Metropolitan Transportation Commission
Programming and Allocations Committee

May 13, 2020 **Agenda Item 5a - 20-0702**

Transit Operating Program Funding, Performance and Planning Updates

Subject: This item provides an overview of steps being taken to revise fund estimates, allocation procedures and performance and planning requirements to acknowledge COVID-19 realities.

Background: The impact of the COVID-19 pandemic and the associated Shelter in Place (SIP) order issued by the Governor on March 19th has led to a dramatic decrease in ridership on public transit systems across the Bay Area, as well as immediate and anticipated longer-term impacts on the revenue sources that transit operators depend on for their services.

While immediate impacts to transit fare revenue are clear, reliable data on which to base assumptions about longer-term impacts to other major revenue generators such as sales and fuel taxes is not as readily available.

- *Sales Taxes* – Revenue from sales taxes make up approximately 40% of transit operating budgets. Based on data from other parts of the country also under SIP orders, sales tax revenue could decline by as much as 75% for the period that the Bay Area is under a SIP order. We do not expect to have actual data on the impacts of the SIP order on a full month of sales tax generation until June.
- *Motor Vehicle/ Fuel Taxes and Tolls* – Transit operator budgets also include revenues that track vehicle travel changes. Based on various sources, vehicle miles travel (VMT) has decreased on California highways and local streets between 40 - 80% since the SIP order was issued. The collapse in global oil prices and the resulting lower price of diesel fuel further depresses diesel sales tax revenue, although the U.S. Energy Information Administration (EIA) forecasts that diesel prices will decline significantly less than regular gasoline in the near-term due to increased demand for trucking and delivery.

<u>FY 2020-21 Fund Estimate</u>
As part of MTC's administration of annual transit operations funding programs, staff develops, and the Commission approves an annual fund estimate containing anticipated revenue for the current and upcoming fiscal years for key transit operating funds.

The Commission approved the FY 2020-21 Fund Estimate on February 26, 2020 prior to the SIP order and it does not currently account for the impacts of the COVID-19 crisis on forecasted revenue. The Fund Estimate is used by transit agencies to inform their budgets and provides a basis for operator funding claims. The revenue allocated through the Fund Estimate comprises 60-75% of the operating revenue for the smaller operators. The Fund Estimate contains County Auditor forecasts of the quarter-cent Transportation Development Act (TDA) sales tax as well as estimates for Assembly Bill 1107 (AB1107) ½ cent sales tax, certain bridge tolls, and state estimates of State Transit Assistance (STA), State of Good Repair (SGR) Program, and Low Carbon Transit Operations Program (LCTOP) revenues for FY 2019-20 and FY 2020-21.

By state statute, the Fund Estimate must be adopted by March 1st each year and is typically revised in July and September to "true-up" forecasted revenue with actual receipts for the recently completed fiscal year. Staff does not expect to have reliable information on fourth quarter sales tax revenue generation or revised STA amounts to inform a revision to the FY 2020-21 Fund Estimate prior to the scheduled July 2020 revision.

Annual Fund Estimate Update Schedule

Timeframe	**Document**	**Update**
July 2020	FY 2020-21 Fund Estimate Revision #1	• Reconciliation of TDA and AB 1107 sales tax estimates with actual receipts for FY 2019-20
September 2020	FY 2020-21 Fund Estimate Revision #2	• Reconciliation of STA estimates with actual receipts for FY 2019-20 • Revised estimate of FY 2020-21 STA revenue based on Governor's Approved Budget
February 2021	Adoption of FY 2021-22 Fund Estimate	• Revised County Auditor estimates of FY 2020-21 TDA revenue and new revenue estimates for FY 2021-22

Annual Claims Process

Although the Fund Estimate sets forth the amount available for allocation, given the COVID-19 impacts on certain revenue streams, business as usual would almost certainly result in severe rescissions at the end of the fiscal year. To mitigate the risk of rescissions on operator budgets, staff recommends that transit operator claims be limited to 75% of TDA and AB 1107 amounts shown to be available for allocation in the FY 2020-21 Fund Estimate and to within the revised funding levels in the May Budget Revise for STA funds. Staff does not recommend any limitations on agencies claiming 2% and 5% bridge toll funds, SGR Program, or LCTOP funding.

The 2% and 5% bridge toll funds are not affected by currently reduced bridge toll revenue because of reliance on a 2010 lump sum transfer of revenues from BATA and state budget contributions, respectively. The SGR projects are approved by Caltrans before allocations are made and any estimated revenue adjustment will be incorporated into allocations which are typically made in early 2021. The LCTOP requests are approved in spring 2021 and are based on actual Cap-and-Trade auction receipts. Transit operators are advised to expect lower auction proceeds due to reduced demand for emission allowances.

Regional Measure 2 (RM2) Operating Revenue
The RM2 Operating Program receives 38 percent of the revenue generated from the $1 RM2 toll. Based on lower bridge traffic volumes, MTC's Finance Section estimates that the RM2 Operating program will see a revenue decline of approximately 15 percent from what was originally budgeted for FY 2019-20 and approximately 30 percent in FY 2020-21 over the previous year. The estimated reductions to the operating program for FY 2019-20 and FY 2020-21 are approximately $7 million, and $14 million, respectively.

<u>Performance and Planning Requirements</u>
Given the uncertainty surrounding funding levels and service needs, staff is proposing changes to current performance and planning requirements. This proposal would provide time for transit operators to develop recovery strategies and for the Transit Recovery Task Force to develop recommendations for regional recovery and policies going forward.

Regional Measure 2 Performance Monitoring:
In recognition of the difficulty that operators will face in meeting farebox recovery and productivity performance standards associated with RM2 Operating funding, staff proposes to waive these performance requirements from FY 2018-19 through FY 2020-21. Staff will evaluate the appropriateness of re-instating performance standards in FY 2021-22 and may consider modification of the RM2 Operating performance requirements to make them consistent with those being developed for Regional Measure 3 operating funds.

