

Metropolitan Transportation Commission

May 27, 2026

Agenda Item 12a - 26-0654

Metropolitan Transportation Commission Draft Fiscal Year (FY) 2026-27 Operating and Capital Budget

Subject:

An informational presentation of the Metropolitan Transportation Commission (MTC) Draft Fiscal Year (FY) 2026-27 Operating and Capital Budget.

FY 2026-27 Draft Budget Highlights:

The Draft FY 2026-27 budget reflects a year of financial transition and strategic realignment, shaped by timing-related cost recovery adjustments, the wind-down of major one-time funding sources, and continued investment in core operations and long-term capital priorities. MTC's Draft FY 2026-27 Operating Budget shows a projected \$1.4 million deficit before transfers. This deficit is driven primarily by impacts of the implementation of a more comprehensive and robust approach to indirect cost allocation in FY 2024-25 which has implications for the recovery of indirect costs in FY 2026-27. This is a timing-related cash flow issue rather than a structural operating imbalance, and gets resolved in later years' recovery of indirect costs.

Background:

The Metropolitan Transportation Commission (MTC) was established under federal and state laws in 1970 to provide comprehensive regional transportation planning, and address other regional issues, including housing and development, for the nine counties that comprise the San Francisco Bay Area, (the City and County of San Francisco and the counties of Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano, and Sonoma).

As the federally designated Metropolitan Planning Organization (MPO) and State designated Regional Transportation Planning Agency (RTPA), MTC is responsible for regional transportation planning and project selection, distribution of federal transportation dollars at the regional level, short and long-range regional transportation plans, short-term regional transportation improvement program, and administration of state transportation dollars.

MTC's principal sources of revenue to fund its governmental operations include federal, state, and local grants; inter-fund transfers from affiliated agencies; a percentage of the sales tax revenues collected in the nine Bay Area counties under the State Transportation Development Act of 1971 (TDA); grants from the U.S. Department of Transportation (Caltrans), Office of the Secretary of Transportation (U.S. DOT), including the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA); and other federal, state and local agencies.

The current economic backdrop and uncertainty as to key macroeconomic factors have led staff to take a cautious approach in developing the FY 2026-27 Operating and Capital Budget. While Gross Domestic Product (GDP) growth and low unemployment paint a strong picture, there are other factors that may complicate the Agency's financial picture during the coming fiscal year and we must navigate significant financial headwinds:

- Inflation has remained persistently above the Federal Reserve's 2% objective, with core measures hovering near or above 3% since 2023.

- The Federal Reserve has held the federal funds rate in the 3.5%-3.75% range since late 2025 as policymakers balance sticky inflation against signs of a softening labor market; the trajectory of further rate adjustments and the upcoming change in Fed leadership add to financial-market uncertainty.
- The ongoing transition in U.S. tariff and trade policy — including the scheduled expiration of the Section 122 universal surcharge in July 2026 and pending decisions on country-specific Section 301 tariffs — continues to affect supply chains, input costs, and consumer prices. Combined with persistent geopolitical tensions and energy-price volatility, these factors contribute to broader uncertainty in the regional economic outlook.

Additionally, the federal funding environment remains in flux. The Infrastructure Investment and Jobs Act (IIJA) authorizations are scheduled to expire September 30, 2026, and the trajectory of surface transportation reauthorization, formula and discretionary award levels, and the timing of grant obligations remain unsettled. Within this environment, MTC's draft budget projects a modest deficit; careful monitoring of the evolving situation and disciplined financial planning and administration will be key to sustaining operations and capital investments.

Key Budget Development Issues:

While conditions in some sectors remain favorable, the macroeconomic factors discussed above and other key issues could present challenges for MTC in FY 2026-27 and beyond. These structural and time-related issues span both the revenue and expense sides: (1) MTC's General Fund relies on TDA revenue, the growth of which has been outpaced by inflation-driven cost increases, shifts in consumer spending toward non-taxed items, and increasing demands for MTC functions that lack alternative funding sources; (2) the formula-based structure of BATA administrative transfers, which is tied to a share of toll revenue rather than directly to MTC's actual cost of supporting BATA operations; and (3) the timing-related indirect cost carryforward, which reduces MTC's FY 2026-27 indirect cost recovery.

