

## Memorandum

**Date:** October 16, 2024

**To:** Transportation Revenue Measure Select Committee and Transportation Revenue Measure Executive Group

**From:** SFMTA on behalf of a partnership of Bay Area Transit Operators

**Re:** **A Funding Framework and Compromise Proposal for consideration at the October 21 Select Committee**

### *Background*

Bay Area Transit needs help, as revenue sources have not recovered and financial support from the federal and state governments will run out in less than two years. Post-pandemic the financial model that supported Bay Area Transit agencies is proving no longer feasible. Financial gaps created by societal, economic and changes in mobility choices cannot be closed by the notion that things will just return as they once were. This means a new funding framework for Bay Area Transit is needed. At this time in the process all tools should be on the table, and time is needed to seriously consider what sustainability measures for transit are required.

Over the past 45 days, the San Francisco Municipal Transportation Agency (SFMTA) has engaged the region's transit operators as well as several stakeholders to develop a compromise proposal focused on *issue resolution*, rather than formulaic specificity. This was done through conversations, listening, and documenting the concerns of those partners as well as a review of the legislative record for SB 1031 and of the feedback from the Select Committee and Executive Group.

The result was a funding proposal that is not meant to reflect the final version of what should be on the ballot in November 2026, but the framework for a compromise proposal that is responsive to the concerns reflected by participants in the process to date and the options presented to the Select Committee. The elements of this compromise proposal meet the important components of a policy "test" that should be considered when developing authorizing legislation for a regional measure for transportation.

### *The Policy Test*

While considering how to both fund the immediate needs of the region's transit agencies, but also consider all of the feedback received at the California State Legislature, at the MTC Select Committee and hearing from the technical staff at various transit and other organizations in the Bay Area the following "policy test" emerged.

- **Protecting Local Priorities:** Local agencies and counties, alongside regional transit needs, have specific priorities that require balancing sales tax reauthorization with multi-year project plans. A regional measure must consider ballot placement, funding duration, and expenditure plan flexibility, allowing partners to influence the measure and ensure it aligns with voter needs across counties.
- **10 Years of Dedicated Transit Funding:** U.S. transit finance relies on local subsidies and farebox recovery, with the balance varying by agency. As fare-paying ridership remains reduced, sustained investment in frequent, clean, safe, and reliable transit is crucial to increasing trips and rebalancing subsidy ratios. A decade of dedicated funding is needed for transit agencies to have time to adapt to these evolving conditions.

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- **Transit Agencies and Counties Need Flexibility:** With uncertainty around voter sentiment, federal priorities, and upcoming legislation, a regional measure must allow flexibility to adapt between now and November 2026. Transit agencies and counties should have options to coordinate local needs with regional measures, ensuring they complement rather than compete with each other.
- **Setting Priorities and Ensuring Policy Flexibility:** For a regional measure to be additive rather than competitive, clear regional priorities must be established in the expenditure plan. Additional funds should support local needs based on the timing and priorities of individual transit agencies and counties.

### *Analysis of Operator Options*

In addition to the options presented to the Select Committee by MTC, transit operators in the Bay Area have been working on a range of funding options that could be considered for a future ballot measure.

The Bay Area Rapid Transit District (BART) has developed both sales tax and parcel tax options that would include 3, 4 and 5 counties. They would raise at the highest level \$920 million annually for a 5-county measure, and \$479 million in a BART District only measure (Alameda, San Francisco and Contra Costa Counties). If it was the 3-county option, BART district only measure that does not include Santa Clara or San Mateo counties, new financial terms would need to be negotiated with San Mateo County to support BART.

Caltrain too has been developing options for sales and parcel tax measures including a potential 1/8<sup>th</sup> Sales Tax within the district (San Mateo, San Francisco, Santa Clara) or a parcel tax of \$0.05 cents per square foot of built area. The sales tax would raise approximately \$120 million per year and the parcel tax about \$124 million per year.

