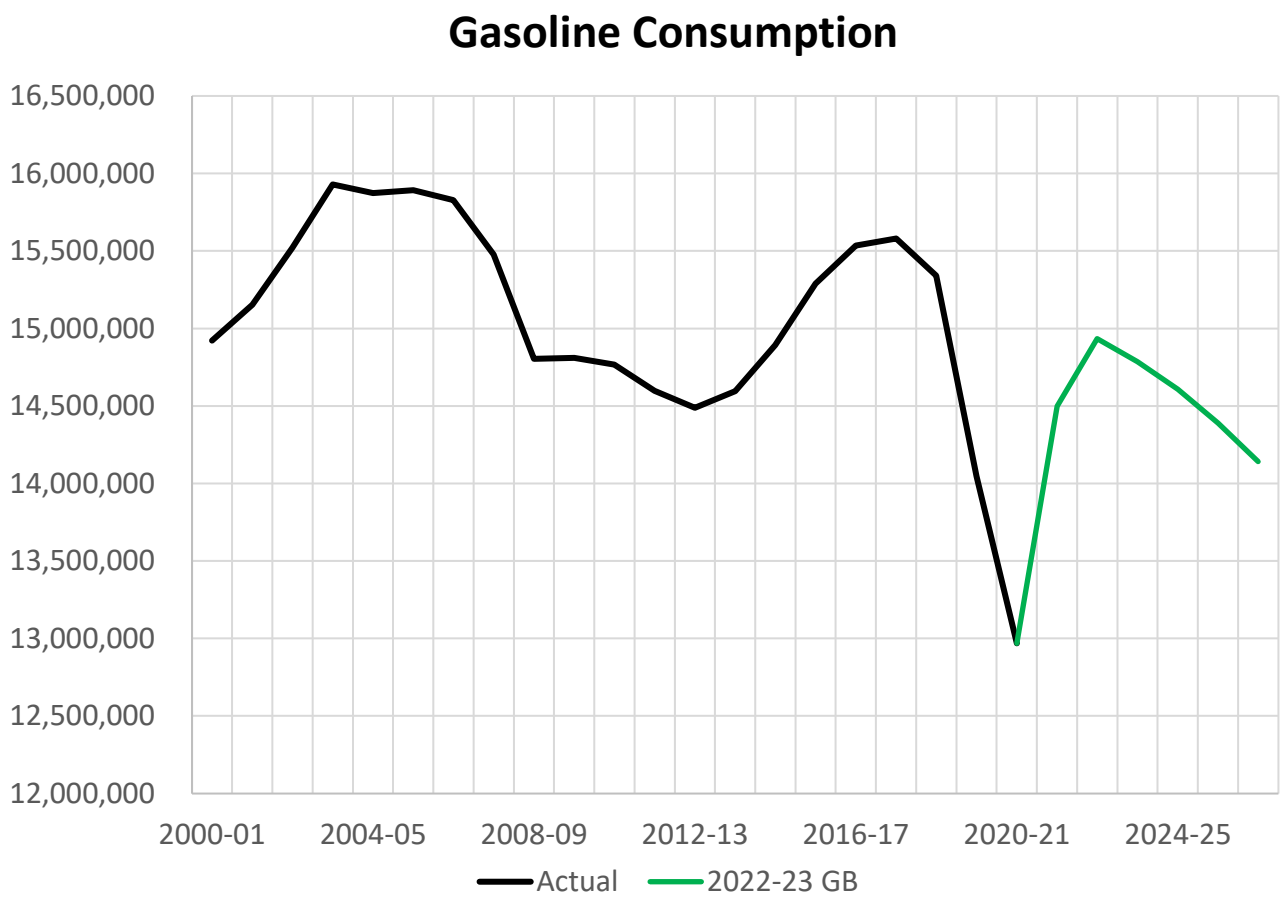
- Sales by non-store retailers increased from $22 billion in 2019 to $55 billion in 2020, but we are unable to know definitively how much is from Wayfair.
- Comparing Q1 2019 to Q4 2019 shows that Wayfair would likely have been worth around $250-$300 million per quarter in revenue, or a little over half a percent of the sales tax total, in the absence of a pandemic.
- Wayfair also contributed to the state's ability to collect sales tax on purchases that moved online in reaction to the pandemic. Since the beginning of the pandemic, online sales have grown from 8% to 15% of total US retail sales.



Gasoline Trends and Assumptions

- After a large drop following the initial shutdown, gas consumption is currently about 10% lower than pre-pandemic.

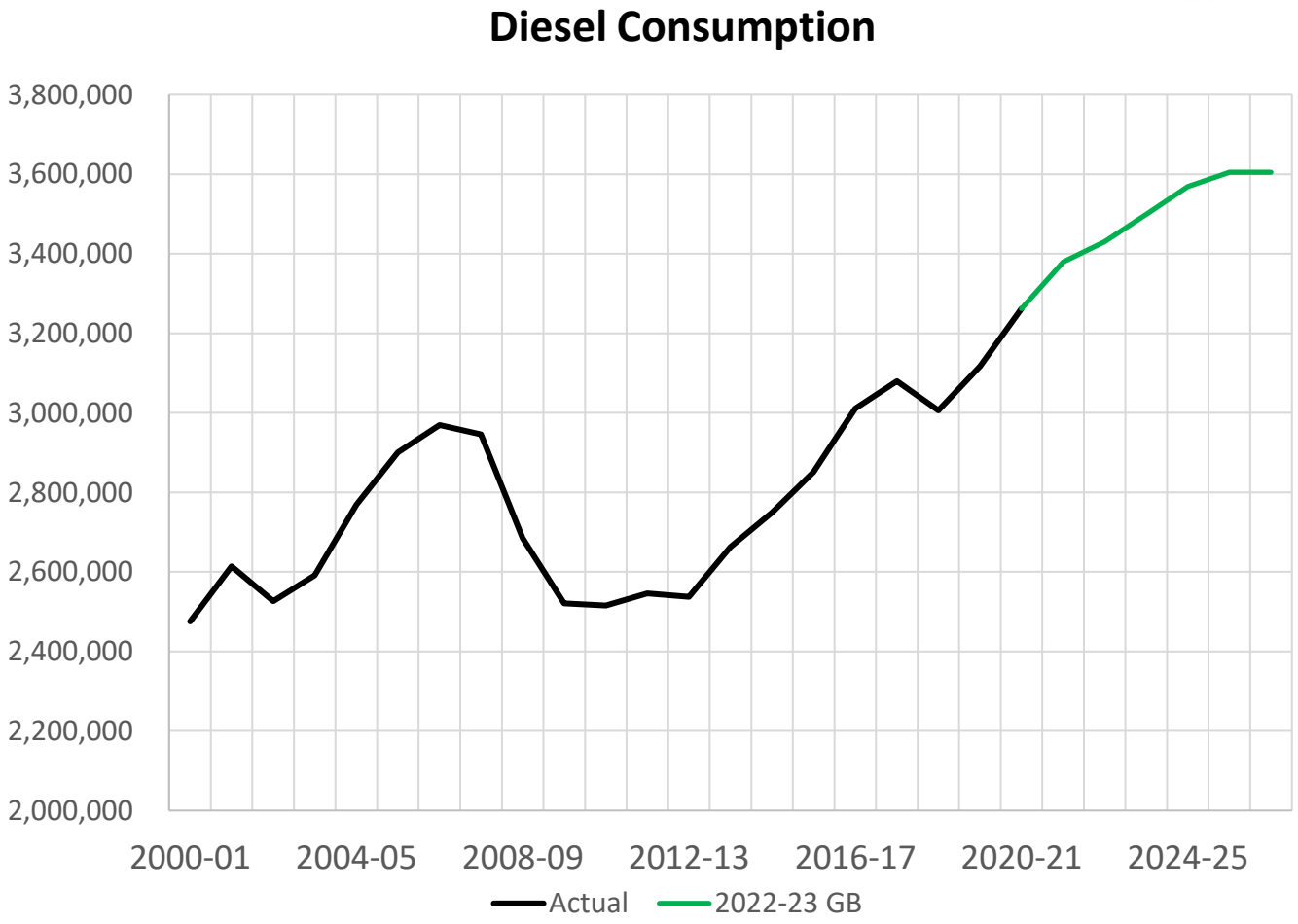
- The forecasted decline in gasoline consumption is consistent with our forecast of electric vehicle adoption. We do not expect that gas consumption will ever recover to 2018-19 levels (15.3 billion gallons).