The draft FY 2026-27 Operating and Capital Budget attempts to strike a balance between (1) resourcing staffing needs to address Commission initiatives and MTC's portfolio and priorities, and (2) the need to be fiscally prudent in light of the structural and timing-related constraints described above against an evolving Bay Area economic environment.

FY 2026-27 Budget Assumptions:

The draft budget incorporates several key assumptions:

- 3.3% net interest yield.
- 2.4% increase in Sales Tax revenue from TDA compared to FY 2025-26 projections.
- 8% Staffing vacancy rate.
- The budget applies a 46% benefit rate to salaries to allocate projected employer-paid employee benefits, including retirement, health insurance, transit subsidies, and other post-employment benefits.

- FY 2026-27 indirect cost recover rates include compensated absences and a new set of entity-specific carryforward pools that returns prior-year over-recoveries to grant programs through reduced future rates, per federal cost recovery requirements.
- 3.2% cost of living adjustment (COLA) based on current consumer price index (CPI) projections, which is pursuant to the Metropolitan Transportation Commission Memorandums of Understanding (MOU). The actual cost of living adjustment (3.8%), based on figures released by the Bureau of Labor Statistics on May 12, 2025, will be reflected in the final proposed budgets presented on June 24, 2026.

New Positions:

MTC is responsible for authorizing staffing for MTC, ABAG, and all operating entities. The draft FY 2026-27 budget requests an authorized headcount at 431 positions, with one net new positions added; staffing reallocations among entities and departments reflect changes in program needs and reorganizations. The proposed position would support the administration of an accessibility program funded by a fee levied by multiple counties on transportation network company fares. The position would be fully funded through this fee. This additional staffing resource advances Commission priorities, including improving accessibility.

FY 2026-27 Revenue and Expense:

Total revenue estimated for FY 2026-27 is \$355.5 million, down \$1.0 million from the amended FY 2025-26 budget. The \$8.8 million decrease (-4.9%) in federal funding is primarily attributable to reductions in Surface Transportation Block Grant (STBG) programming, Federal Transit Administration (FTA) 5307 funds, and the drawdown of prior-year balances. The \$11.0 million decrease (-16.5%) in state funding is driven mainly by the continued spend-down of Regional Early Action Planning 2.0 (REAP 2.0) funds, which sunset for program purposes on December 31, 2026. This is partially offset by increases in Transportation Development Act (TDA) and Senate Bill 1 (SB1) Sustainable Communities carryover funding. Local Funding increases by \$20.0 million (44.5%) reflecting expanded allocations from both the MTC Exchange Fund and the STA Exchange Fund. Administrative Overhead Reimbursements increase modestly by 1.1%, driven by the \$23.6 million BATA 2% Administrative Draw and a \$1.1 million Enterprise Resource Planning (ERP) reimbursement, partially offset by lower indirect cost rate allocations.

As with other programmed but unallocated grants, contract awards and expenditures only proceed when funds become available.

FY 2026-27 Draft Operating Revenue (millions denoted as M):

	Total	% Change	\$ Change
Federal Grants	\$173.2M	(5%)	(\$8.8M)
State Grants	55.6M	(17%)	(11.0M)
Local Funding	65.0M	45%	20.0M
General Fund	17.2M	2%	0.4M
Transfer from Other Entities/Funds	6.2M	(22%)	(1.7M)
Administrative Overhead Reimbursement	35.8M	1%	0.4M
Other	2.5M	(8%)	(0.2M)
Total	\$355.5M	0%	(\$1.0M)

Total expenses proposed for FY 2026–27 are \$356.9 million, an increase of \$6.9 million (2.0%) compared to the amended FY 2025–26 budget. This net growth reflects both targeted program expansions and the wind-down of several time-limited or carryover-funded efforts.

The overall increase is driven primarily by higher Contractual Services, which increase by \$5.6 million (2.1%), and Computer Services, which increase by \$2.4 million (24.8%). The growth in Computer Services reflects expanded Technology Shared Services hosted services and the continued transition to cloud-based infrastructure. Salaries and Benefits decrease modestly, down \$0.4 million, reflecting refined staffing assumptions and updated overhead allocations.

Within Contractual Services, the FY 2026–27 budget reflects a strategic realignment of resources. Significant decreases include Network Management (–\$6.6 million); REAP-funded Housing and Transportation (–\$4.2 million) as the REAP program sunsets; the Means-Based Fare Program (–\$4.0 million); and Regional Mobility Technology (–\$3.1 million), as several carryover-heavy initiatives wind down.

