Transportation Revenue Measure Select Committee

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Transportation Revenue Measure Scenarios

Subject:

Review of draft scenarios, including the updates made since the August 26 Select Committee meeting. Select Committee members will be asked to discuss and provide input to further refine the scenarios.

Background:

Based on feedback, staff have revised Scenario 1. The most substantive change is that in years 9-15 there would no longer be a large drop in operating funds from the first eight years. The other years are unchanged, with transit operating receiving 90% of the measure for the first eight years, and County Transportation Agencies receiving 90% of the measure for the final fifteen years.

Scenario 2 underwent more significant changes, largely because of feedback that neither of the funding sources was realistic at that scale. To develop a more viable approach that still generates $1.5 billion per year a new "hybrid scenario" is introduced.

<u>Scenario 1: Core Transit Framework Update</u>

As previewed in August, the "Core Transit Framework":

- Focuses on the largest operators in terms of ridership that are facing budget operating shortfalls; AC Transit, BART, Caltrain and SF Muni. This scenario seeks to cover the gap created by a loss in fare revenue since the pandemic. Specifically, it would fill a shortfall we are designating as "adjusted fares". This shortfall represents the loss of fare revenue from FY 2019 actuals to FY 2024 budgeted levels, increased by a 2 percent annual escalation factor to help account for cost growth since 2019.[1]

- Proposes a 30-year, half-cent sales tax and assumes participation by Alameda, Contra Costa, San Francisco, and San Mateo counties as a baseline. Those counties are where the agencies with large shortfalls have most of their service. Small operators in these counties would also receive funds to compensate for fare losses.

- Allows Marin, Napa, Santa Clara, Solano, and Sonoma Counties can opt into the measure with certain requirements. While BART and Caltrain run service in Santa Clara County, the county has been designated as an opt-in county because BART and VTA already have an agreement that VTA is responsible for fully covering BART's operating

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[1] In the case of SF Muni, FY 2024-25 budgeted levels were used because their FY 2023-24 budgeted amount was much higher than a preliminary assessment of actual fares received.

costs in Santa Clara County. In essence, VTA is already committed to compensating BART for fare loss from lower-than-anticipated ridership.

- Proposes a temporal element that recognizes that San Mateo, Contra Costa and Santa Clara counties face transportation sales tax expirations in 2034 or soon after. The Core Transit Framework proposes to scale down the transit service portion of the measure after 2034 to allow for "County Flex" funds. County transportation agencies would be able to invest County Flex in any priority that is part of Plan Bay Area 2050 or successor plans.

There were three primary changes to Scenario 1 since August: 1) increased level of guaranteed transit funding in Years 9-15; 2) support for Muni's companion efforts to secure additional operating funding sources; 3) confirmation of expected Santa Clara County contribution to Caltrain; and 4) required minimum transit investment of 30% in opt-in counties.

The revised scenario is described below.

Transit Transformation:

For all 30 years, 10% of the funds generated in each county would support Transit Transformation. These funds would be allocated at the regional level for customer-focused improvements.

Transit Operations

Years 1-8: During this period 90% of funds, or $490 million per year from the four baseline counties would go towards transit operations for operators serving their county by filling the adjusted fare gap. This timeframe provides an eight-year runway to improve operator's financial situations by: growing ridership and fare revenue, especially with implementation of the Transit Transformation Action Plan; speeding up transit and reducing operating costs via transit priority measures; allowing local sources of operating funds to recover; and together seeking additional support from the state and federal levels.

Years 9-15: In the first version of Scenario 1, the percentage to transit operations funding was proposed to decline to 40% of the measure, or $220 million per year, with 50% going to County Flex during this six-year period. Many agencies, organizations and members of the public commented that this decline in annual support, from $490 million to $220 million, would be too precipitous.

The **first change** since August is to guarantee a minimum amount of transit operating funding of $380 million per year during this period. This would come from a combination of the Transportation Revenue Measure and new, non-local funding sources. The measure would also

provide a minimum of 40%, or $220 million. In this way, the transportation revenue measure would serve as a backstop providing at least $380 million for transit operations annually.