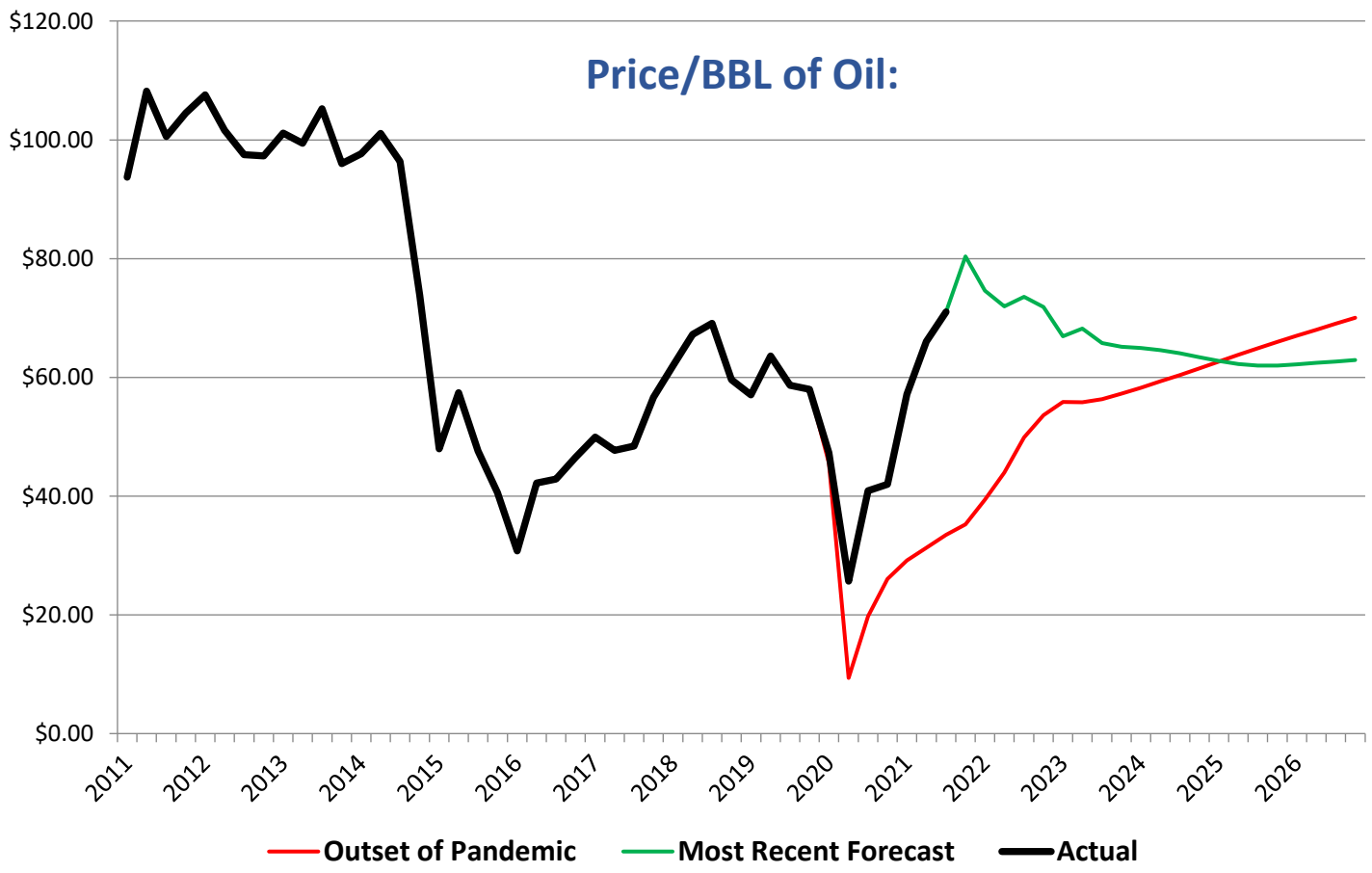
Diesel Trends and Assumptions

- A stronger-than-expected economy has led to robust diesel consumption growth through the pandemic.

- Diesel consumption, which is closely correlated to economic conditions and is not expected to be negatively affected by EV adoption as soon as gasoline, is expected to continue to grow until 2025-26.



Gas & Diesel Price

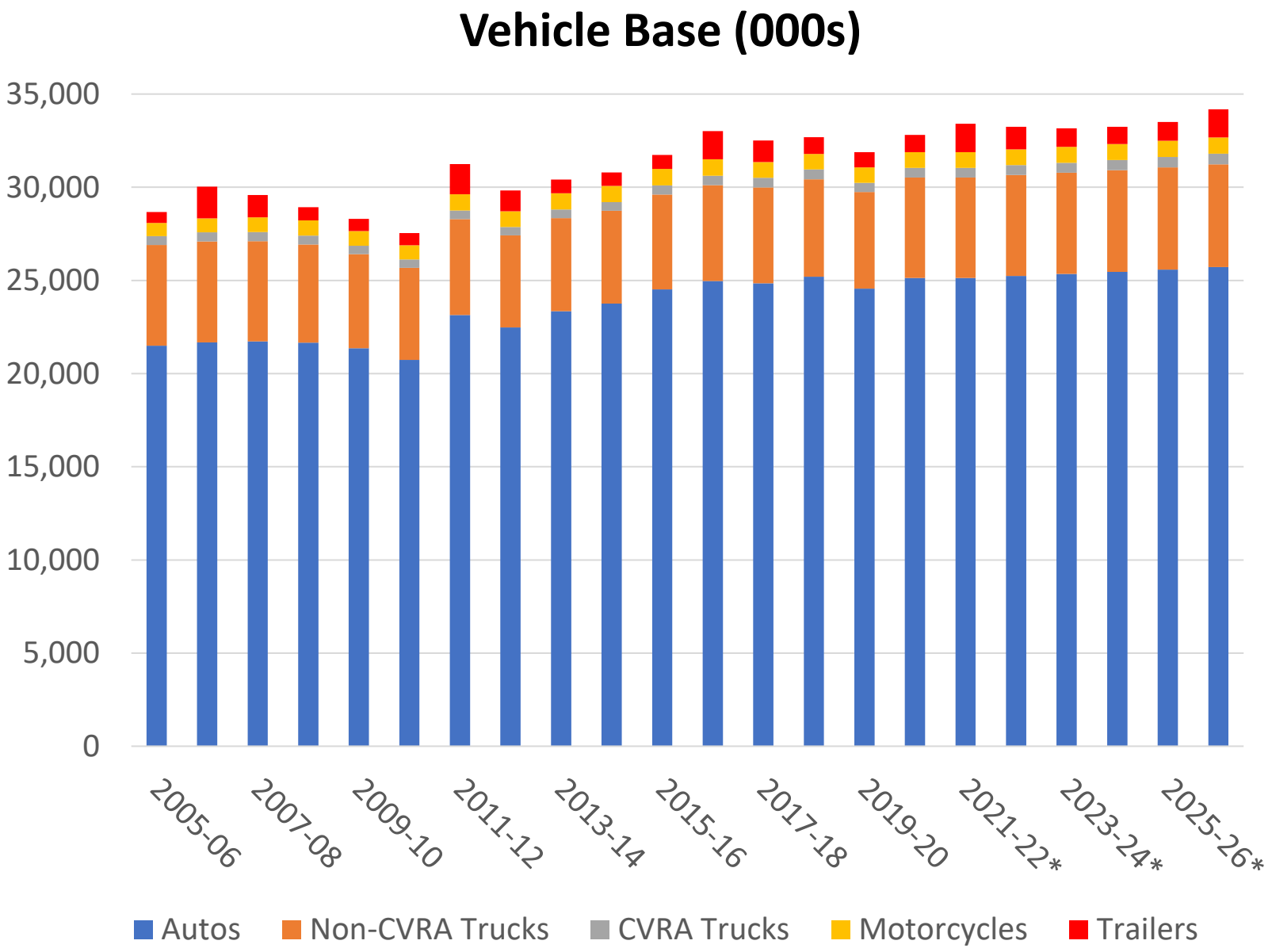


- Though our forecast is mostly focused on excise taxes, there are some sales taxes levied on gasoline and diesel that benefit locals.