These reductions are partially offset by notable increases in priority initiatives. The Community Action Resource and Empowerment (CARE) program for Equity, Access, and Mobility increases by \$22.6 million (346%). Funding also rises for Federal Transportation Legislation activities through CTA Planning and Programming (+\$8.9 million), the BusAID Master Funding Agreement (+\$7.7 million, driven by BusAID Round 2), and Information Technology Services supporting ERP, Salesforce, and file storage (+\$2.0 million, or 64%).

Lower anticipated expenditures in several categories reflect the expectation that only remaining balances will carry forward into FY 2026–27.

A summary of expense changes is shown below; millions are denoted as M:

	Total	% Change	\$ Change
Salaries, Benefits, and Overhead	\$61.5M	(1%)	(\$0.4M)
Computer Services	12.0M	25%	2.4M
General Operations	5.4M	(10%)	(0.6M)
Consultants	275.9M	2%	5.6M
Other	2.1M	(5%)	(0.1M)
Total	\$356.9M	2%	\$6.9M

Post Retirement Costs:

The combined MTC unfunded post-retirement obligation is nearly \$23.2 million: \$18.0 million and \$5.2 million for PERS and OPEB obligations, respectively. On a plan-wide basis, the CalPERS pension plan is approximately 92% funded and the OPEB plan is approximately 88% funded. The scheduled amortizations are built into the benefits rate. Staff will continue to monitor CalPERS investment results and required annual contributions.

Contract Services Funding:

The contract services budget for FY 2026-27, including all contract services funded by new grants, is \$275.9 million. The Commission’s adoption of the FY 2026-27 budget will provide the authority to draw down committed grant funding for projects consistent with Commission approval and direction. A detailed schedule of these contract services is included in the attachment.

MTC Grants and Other Sources of Project Funding:

MTC currently manages over 70 active grants and funding sources, totaling \$561.1 million in awarded and allocated funds. The grant schedule in the draft budget highlights the addition of approximately \$34.2 million in new federal formula and programmed grants. Of this funding portfolio, the total carryover and new funding allocated for FY 2025-26 staff cost expenditure and contractual commitments is \$293.8 million. Some of the federally funded projects supported by the grant funds include:

- CTA Planning & Programming Activities
- Priority Development Area (PDA) Growth Framework Implementation
- RMWP PDB Pilot Construction
- Enhancing Support for Safety in the Bay Area
- Local Fleet Electrification Planning

MTC Capital Budget:

The MTC Capital Budget for FY 2026-27 includes \$1.6 million for the additional costs of implementing capital projects, including the continuation of the Enterprise Resource Planning (ERP) Software Replacement, an Agenda Management Solution, Intune Enhancements, and managed information security services. It will be funded primarily by transfers from MTC Operating Reserve, BATA, and BAIFA, along with interest income. This proposed increase will bring the MTC Capital Budget to a life-to-date total of \$35.5 million.

Clipper Operating:

The draft Clipper operating budget for FY 2026-27 is \$64.0 million, down from the amended FY 2025-26 budget of \$69.8 million. Due to delays in the Clipper 2 (account-based system) launch and customer migration, the Clipper 1 (card-based) system will remain in service for approximately six to nine additional months of FY 2026-27, ramping down as migration continues. Therefore, the FY 2026-27 budget reflects continued parallel operations of Clipper 1 alongside Clipper 2 operating expenses, which include the Customer Service Center (CSC), Fare Media, and Payment Services O&M contracts.

The draft budget reflects continuation of \$3.5 million in Clipper 1 O&M, an increase in Clipper 2 CSC costs of approximately \$12.0 million and approximately \$14.4 million increase in Clipper 2 Payment Services costs as account-based fee structures stabilize. Consistent with the practice initiated in January 2025, MTC continues to cover the transit operator portion of Clipper 1 O&M and a portion of Clipper 2 CSC costs. Primary funding sources of operating costs are:

- Transit operator contributions (\$30.4 million)
- State Transit Assistance (STA) (\$7.0 million)
- State of Good Repair (SGR) (\$8.9 million)
- Low Carbon Transit Operations (LCTOP) (\$10.0 million)
- Clipper Cards / inactive accounts fund (\$2.7 million)
- Float Account Interest (\$3.7 million)
- Regional Measure 2 (\$4.5 million)

Clipper Capital:

The draft Clipper capital budget includes Clipper 1 and Clipper 2. Clipper 1 capital is in close-out; the life-to-date Clipper 1 budget will be \$245.0 million through FY 2026-27, with a marginal increase of approximately \$0.5 million in residual interest income.