SFMTA has launched a Muni Funding Working Group, which is currently evaluating a suite of options to raise revenues and improve efficiency for Muni. San Francisco has placed transportation funding ballot measures most recently on the June 2022 and November 2022 ballots for a general obligation bond and sales tax reauthorization respectfully. While the sales tax reauthorization was approved, the GO Bond did not achieve the 2/3rds vote necessary to pass. In addition, San Francisco plans to place GO Bonds for transportation on the November 2026 and November 2032 ballots. A regional measure and local measure for transit funding will need to be closely coordinated.

### *Analysis Keys to a Compromise*

In the evaluation and iteration of several options, both those developed by transit operators and the options presented to the Select Committee, there are core elements that are consistent across the proposals:

- Almost all require 3+ counties
- All require partnerships between counties and transit operators
- All use a mix of sales or parcel taxes
- All need a coordinated ballot strategy
- All options focus on dealing with the needs of regional transit operators first.

### *Developing a Compromise Proposal & Funding Framework*

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In developing a compromise proposal, the SFMTA considered the “red-lines” or major concerns expressed through listening sessions, coordination meetings, etc. The proposed funding framework was based on the objective of resolving the majority of the concerns expressed.

First, the proposed framework should include both short-term, regionally funded relief to preserve and transform transit and a long-term regional funding program to achieve financial sustainability and transit transformation. Transit agencies have little time before both federal and state relief are exhausted. The immediate need is to fill the gap on dollars lost.

At this moment what is needed is tools and time. All potential funding tools to fund regional priorities should be at the region’s disposal and we need to give our regional transit systems time to recover so that they can grow again and adapt to a new financial model.

The **compromise proposal** is a *conceptual regional revenue measure in the form of a parcel tax for the Select Committee’s consideration*. The parcel tax proposal was developed based on feedback from the Committee and interviews and discussions with Transit Operators and other key stakeholders. It should be considered as one, but not the only, option to be authorized for the region.

The proposal includes the following components:

**1) Agreement on Regional Priorities**

This means a program of investments that should be funded collectively by the region, and could include the following:

- **Regional Rail System** that includes BART, Caltrain and rail around the Bay which will be completed via BART to Silicon Valley
- **Regional Transit Service** consisting of our regional bus services that provide direct connectivity to this regional rail network and regional transit nodes
- **Regional Transit Transformation** which includes fare integration, fare program modernization, cleanliness, safety and customer experience improvements

Priorities for the region need to be set, understood and agreed upon. As a complete region, there should be consensus on what multi-county priorities should be funded, that benefit all residents of the Bay Area. Once decided, this creates the priorities to be funded first, and allows for flexibility for counties to fund other priorities or adjust their tax rate to, at a minimum, meet their agreed upon regional commitment.

**2) Proposal for a short-term special tax across 5 to 9 counties. This is proposed to be in the form of a parcel tax with a variable rate by county, raising \$833 million annually. The recommended term of the tax is 11.5 years assuming a November 2026 election date, and it provides funding for a 10-year program of expenditures.**

Below is the estimated revenue generated from a 5-county parcel tax:

County	Varied rates (\$/sq ft):	Annual revenue generation	Revenue over 11.5 years
San Mateo	0.1989	108,051,801	1,242,595,717
Contra Costa	0.1989	170,448,965	1,960,163,096

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San Francisco	0.28	172,633,370	1,985,283,755
Santa Clara	0.11	145,378,683	1,671,854,851
Alameda	0.1989	236,940,584	2,724,816,715
<b>Total</b>		<b>\$ 833,453,403</b>	<b>\$ 9,584,714,134</b>