- Fuel taxes are not strongly elastic in the short run. This means that increases in price generally lead to proportionally higher revenue.

Statewide Motor Vehicle Revenue Trends

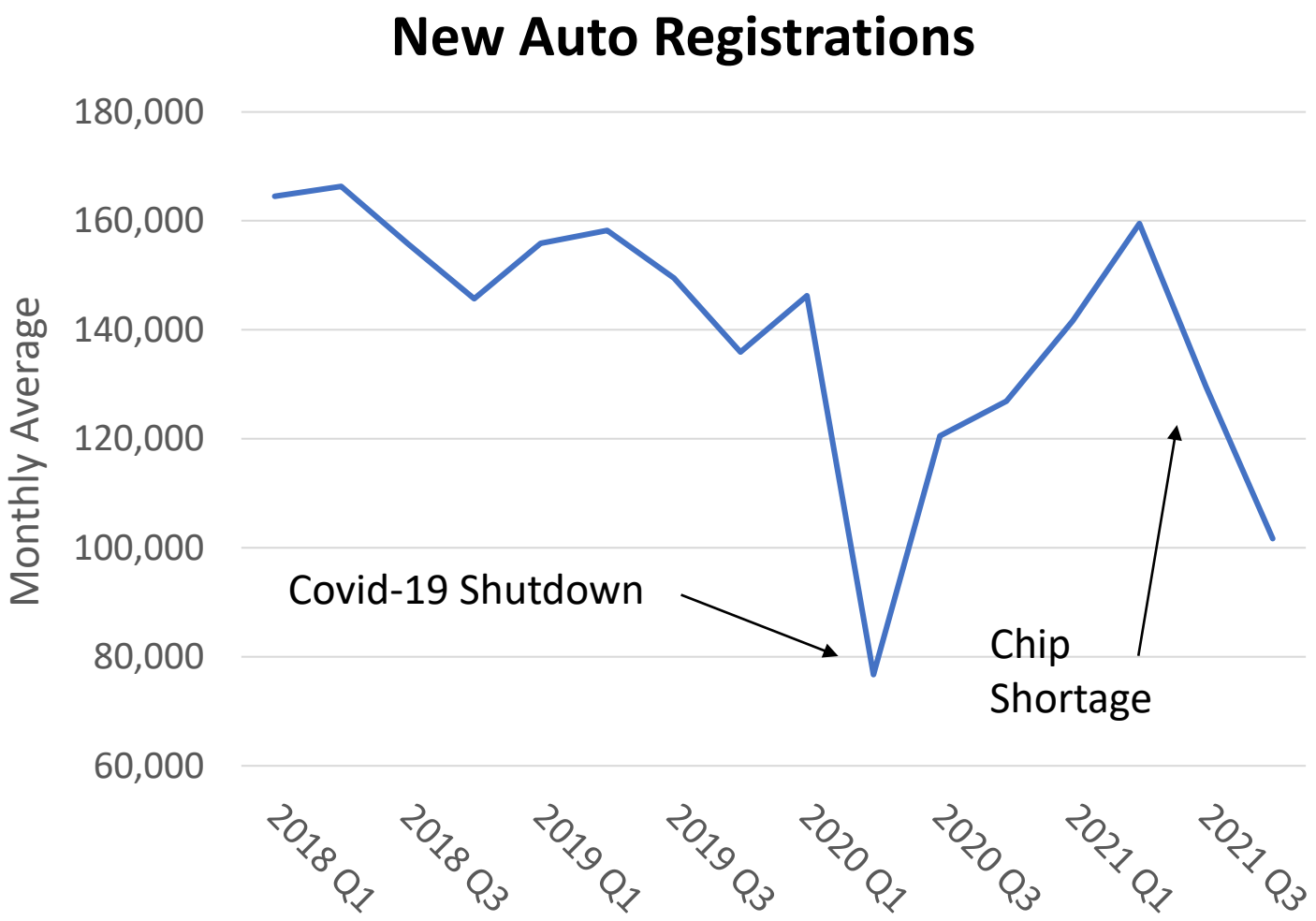
CA Department of Finance



- **32.8 million vehicles in 20-21**
- **91% renewals**
- **7% new vehicles**
- **2% nonresident**
- **Forecast assumed slow growth in total vehicles**

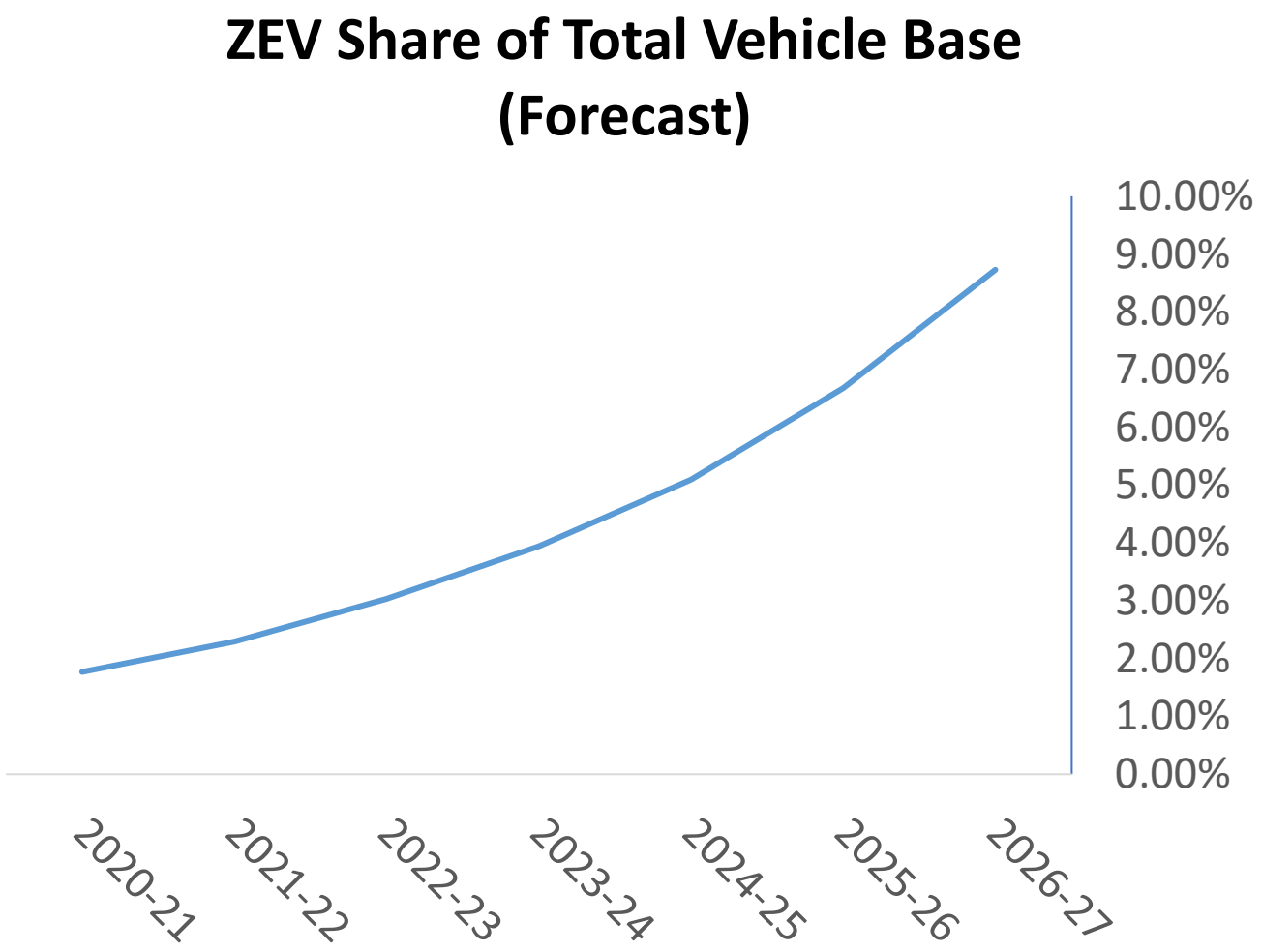
Pandemic and Supply Chain

- Drop-off in new vehicle sales in 2020 Q2
  - **Strong growth back to near pre-pandemic levels in 2021 Q1 and Q2**
- Global chip shortage and supply chain constraints
  - **Forecast assumed a 4% drop in new sales in 21-22, indications that it may be sharper**



