

Metropolitan Transportation Commission

May 24, 2023

Agenda Item 12a - 23-0608

Draft Metropolitan Transportation Commission FY 2023-24 Operating and Capital Budget

Subject:

Presentation of the Metropolitan Transportation Commission (MTC) draft Fiscal Year (FY) 2023-2024 (2023-24) Operating and Capital Budget. Total operating revenue is budgeted at \$371.0 million, and total operating expenses are \$369.8 million. The proposed budget includes a \$3.1 million transfer to the Capital Budget.

Background:

While the general economic picture nationally and regionally has largely stabilized and recovered from the challenges posed by the COVID-19 pandemic, there are a number of headwinds that MTC must face as we consider FY 2023-24 and beyond.

These headwinds include:

- inflation, which has been running very high for the past 2 ½ years.
- Higher interest rates, partly driven by increases in short-term interest rates by the Federal Reserve, and partly by the market reaction to both inflation generally and the Federal Reserve's actions
- The crisis in confidence associated with regional banks and their potential failure. This issue has already caused the failure of two banks in the Bay Area (Silicon Valley Bank and First Republic Bank).
- Issues surrounding the extension of the Federal debt limit, and the possible consequences of not doing so.

Key Budget Development Issues

While today's economic "top-line" numbers look good, the issues discussed above could present challenges for MTC in FY 2023-24 or FY 2024-25. Furthermore, Bay Area Toll Authority (BATA) toll revenues, which help support MTC overhead through administrative transfers, have not recovered to pre-pandemic levels, while staffing and other costs associated with MTC operations increase.

Staff recognizes the important work that the Commission is promoting across a number of different areas, and acknowledge that our support functions, including information technology, human resources, and finance continue to operate under a significant "capacity deficit".

The proposed FY 2023-24 Operating and Capital Budgets attempt to strike a balance between (1) resourcing staffing needs to address Commission initiatives and priorities such as supporting the implementation of Regional Measure 3 projects, and (2) the need to be fiscally prudent in FY 2023-24 as macroeconomic factors such as interest rates, and local economic factors such as “return-to-work” trends continue to create economic uncertainty.

FY 2023-24 Budget Assumptions

The proposed budget incorporates several key assumptions:

- 4.5% cost of living adjustment included in the proposed employment MOU, as recommended by the Administrative Committee on May 10, 2023
- 2.3% interest yield
- Sales tax revenue projections from TDA increase by 7% in comparison to FY 2022-23
- Bridge toll revenue budgeted at the same level as FY 2022-23
- 6% vacancy rate
- Increase in federal and state grant funding, primarily OBAG 3 and REAP 2.0

New Positions

The proposed FY 2023-24 budget includes a total of 386 positions, an increase of 16 new positions, to provide capacity for expanded operational requirements (many of which are funded by outside sources), positions necessary for appropriate operations of BATA, and positions which provide support for all MTC and related agency operations (some of which will be funded by the MTC general fund, some of which will be reimbursed through overhead distribution, and some of which are permanent positions that are being utilized to replace temporary positions and/or contracted services). For those positions being funded by outside (and yet unobligated) funding sources, hiring will be based upon the obligation of those funding sources. The new positions are spread throughout all of the agencies for which MTC is responsible; however, MTC is responsible for authorizing staffing for MTC and all operating entities.

MTC will add the positions to fill needs as follows:

- To address administrative support functions that have been outpaced by MTC’s growing portfolio, including information technology, procurement, finance, legal, and human resources (this includes adding full-time staff positions that have been filled on an essentially full-time basis by long-term temporary support).
- To support implementation of the \$4.5 billion Regional Measure 3 expenditure plan
- To support regional forecasting for Plan Bay Area 50+
- Supporting implementation of Regional Network Management

FY 2023-24 Revenue and Expense

Total revenue estimated for FY 2023-24 is \$370.1 million, up \$69.4 million from the amended FY 2022-23 budget. A summary of revenue and expenses are shown below. The decrease in federal funding is largely due to budgeting what is expected to be spent in the current year, rather than budgeting total grant amounts. The decreases are more than offset by increases in state and local funding for Regional Early Action Plan 2.0 (REAP 2.0) and Climate Initiative programs.

	Total	% Change	\$ Change
Federal Grants	\$194.9M	(14%)	(\$31.1 M)
State Grants	94.5M	287%	70.1M
Local Funding	29.6M	384%	23.5M
General Fund	16.2M	2%	.038M
Transfer from Other Entities/Funds	7.0M	30%	1.6M
Administrative Overhead Reimbursement	27.4M	25%	5.6M
Other	1.4M	(29%)	(.056M)
Total	\$370.1M	23%	\$69.4M

Total expenses proposed for FY 2023-24 are \$369.8 million, up \$68.6 million from the amended FY 2022-23 budget. The largest part of this increase is for contractual services, which is largely driven by REAP 2.0 funding that will be transferred to Bay Area Housing Finance Authority. A summary of expense changes is shown below:

	Total	% Change	\$ Change
Salaries and Benefits	\$52.6M	14%	\$6.6M
Computer Services	6.2M	36%	1.6M
General Operations	4.8M	19%	0.77M
Consultants	304.6M	25%	60M
Other	\$1.6M	4.2%	.061
Total	\$369.8	23%	\$68.6M

Total salaries and benefit cost increase are due to additional positions and incorporation of the Cost-of-Living Adjustment (COLA). Computer Service increases are primarily driven by increased software license costs and computer hardware upgrades. General operation costs are primarily increased by professional membership and subscriptions, and assessments for 375 Beale St. Detailed consultant costs are described below.