<p><b>\$9.5 b</b> for 10 years</p>	<p><b>10 yrs</b> Expenditure Plan</p>	<p>Program assumes the cost of financing to meet needs.</p>	<p>In this scenario, each county pays a varied rate based on the funding needs for that county. This scenario proposes a parcel tax rate of \$0.11 per square foot for Santa Clara County, \$0.28 per square foot in San Francisco County, and \$0.1989 in the remaining counties.</p>
<p><b>MTC Financing</b> Allows for Cashflow Needs to be Met</p>	<p><b>11.5 yrs</b> Tax to June 2038</p>	<p>MTC may finance to meet needs of any operator or county.</p>	
<p><b>5 counties</b> Others could “opt in”</p>		<p>Variable tax rates allows counties to develop a program for their specific needs.</p>	<p>The proposed 11.5-year period of levying parcel taxes will provide funding for 10 years of expenditures. As the election date is November 2026, revenues would begin to be generated on January 1, 2027, or halfway through fiscal year 2027, which begins on July 1, 2026. The additional 1.5 years</p>
<p><b>Santa Clara</b> Lowest Tax Rate</p>	<p><b>San Francisco</b> Highest Tax Rate</p>		
<p><b>95%+</b> County Benefits for All Counties over the 10-year expenditure plan</p>			

of tax revenue allows the entity that receives the funds to finance beginning on January 1, 2027, providing funding for transit agencies as soon as possible to close immediate gaps. It also provides additional funding for transit transformation and other regional services. The regional funding could be dispersed based on the timeline for needs.

Funding Program	Needs	Total amount (10 yr)
Regional Bus	VTA Local Service or Capital Projects	700,000,000
Regional Rail	BART Service	3,499,793,243
Regional Rail	Caltrain Service	836,471,212
Local Service	Muni Service	957,725,870
Local Service	AC Transit Service	385,297,980
Local Service	AC Transit Service	42,810,887
Regional Bus	AC Transit Service Feeder	51,340,956
Regional Bus	Small Operator Service Feeder	92,150,434
Regional Bus	Muni Service Feeder	48,708,086
Regional Bus	AC Transit TJPA	68,176,337
Regional Bus	Muni TJPA	23,974,097

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San Mateo County Flex	San Mateo County Flex	579,370,655
Alameda County Flex	Alameda County Flex	517,903,170
Contra Costa County Flex	Contra Costa County Flex	980,882,929
Santa Clara County Flex	Santa Clara County Flex	7,013,160
Regional Bus	Small Operator 4% Feeder	43,71,860
Transit Transformation	Regional Transit Transformation	95,847,141
Local Service	VTA Regional Bus Service+	489,203,608
<b>Total</b>		<b>\$ 9,416,689,773</b>

About 55 percent of the total funding from the proposed measure would be designated for regional needs shown in the table above. This covers the gap for Caltrain, most of BART’s need, and provides funding for regional bus service connectivity to include small operator feeder services, AC Transit service to BART and the Salesforce Transit Center, and Muni connections to BART, Caltrain and the Salesforce Transit Center.

Funding distributions from each county are largely based on historic formulas for the distribution of support to transit agencies (by AM Boardings), reflecting the benefits to those counties based on usage. The remaining funding would be available for local services, as shown in the table below:

Funding Program	Needs	Classification	County	Total amount (10 yr)
Regional Bus	VTA Local Service or Capital Projects	Local	Santa Clara	700,000,000
Local Service	Muni Service	Local	San Francisco	954,027,273
Local Service	AC Transit Service	Local	Alameda	385,297,980
Local Service	AC Transit Service	Local	Contra Costa	\$42,810,887
Local Service	San Mateo County Flex	Local	San Mateo	579,370,655
Local Service	Alameda County Flex	Local	Alameda	517,903,170
Local Service	Contra Costa County Flex	Local	Contra Costa	980,882,929
Local Service	Santa Clara County Flex	Local	Santa Clara	7,013,160

The local programming provides funds to Muni and AC Transit, which carry the majority of the region’s transit ridership, and also provides funding for the initial startup years of service for the BART to Silicon Valley operating service to offset the need to identify other sources of funding for that commitment. The remaining dollars could be tailored to the needs of each county, such as to offset a county’s need for sales tax reauthorization during this period, to allow a county to reduce its proposed tax rate, or to fund additional improvements or services.

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This proposal provides at least 95 percent return to source for all counties if the share each county is paying into the regional operators is captured as part of this return to source given that the proportional share a county pays into the system is reflective of the proportion of the benefit of these investments that county is likely to realize. It also preserves local sales taxes in the near term for reauthorization and for other local needs.