Zero Emission Vehicles

- Targets: 60% of new sales by 2030; 100% by 2035
- Strong recent ZEV sales
  - **2019: 95,000**
  - **2020: 106,000**
  - **2021: 135,000 (thru 9 months)**
- Forecast assumed strong growth in ZEV sales, but below 2030 target
- Share of ZEVs on road would lag percentage of new sales



DOF Governor's Budget 22-23 Forecast

	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
Vehicle License Fees	$3,137,733	$3,122,578	$3,219,184
Transportation Improvement Fee	1,909,883	1,989,882	2,069,078
Road Improvement Fee	5,485	20,106	38,163
Weight Fees	1,264,885	1,291,335	1,323,033
Registration and Other Fees	4,323,034	4,424,071	4,633,795
Total	**$10,641,020**	**$10,847,972**	**$11,283,253**

- VLF declining in 21-22 due to revenue shifting, which inflated 20-21
- TIF increasing, but revenue to the Public Transportation Account down from 2021 Budget Act in 21-22 due to allocation formula
- Importance of renewals generally insulates revenues from volatility of new sales

Regional Overview

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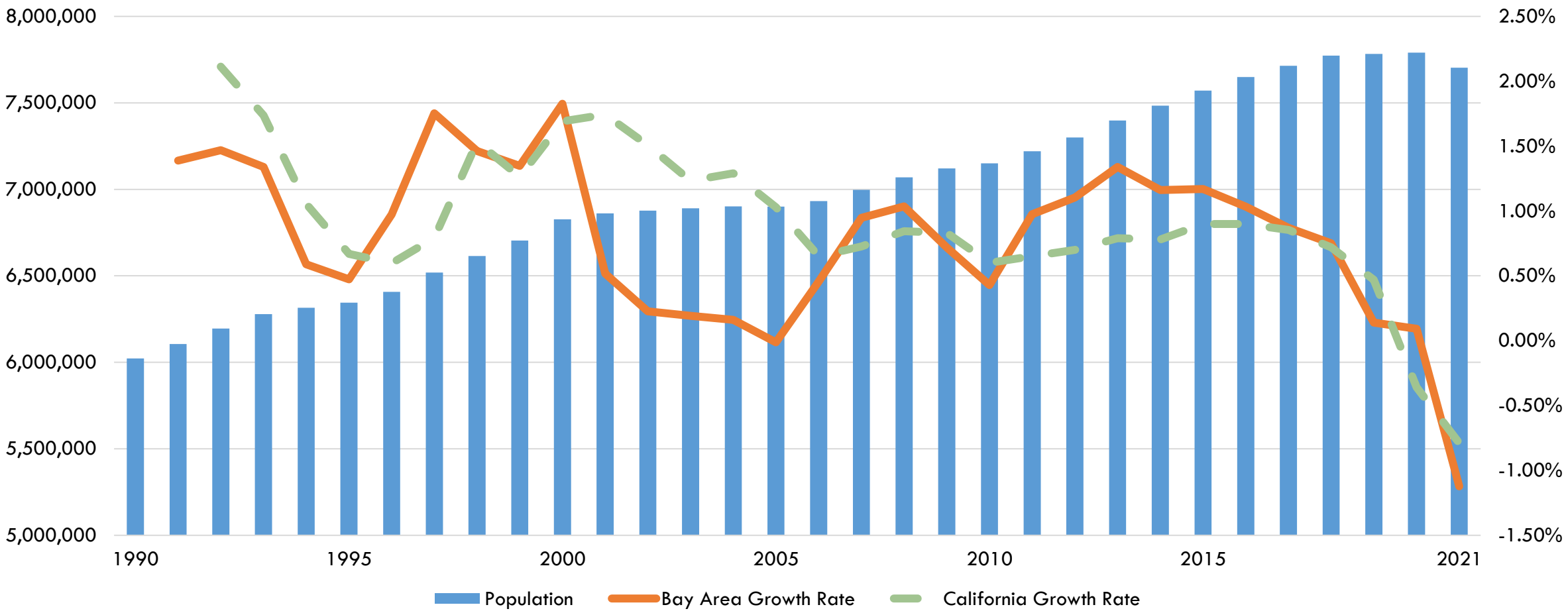
1. **Highlights of economic trends in the Bay Area:**
    - Employment
    - Sales tax
    - Consumer Price Index/Inflation
    - Transit Ridership and Bridge Crossings
2. **Overview of FY23 Fund Estimate**
    - Transportation Development Act (TDA) Sales Tax Revenues
    - AB1107 Sales Tax
    - State Transit Assistance (STA) programs

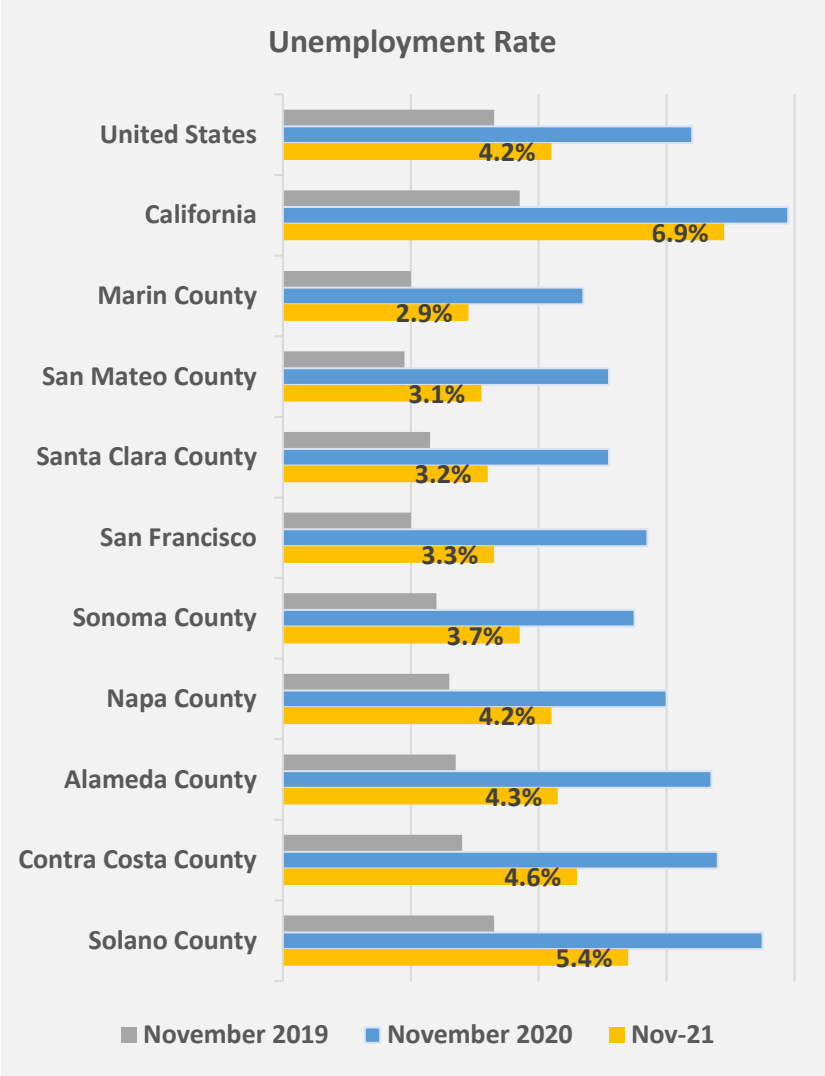
Bay Area Population

- Bay Area Population has declined, now equal to 2016 levels
- The regional population is shrinking faster than the state population.