The draft life-to-date Clipper 2 budget for FY 2026-27 will be \$349.1 million, with a projected increase of \$19.0 million to support continued Clipper 2 deployment as Cubic progresses toward the System Completion milestone. Capital priorities include enhancements to Fare Inspection and Mobile Payment

Solutions, and Customer Service Terminal equipment, updates to account-based web portals, and potential system enhancements and expansion. Primary new funding will be from SGR of \$11.3 million, STA of \$2.1 million, Inactive Cards of \$2.3 million, and STBG of \$0.9 million.

Bay Area Infrastructure:

The draft FY 2026-27 Bay Area Infrastructure (previously known as Bay Area Forward) budget reflects continued programming across active and planned projects, resulting in a \$49.5 million increase to the life-to-date budget from \$252.5 million in FY 2025-26 to \$302.0 million in FY 2026-27. This updated budget incorporates a wide range of federal, state, and local funding sources to support the delivery of projects across the region.

The most significant addition is \$31.1 million for the Bay Bridge Forward 2020 project, drawing on Surface Transportation Block Grant (STBG) and Congestion Mitigation and Air Quality (CMAQ) sources. The West Oakland Link project receives an additional \$14.9 million in FY 2026-27 programming, including new CMAQ funding and Alameda County Transportation Commission (ACTC) contributions. Together, these two projects account for approximately 93% of the FY 2026-27 Bay Area Infrastructure budget increase.

In addition, the budget includes \$3.5 million in additional programming for the State Route 37 (SR 37) Sears Point to Mare Island Improvement project. Other Bay Area Infrastructure projects carry forward existing life-to-date budgets without new programming.

A detailed funding breakdown by project and source is included in the attached schedule.

Exchange Fund:

Consistent with Resolution 3989, the MTC Exchange program includes budget for four categories totaling \$58.1 million:

- Housing Investments (BAHFA Senior Rental, Mixed-Income Loan, Regional Housing TA) - \$17.3 million
- Priority Conservation Area Grant Program - \$5.5 million
- Priority Production Area Grant Program - \$2.5 million
- Bike Share Investments - \$3.5 million
- Active Transportation Technical Assistance and Bay Trail Programs - \$3.0 million
- Other Multimodal Investments - \$26.3 million

Consistent with Resolution 4529, the STA Exchange program includes budget for two categories totaling \$17.9 million:

- Transit Priority: \$16.1 million
- Transit Planning: \$1.8 million

MTC Reserves:

The maintenance of appropriate financial reserves is a critical component of prudent fiscal management for governmental agencies. MTC's operating reserves serve several important purposes, including:

- Supporting cash flow to manage grant-funded expenses in advance of reimbursement
- Providing a contingency funding source for unanticipated needs
- Offering a financial cushion to help withstand economic uncertainty

The Draft Budget includes a \$0.7 million transfer from MTC's reserve balance to fund the Capital Budget, along with a net \$1.4 million transfer from reserve to support operating activities. With these planned transfers, MTC's reserve balance is projected to total \$78.2 million at the end of FY 2026-27.

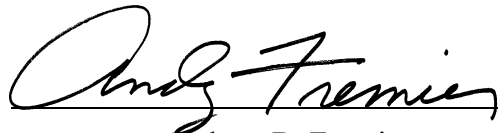
Pursuant to MTC Resolution No. 4751, MTC's Operating Reserve Policy establishes a target to maintain a minimum unrestricted fund balance equivalent to six months of budgeted operating expenditures (50%). The required operating reserve level for FY 2026-27 is estimated at approximately \$38 million. Based on current projections, the FY 2026-27 ending reserve balance is expected to remain in compliance with, and exceed, the policy requirement.

Recommendation:

This is an information item. Staff will return to Commission for adoption of the proposed FY 2026-27 Operating and Capital Budget for approval at its June 24th meeting.

Attachments:

- Attachment A: Metropolitan Transportation Commission Draft FY 2026-27 Operating and Capital Budget Schedule
- Attachment B: Metropolitan Transportation Commission Draft FY 2026-27 Operating and Capital Budget Presentation



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