To illustrate how this revision works consider three examples. For any given year in Years 9-15:

1) If there are no new outside sources of funds, the measure would allocate $380 million for transit operations.
2) If $100 million is raised from outside sources, the measure would allocate $280 million, for a total of $380 million.
3) If $250 million is raised from outside sources, the measure would still provide the minimum guaranteed 40%, or $220 million, for a total of $470 million.

This revision provides substantially higher funding for AC Transit, BART and Caltrain, nearly 90% of the year 1-8 funding level.

The original scenario had $50 million for SFCTA County Flex that could be used for Muni transit operations at their discretion. The revised scenario includes dedicated funding for Muni of $30 million per year during Years 9-15, plus another $20 million per year that would go to SFCTA for County Flex. These funds would be in addition to any new outside sources of funds. The reduction in Muni funding during these years allows San Francisco's revenue from the measure to contribute to BART and Caltrain shortfalls during this timeframe.

Years 16-30: There is no dedicated transit funding during this period, but county transportation agencies may elect to use their County Flex funds to support transit.

The **second change** since August is to identify and more formally support Muni's companion efforts to secure additional operating funding sources given the Scenario 1 framework focuses on adjusted fare losses and Muni has experienced significant losses in general fund and parking revenues as well.

The **third change** since August is with respect to Caltrain. Now, Santa Clara County would be expected to contribute their portion of funding from the measure to cover their share of Caltrain's shortfall, in Years 1-15. Additionally, if Santa Clara chooses not to opt in, they would still be expected to cover their share of Caltrain's shortfall from funding sources besides the measure. The measure's expenditure plan would be updated to reflect this contribution.

County Flex

Years 9-15: In the original scenario, County Flex started in year 9 and was fixed at 50% of the measure. Given the change described above to the transit operating formula, the amount during any given year during this period would be 20-50%. If ongoing transit operating funds are obtained from outside sources, the County Flex funds may be above the 20% minimum. Additionally, county transportation agencies could borrow from projected funding in Years 16-30

to support capital priorities during the Years 9-15 timeframe, but this would reduce flexibility over the use of those funds in the future.

Years 16-30: County Flex remains at 90% during this time. Transit operating is an eligible expense.

Opt-in Counties
Marin, Napa, Santa Clara, Solano, and Sonoma Counties could opt in to Scenario 1 with a minimum of 10% contribution to regional Transit Transformation and some degree of contribution towards transit operating deficits for operators serving their county, taking into consideration existing contractual agreements and subject to agreement with MTC. The remainder would be for County Flex.

MTC received several comments that given this is proposed as a measure to sustain and improve transit, there should be a minimum commitment to transit from opt-in counties. The **fourth change** since August proposes a minimum transit investment of at least 30% of the County Flex funds in transit capital, operations and/or maintenance. Funding contributions towards the county's operator shortfalls, subject to agreement with MTC, would count towards the 30% County Flex transit investment.

Counties would need to determine whether they want to opt in before enabling legislation is passed by the legislature in 2025. Ideally, counties would make a decision to opt in no later than April 2025 to be considered by legislative policy committees. Passing enabling legislation that includes the opt-in counties by fall 2025 will provide the time necessary to build awareness about the measure before it goes to the voters.

The New Hybrid Scenario

This scenario responds to requests by Voices for Public Transportation and Senator Wiener's office, among others, for a revenue measure that provides robust funding for transit operations - at least $750 million per year over 30-years, in all nine counties. They also recommended a measure that generates at least $1.5 billion per year.

The August version of Scenario 2, known as the Go Big Framework, proposed using either a per square foot parcel tax or a payroll tax to generate the $1.5 billion in response to requests for an alternative to the sales tax. Funding from the parcel and payroll taxes have generated significant concerns. A parcel tax would be in direct conflict with a future BAHFA affordable housing bond as both are a form of property tax. Similarly, a $1.5 billion payroll tax will generate business community opposition, potentially with significant funding behind it. Several Select Committee members recommended exploring a measure with multiple funding sources so that the tax rate for a given source could be lower.