Source: California Department of Finance

Bay Area Employment Trends



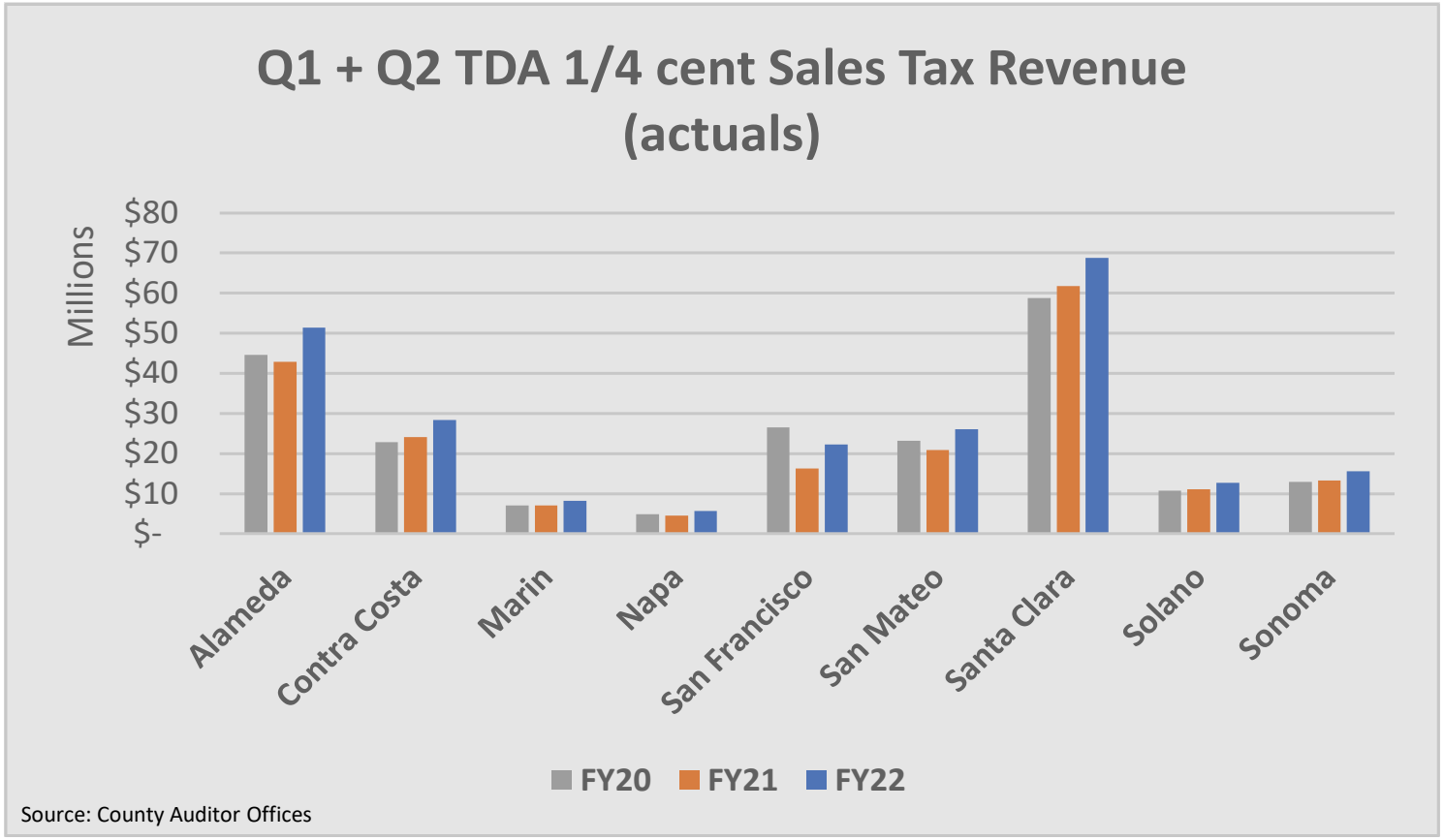
Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics

- Unemployment rates in the Bay Area have recovered significantly since the onset of the pandemic, but remain above pre-pandemic levels
- While the Bay Area has fared better than California as a whole, the unemployment rate in Alameda, Contra Costa and Solano counties are above the national rate.

SF Metro Area employment by Industry	Nov. 2021	% Change vs. Nov 2020
Total Nonfarm	**2,364**	**5.0%**
Professional and business services	523	8.3%
Trade, transportation, and utilities	347	0.8%
Education and health services	364	3.0%
Government	302	-1.6%
Leisure and hospitality	**210**	**29.9%**
Financial Activities	140	-0.1%
Manufacturing	140	0.2%
Information	141	4.4%
Construction	123	1.2%
Other services	75	12.5%
Mining and logging	0	0.0%

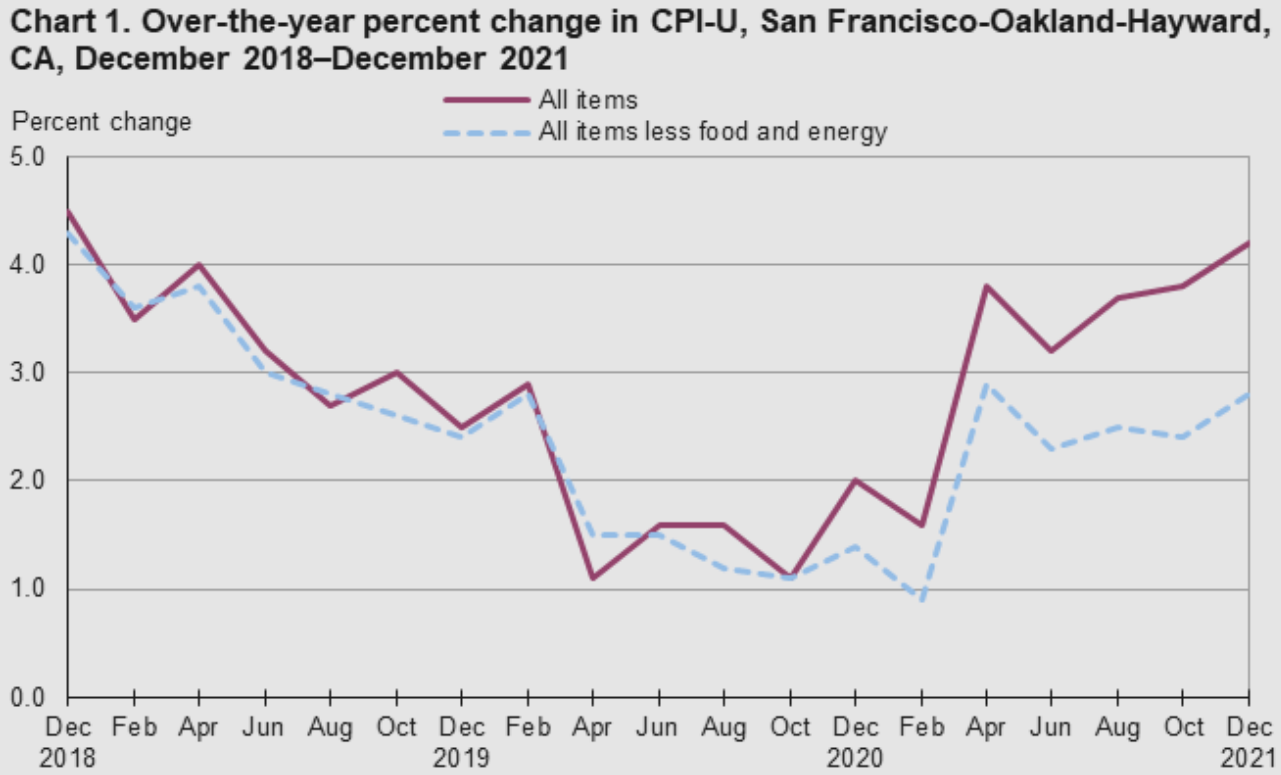
Source: US Bureau of Labor Statistics (#s in thousands)