Post Retirement Costs

Since FY 2019-20, MTC has eliminated net pension liabilities and instead has reflected an asset in its audited financial statements. Staff will continue to monitor Calpers' investment results as recent market conditions might affect future budgets.

Contract Services Funding

The total proposed contract services budget for FY 2023-24, including all contract services funded by new grants committed for FY 2023-24, is \$304 million. The Commission’s adoption of the FY 2023-24 budget will provide the authority to draw down committed grant funding for projects consistent with Commission approval and direction. Highlights of notable increases by Work Element include:

	Total	Change	Change
• Active Transportation (1125)	\$5M	831%	\$4.5M
• Regional Trails (1227)	\$9.4M	90%	\$4.3M
• Agency Websites (1162)	\$1.2M	1523%	\$1.1M
• Regional Car Pool/Van Pool (1222)	\$9.8M	51%	\$3.3M
• Support Transportation System Management Program (1223)	\$6M	47%	\$1.9M
• Arterial and Transit Management (1234)	\$9.6M	41%	\$2.8
• Regional Mobility Technology Program (1239)	\$7.9M	70%	\$3.2M
• Equity, Access and Mobility Planning and Programs (1310)	\$14M	2804%	\$13.5M

MTC Grants and Other Sources of Project Funding

MTC currently has a total of over 90 active grants and other sources of funding totaling \$242 million. MTC proposes to add new grants totaling roughly \$73 million of funding. Some of the projects the grant funds include:

- Electric Vehicles and Chargers
- Mobility Hubs
- Priority Development Area (PDA) and Priority Production Area (PPA) Growth Framework Implementation
- Active Transportation Planning
- Support Transportation System Management Program

Clipper Operating

The proposed Clipper operating budget for FY 2023-24 is \$64.8 million, up from the amended FY 2022-23 budget of \$51.3 million. Clipper I operating expenses have increased due to increased transactions on the current Clipper System. This system is directly related to the number of rider transactions. Clipper I will continue until the contract expires in November 2024 when we expect expenses to significantly drop.

The Clipper II operation continues its development until it gets ready for revenue service. It will incur fixed costs from this stage. Primary funding of operating costs is:

- Transit operators (\$28.8 million)
- State Transit Assistance (STA) (\$7.7 million)
- State of Good Repair (\$5 million)
- Low Carbon Transit Operations (LCTOP) (\$6 million)
- Clipper inactive accounts fund (\$7.7 million)

The operating budget is balanced as proposed.

Clipper Capital

The Clipper capital budget also includes Clipper I and the development of Clipper II. Clipper I will be closing out in FY 2024-25. Clipper I will have a marginal increase to its life-to-date budget by approximately \$1.4 million. Funds will come from card sales will support staff costs and card expenses. The life-to-date budget for Clipper I will be \$241 million through FY 2023-24.

The proposed life-to-date Clipper II budget for FY 2023-24 will be \$298 million, with a proposed increase of \$16.4 million. Primary new funding will be from SGR of \$8 million, STA of \$3 million and Clipper Card revenue of \$5 million; these sources will fund acquisition of equipment and capital consultants.

Bay Area Forward

The proposed FY 2023-24 Bay Area Forward budget increases the life-to-date total budget by \$16 million, from \$146.5 million in FY 2022-23 to \$162.4 million. The main drivers of this increase are adding \$10 million for State Route 37, and \$4.3 million for shared use path gap closure connecting to the Richmond - San Rafael bridge. Project changes are described in the table below (in millions):

	Life to Date (LTD) thru FY2022-23	FY2023-24	LTD thru FY2023-24
Bay Bridge Forward 2016	\$30.0	\$1.7	\$31.7
Bay Bridge Forward 2020	56.0	(0.5)	55.5
Richmond Forward	1.2	4.3	5.5
Freeway Performance Initiative I-680	14.0	-	14.0
Freeway Performance Initiative I-880	7.0	-	7.0
Freeway Performance Initiative US-101	5.5	0.4	5.9
Napa Forward	20.6	-	20.6
Dumbarton Forward	12.2	-	12.2
SR 37 Sears Point to Mare Island Improvement Project	-	10.0	10.0
Total	\$146.5	\$15.9	\$162.4

Exchange Fund

Consistent with Resolution 3989, the MTC Exchange program includes budget for four categories totaling \$25.1M:

- Housing Investment Pilots - \$2M
- Priority Conservation Area Grant Program - \$3.M
- Bike Share Investments - \$16.8M
- Other Multimodal Investments - \$ 2.8M

MTC Reserves

The maintenance of appropriate financial reserves is an important tool for prudently managed governmental agencies. MTC’s operating reserves serve several purposes, including:

- Supporting cash flow to manage grant expenses in advance of reimbursement
- A potential source of contingency funding for unanticipated needs
- A source of financial cushion to withstand economic uncertainties

As is the case with all MTC operating funds, we have an annual goal of maintaining an operating reserve equal to six months of operating revenue. Staff is analyzing projected balances for FY 2022-23 and will include an update at the June Commission meeting.

Recommendation:

This is an information item.

Attachments:

- Draft MTC FY 2023-24 Operating and Capital Budget Schedules
- Draft MTC FY2023-24 Operating and Capital Budget Presentation



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