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The revised Go Big Framework proposes a measure with two funding sources: a ½-cent sales tax generating $1 billion annually complemented by a payroll tax generating $500 million annually. If applied to all businesses, that would require a rate of 0.18% of total payroll. It could also be designed to exempt small businesses and use a slightly higher rate.

The updated Go Big Framework hews closely to the August version. The most significant change is a new employee commuter benefits program at $200 million annually to provide benefits to employees, help with recruitment and retention, and reduce single-occupant vehicle travel and traffic congestion.

Revised Expenditure Plan

Since the revised Go Big Framework includes $1 billion in funding from a ½-cent sales tax, the expenditure plan's foundation replicates that of Scenario 1. It then layers on top two funding categories from the $500 million payroll tax revenues: an employer commuter benefits program representing 40% of the funds (approximately $200 million) and transit operations representing 60% (approximately $300 million). In summary, the revised expenditure plan for the Go Big Framework is:

1) Transit Transformation at $100 million per year, allocated at the regional level for customer-focused improvements (same as Scenario 1).
2) Employer Commuter Benefits Program at $200 million per year, distributed to each county based on the amount of payroll tax collected in that county. The program would fund programs that promote transit and other non-single occupant vehicle commuting, e.g. vanpool, carpool or active transportation incentives, building on MTC's existing Bay Area Commuter Benefits Program that is jointly administered with the Bay Area Air Quality Management District. Program details would be at the discretion of County Transportation Agencies with guidance from MTC.
3) Transit operating funding that is $300 million higher than Scenario 1, for the life of the measure. That would mean:
    a. Years 1-8 would provide approximately $790 million per year and could support 90% of the most recent operator-reported shortfalls. This scenario funds all the agencies with reported funding gaps, including the four agencies in Scenario 1 plus Golden Gate Transit and small operators facing deficits in all nine counties.
    b. Years 9-15 would provide $520 million per year, and could support 65% of the operator-reported shortfalls. Muni funding would decline more substantially than others in this period but would still receive $90 million more than in Scenario 1.
    c. Years 16-30 would provide $300 million per year.

    The proposed funding levels by transit operator are illustrated in Attachment A, the Select Committee presentation. Transit funding for Years 16-30 has not yet been determined. Since operating shortfalls, by operator, in the 2040s and 2050s are very hard to predict, the Select Committee may consider setting up a process in year 14 or 15

that develops an approach for assessing need and equitably allocating funding during that period.

4) The remainder of funds would be for County Flex. For the baseline counties that amount is the same as the presentation in August, slide 1. Over the course of the measure the annual average County Flex would be:
   a. $125 million for Alameda
   b. $64 million for Contra Costa
   c. $55 million for San Francisco
   d. $62 million for San Mateo County

   For opt-in counties, County Flex would be a large majority of what they generate from the sales tax, with the exact amount dependent on the county's ultimate contribution towards transit operations.

Finally, Marin and Sonoma Counties' expenditure plans require additional consideration. First, the allocation of sales tax and payroll tax to address Golden Gate Transit's deficit would be subject to further discussion. Second, this measure could provide sufficient funding to backfill SMART's ¼-cent sales tax, if desired.

Alternative Approach – Coordinated, Single-Agency Measures

As mentioned in August, an alternative approach is one in which the five agencies projecting substantial operating funding gaps pursue their own measures. Some of these agencies are actively considering this "Plan B" approach in the event the regional measure does not move forward.

Given the stakes and challenging funding environment, MTC understands the interest in fallback strategies being developed in parallel to a larger regional measure. There remains the concern that in the counties of Alameda, Contra Costa and San Francisco, this approach could present voters with multiple measures, e.g., San Francisco voters could be asked to vote on BART, Caltrain, Golden Gate Transit and S.F. Muni measures, potentially at the same election. In addition, transit agencies are likely to consider using sales taxes as a potential funding source, creating concern among counties that face expiring transportation sales taxes over the next decade.

Issues:

None identified.

Recommended Action:

Information.

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Attachments:

Attachment A: Presentation

Attachment B: Gradients of Agreement

Reviewed:

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