Bay Area Sales Tax Trends



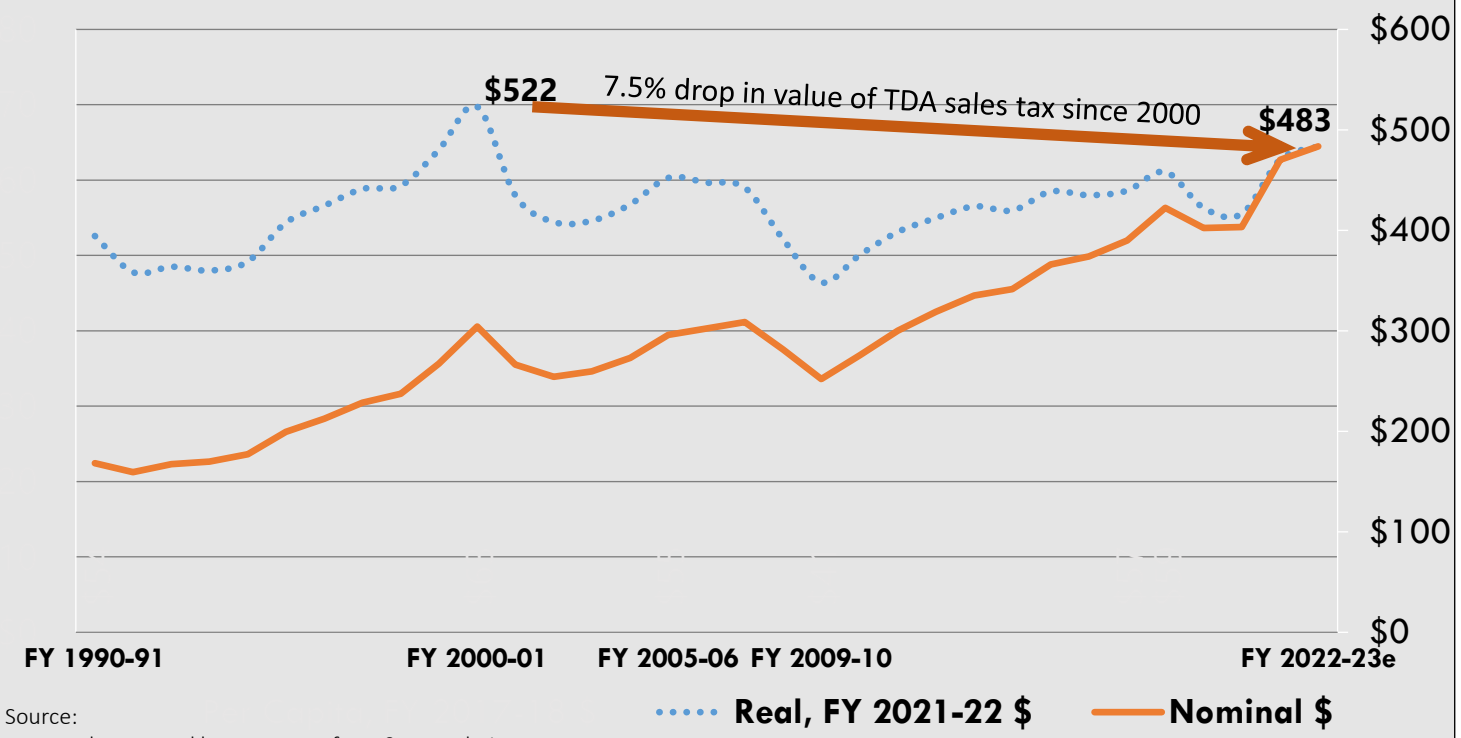
- As a region, TDA sales tax revenue is **up 18%** from Q1 & Q2 of FY21 to FY22.
- Continued uncertainty about CA Dept. of Tax & Fee Admin. payment methodology

Bay Area Consumer Price Index Trends



- Overall prices in the San Francisco Area advanced **4.2%** from December 2020 to December 2021
  - Energy prices increased **28%**
  - Food prices increased 5.2%
- For Comparison with US Cities:
  - All prices: 7.0%
  - Energy Prices: 29.3%
  - Food Prices: 6.3%
- Bay Area inflation remains quite a bit lower than average US Cities