A 9-county option would include opt-ins from Marin, Napa, Solano, and Sonoma Counties. In the case of a 9-county measure, revenues for regional priorities would be largely for Regional Bus Services and the hub at Salesforce Transit Center. Marin County could also implement the special parcel tax for SMART rail services as an alternative to reauthorizing a sales tax.

Regional Rail	<b>\$3.5 b</b> BART	<b>\$836 m</b> Caltrain	
Regional Bus	<b>\$685 m</b> Regional Bus Large Operators	<b>\$166 m</b> Regional Bus Small Operators	<b>\$95 m</b> Regional Transit Transformation
Local Transit	<b>\$1.0 b</b> Muni	<b>\$700 m</b> VTA	<b>\$428 m</b> AC Transit
County Flex	<b>\$981 m</b> Contra Costa	<b>\$579 m</b> San Mateo	Counties may fund local projects or reduce proposed tax rate based on needs.
	<b>\$518 m</b> Alameda	<b>\$7 m</b> Santa Clara	

*Note: total amounts shown based on 10-year funding program*

- 3) **This proposal was developed to address direct feedback from concerned parties and is meant to be a balanced approach to preserve local sales taxes, provide time for the regional transit operators to restructure their funding programs, and for the region to develop lasting and sustainable funding programs.**

The **proposed tax measure** itself, that would be placed on the ballot in November 2026 should have the following characteristics. State authorizing legislation should allow for flexibility in ballot initiative design.

- Short/Near-Term (11 – 15 years): the measure would be an “emergency” or short-term measure that would provide funding for the next 10 to 15 years (with a tax levied for 11 to 15 years to generate sufficient funding) to allow time for stabilization, identification and implementation of new funding sources, and
- Sales OR Parcel Tax: the framework must provide options for either a sales tax or a parcel tax to allow the region to identify the best option for generating the needed revenues and for gaining voter support.

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- Variable Rates by County: the framework needs to allow for variable rates by county to allow each county to generate the required revenue to cover its needs.
- Revenues sufficient to fully fund transit needs for 10-years: the measure should raise enough revenue to fund the region's identified needs for at least the next 10 years.
- Regional Program Funded first: the measure should prioritize meeting the needs of the regional program and then allocate the remaining funds to local priorities.
- Allows for a Long-Term more visionary measure for November 2036 ballot OR reauthorization of Short-Term Measure; coordinated with other planned County funding or sales tax reauthorization measures.

The only way a regional measure will work is if the region agrees on a clear and prioritized list of **regional needs as an expenditure plan**. This ensures agreement that the benefits received are region-wide and makes clear how much of the revenues raised through any measure come off the top. The recommended regional program should include the following:

- Regional Rail System Funded: the regional rail system includes BART, Caltrain, and BART to Silicon Valley
- Regional Transit Service: the Regional Transit Service includes Regional Bus Services that create connectivity to the regional rail services listed above
- Regional Transit Transformation: transit transformation includes actions needed to reshape the region's transit system into a more connected, more efficient, and more user-focused mobility network across the entire Bay Area such as Fare Integration & Modernization, Customer Experience, Cleanliness, and Safety

Based on the above, the measure itself, which needs to be adaptable to changing circumstances, the requirement for a clear regional expenditure plan, the proposed framework for **authorizing legislation** should do the following:

- Authorization for retail transactions and use tax and a parcel tax with variable rate district-based program. Legislation needs to provide options for sales and parcel taxes to allow options that
- Allows for a qualified voter initiative
- Legislates the "Regional Program" as noted above, there should be a clear expenditure plan for agreed upon regional priorities that benefit the Bay Area.
- There needs to be an Independent Auditor associated with any funding program resulting from a regional measure, to ensure that funds are distributed as envisioned in the legislation; that the expenditure plan is enacted upon as legislated, and to recommend any needed reforms to ensure that the legislation is implemented as intended.

Attachments: (1)

- Short Select Committee Presentation