Real Sales Tax Revenue:
7.5% drop since 2000

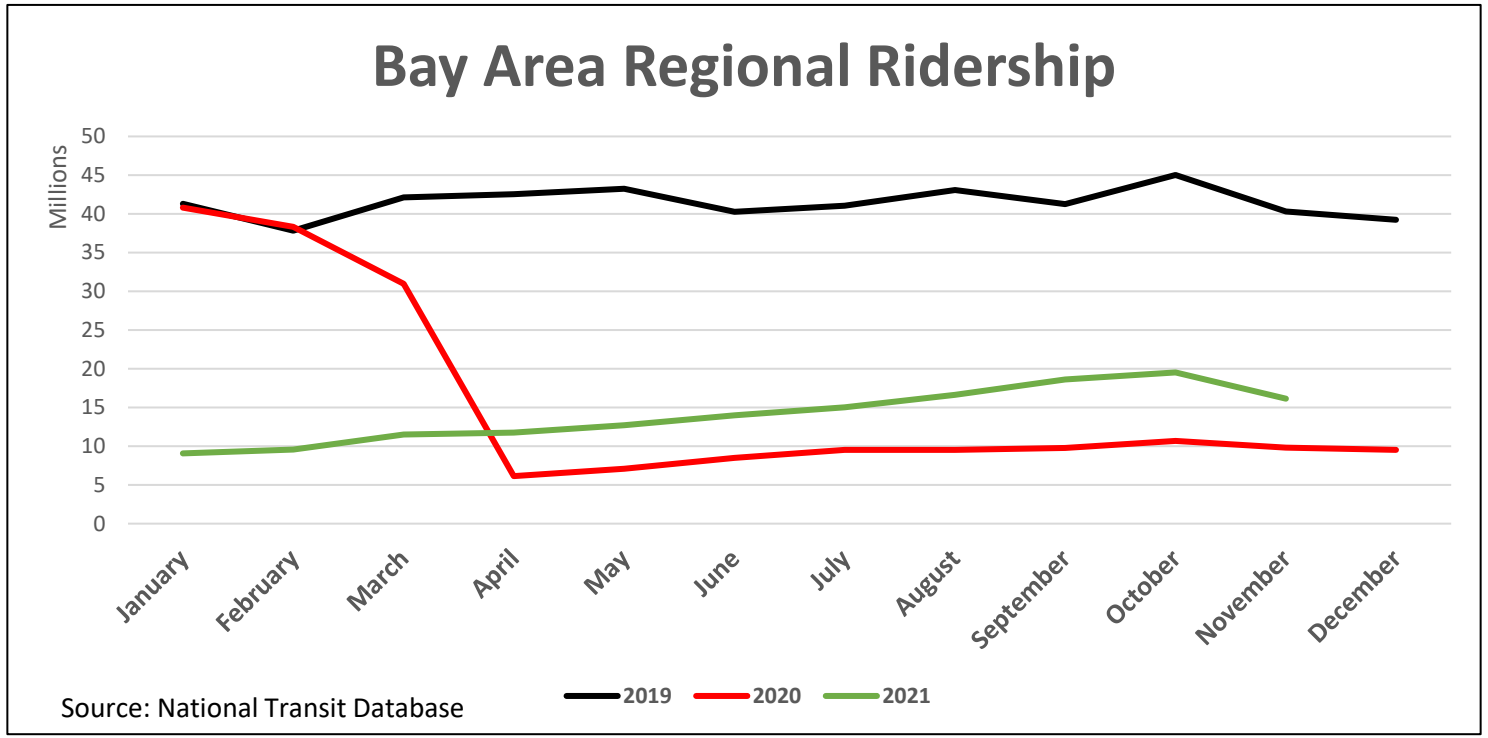


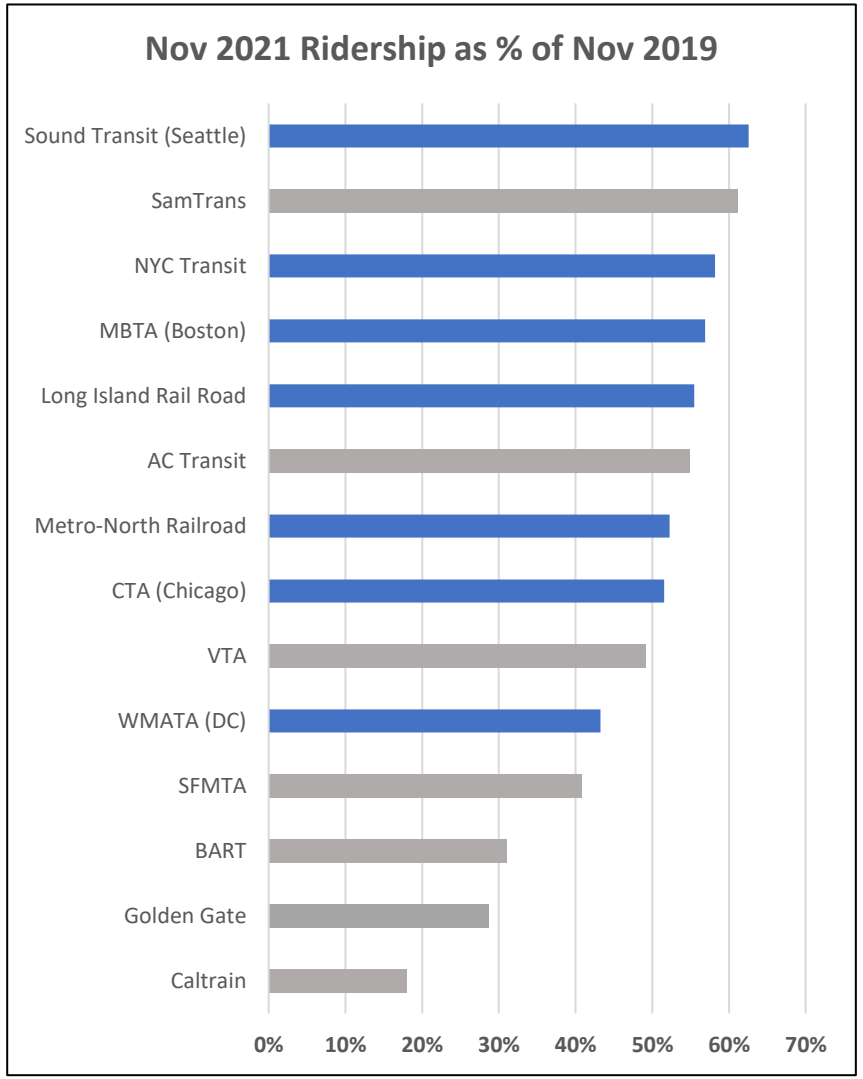
Source:
1. Actuals reported by CA Dept. of Tax & Fee Admin.
2. FY 2022-23 estimates from FY 2022-23 Fund Estimate
$ in millions

- Despite near continuous increases in sales tax revenues in nominal terms, revenues have not kept up with inflation
- Since 2000, real sales tax revenues have declined 7.5%

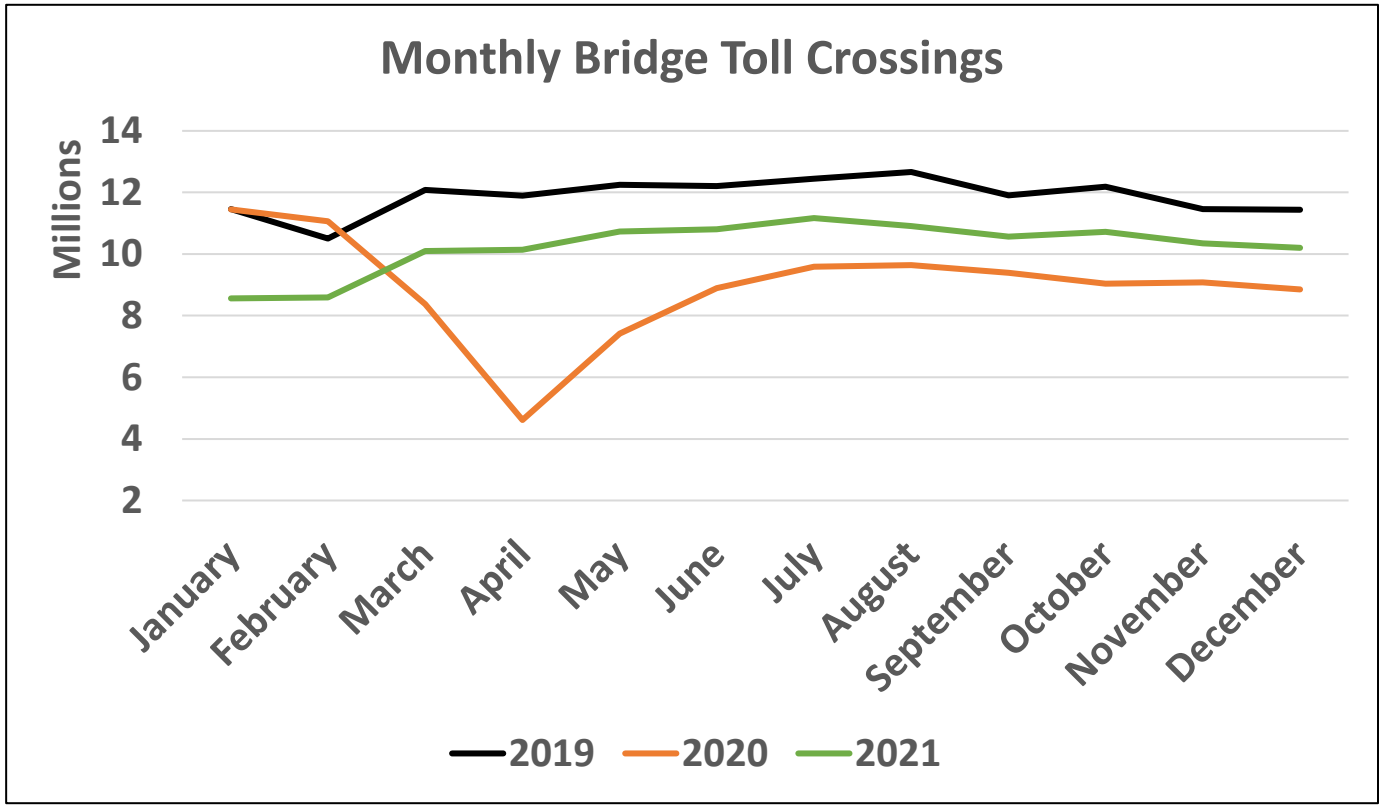
Bay Area Ridership Trends

- Regionally, transit ridership remains at 40% of pre-pandemic levels
- Across operators, recovery ranges widely from 18% to 60%
- While there have been gains since the onset of the pandemic, transit ridership recovery in the Bay Area has been sluggish compared to peer regions





Bay Area Bridge Traffic Trends



Source: Bay Area Toll Authority

- Bridge traffic has recovered far faster than transit ridership
- By July 2020, toll crossings returned to 80% of pre-pandemic levels
- It has since improved to nearly 90%

Bay Area Economic Summary

Indicator	Summary	
Sales Tax Performance	Significant improvement	↑
Bridge Traffic	Near pre-pandemic levels	↑
Unemployment Rate	Improvement Year over Year; still above pre-pandemic	↓
Population	Slight, but meaningful decline	↓
Consumer Price Index	Increasing rapidly	↑
Transit Ridership	Sluggish and uneven recovery	↔

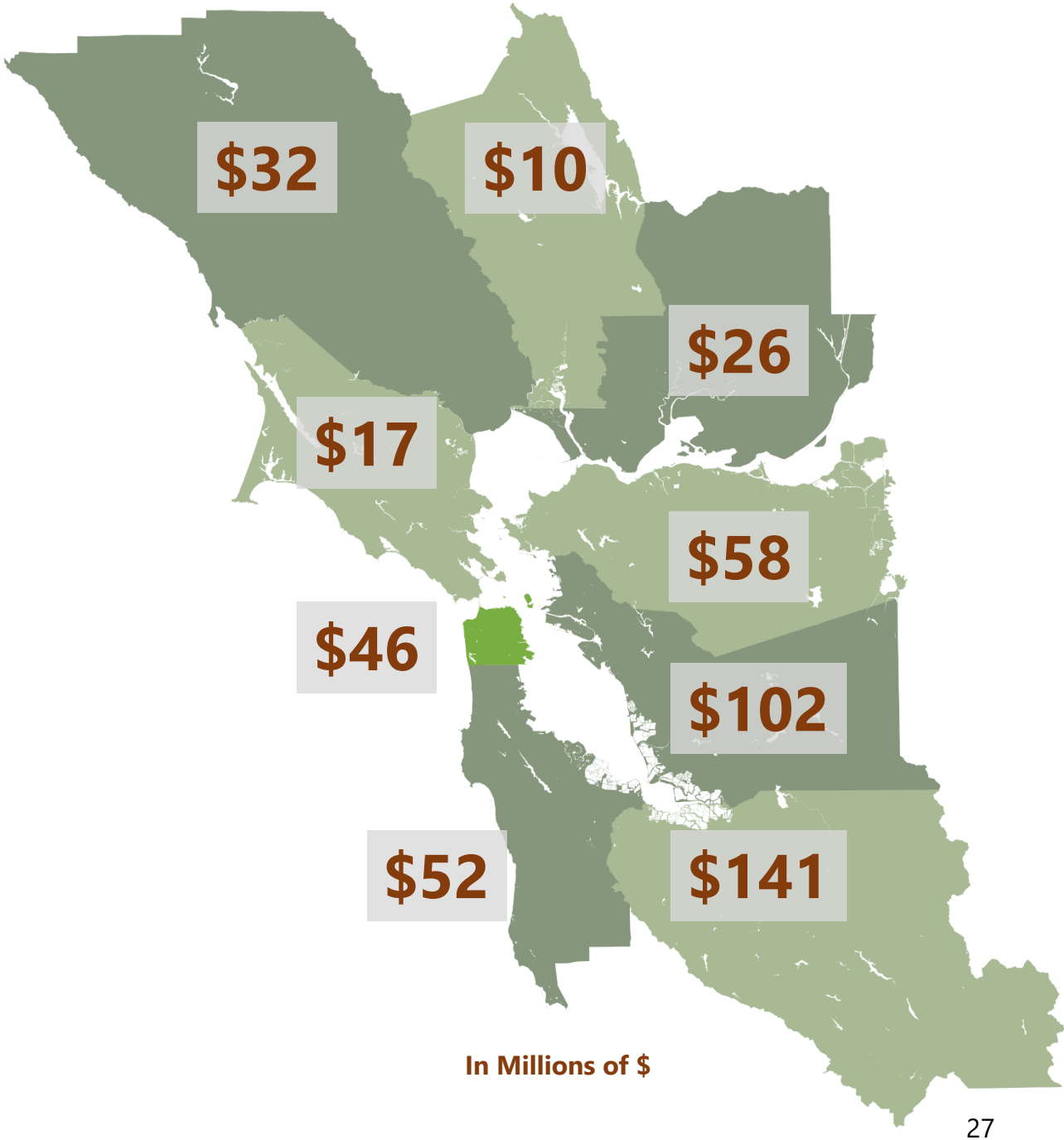
Fund Estimate Overview

	Program	Description	FY 2020-21 Actuals	FY 2021-22 Revised Estimates	FY 2022-23 Estimates
Sales Taxes and Tolls	Transportation Development Act (TDA) ¼ ¢ Sales Tax	¼ ¢ sales tax in each county	$403	$470	$483
	AB 1107 ½ ¢ Sales Tax	MTC administers 25% of the revenue from the ½ ¢ sales tax in the three BART district counties	$86	$98	$100
	Bridge Tolls	MTC 2% Toll Revenues and 5% State General Fund Revenues	$5	$5	$5
STA Formula	State Transit Assistance (STA)	Sales tax on diesel fuel in CA	$199	$245*	$269
	State of Good Repair (SGR) Program	Transportation Improvement Fee (vehicle registration fee)	$42	$43*	$44
	Low Carbon Transit Operations Program (LCTOP)	5% of Cap-and-Trade auction revenues	$37	$39*	$66

Note: Estimated revenue amounts are rounded to nearest million.
*Amounts reflect adopted FY21-22 CA Budget

TDA Sales Tax Forecast
FY 2022-23

- Estimates for each county prepared by individual county Auditor/Controllers
- Return to source, revenue earned in a county is spent in that county
- Revenue primarily used for transit operations and capital expenses
- Operators should be extra cautious due to uncertainty in County Auditor forecasts resulting from sales tax distribution changes
- **FY 2022-23 forecast of $483 million** is a **2.9% increase** above the Auditor/Controllers' revised forecast for FY 2021-22 ($470 million)
  - Revised FY 2021-22 Auditor/Controllers' forecast represents a 12% increase over original forecast



AB 1107 Sales Tax Forecast
FY 2021-22

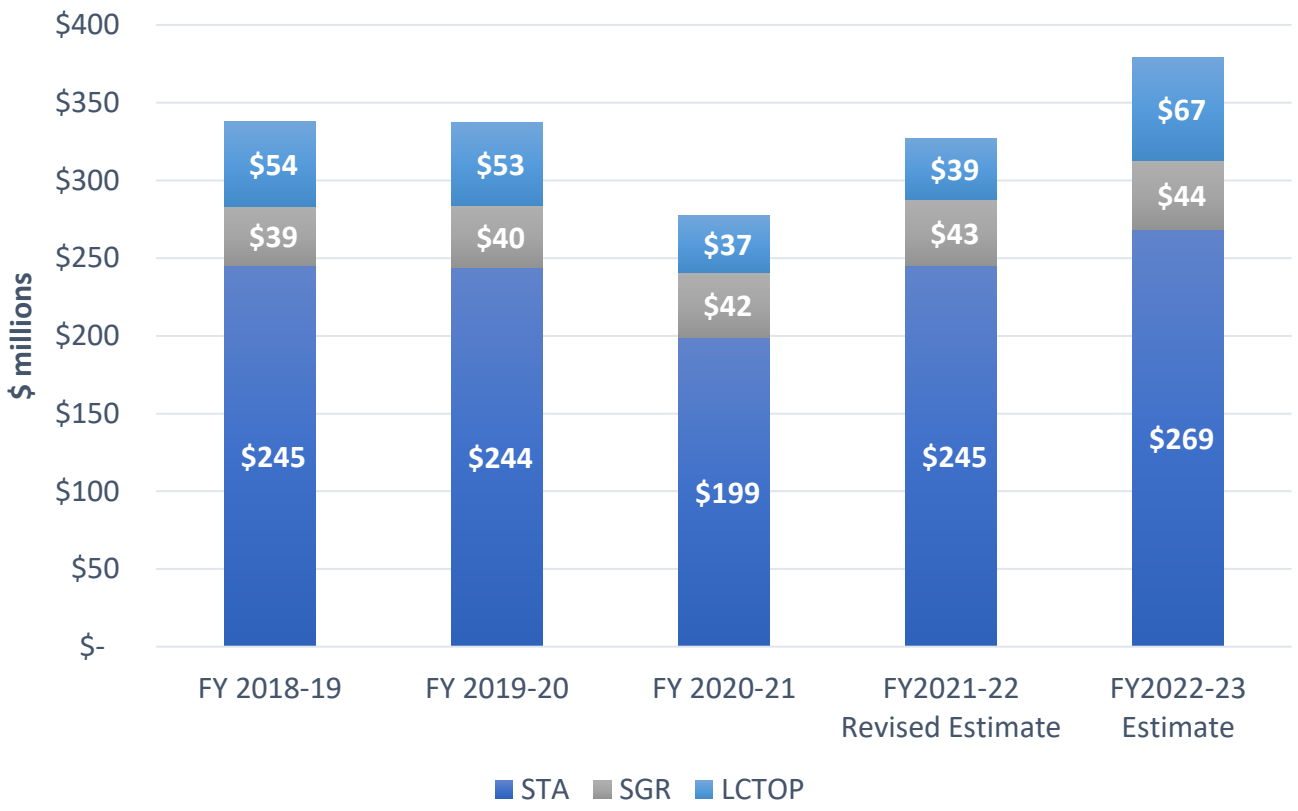
- 25% of total revenue from BART's sales tax in Alameda, Contra Costa, and San Francisco counties
- MTC estimates revenue and establishes funding policy
- Only AC Transit, BART, and SFMTA eligible to receive AB 1107 funds per state statute
- Historically, Commission policy is to distribute 50% of funds to AC Transit and 50% to SFMTA
- **FY 2022-23 forecast of $100 million is a 16% increase from the actuals for FY 2019-20 ($86.1 million)**

  FY 2021-22 forecast is revised upwards to $98 million from $83 million as shown in the FY 2021-22 Fund Estimate

In Millions of $

STA Formula Programs
FY 2022-23

- State Transit Assistance (STA) formula splits statewide revenue 50/50 between a Revenue-Based program and a Population-Based program
- Revenue-Based funds flow to transit operators via MTC based on their qualifying local revenue
- Population-Based funds flow to the Bay Area based on our 19.5% share of the state's population and are programmed by MTC
- **FY 2022-23 forecast of $379 million for the Bay Area** in STA, State of Good Repair (SGR) Program and Low Carbon Transit Operations Program (LCTOP) revenue



Information Exchange

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Questions?

Information Exchange

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What are your expectations and assumptions for **revenues**?

Information Exchange

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What are your expectations and assumptions for **ridership**?