Despite the temporary elimination of performance requirements, staff will continue to monitor the performance of RM2 Operating projects and will work with project sponsors to develop corrective actions for poorly performing routes, as needed and as appropriate.

Short Range Transit Plans:
MTC provides Federal Transit Administration planning grants to transit operators to produce 10-year Short Range Transit Plans (SRTPs) and requires that these plans be developed on a two-year cycle. Funding for FY 2019-20

has been programmed for large operator SRTPs, and funding for small-medium sized operator SRTPs was planned to be programmed in FY 2020-21.

As operators focus on the development of service plans to coincide with a post-COVID-19 environment, staff will allow transit operators scheduled to begin update of their SRTPs in the current and next fiscal years to take a two-year hiatus from this requirement

Issues: 1) To mitigate the risk of rescissions on operator budgets, staff will limit transit operator funding claims to 75% of TDA and AB 1107 amounts shown to be available for allocation in the FY 2020-21 Fund Estimate and will limit STA allocations to revised funding levels included in the Governor's May Budget Revise.

2) Based on lower bridge traffic volumes, staff estimates that the RM2 Operating program will see a revenue decline of approximately 15 percent from what was originally budgeted for FY 2019-20 and approximately 30 percent in FY 2020-21 over the previous year.

Recommendation: None

Attachments: Attachment A - Economic Background and Initial Revenue Trends

Therese W. McMillan

Attachment A

Economic Background and Initial Revenue Trends

The impact of the COVID-19 pandemic and the associated Shelter in Place (SIP) order issued by the Governor on March 19th has led to a dramatic decrease in ridership on public transit systems across the Bay Area, as well as immediate and anticipated longer-term impacts on the revenue sources that transit operators depend on for their services. With this memo, staff proposes a framework and approximate schedule for adjusting transit operating revenue forecasts and funding processes that take into account the changing economic circumstances.

Economic Background

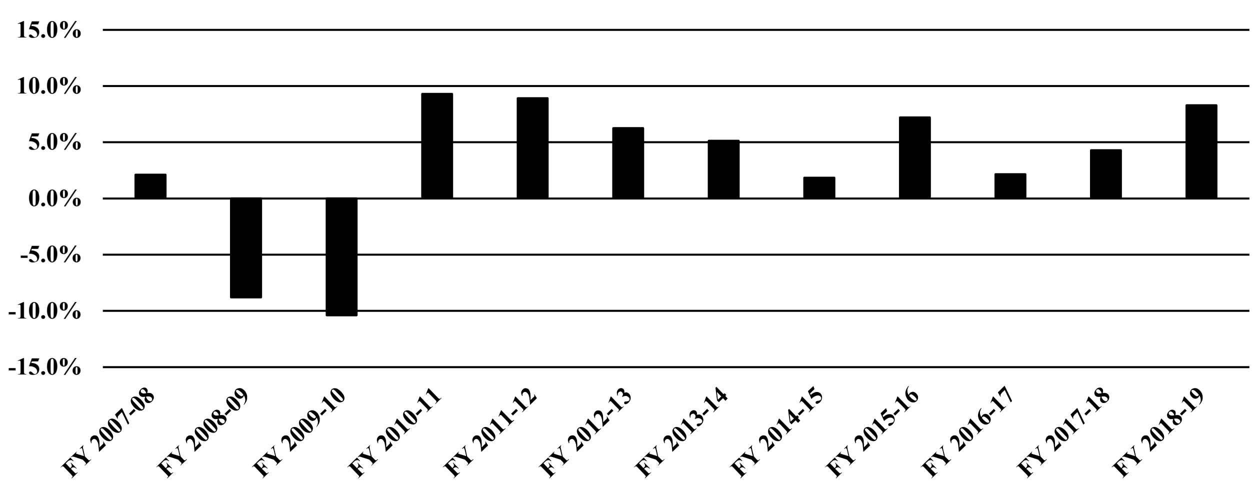
Although the immediate impact of the SIP order on transit fare revenue has been clear and measurable, reliable data on which to base assumptions about longer-term impacts to other major revenue generators is not as readily available. Adding to this financial uncertainty are questions about the magnitude and duration of the economic recession that has just begun, as well as how demand for transit service will rebound and what the “right-sizing” of transit service to adjust to changing demand will resemble.

Sales Taxes:

Revenue generated from sales taxes is a large contributor to transit operating budgets, making up nearly 40% of revenues used to operate our systems. There is typically a two -month lag in the reporting of actual monthly sales tax generation by the California Department of Tax and Fee Administration (CDTFA), which limits the data on actual impacts available at this time. Anecdotally, and based on data from other parts of the country also under SIP orders, sales tax revenue could decline by as much as 75% for the period that the Bay Area is under a SIP order. We do not expect to have actual data on the impacts of the SIP order on a full month of sales tax generation until June.

The long-term impacts on sales tax revenue will be determined by the depth and length of the anticipated recession. During the Great Recession of 2008-2010 sales tax revenue across the nine Bay Area counties declined by an average of more than 18% from its peak in FY 2007-08 to its low point in FY 2009-10. It took three more years for sales tax revenue to return to pre-recession levels in nominal dollars and total of eight years, until FY 2015-16, for sales taxes to equal FY 2007-08 levels in inflation adjusted dollars. Recovery from the Great Recession was a slow process, it is still unclear whether the recession caused by the global COVID-19 pandemic will resemble a “V”, with a steep decline followed by a rapid recovery or an elongated “U”, with a rapid decline, long low point, and eventual recovery.

Chart 1. *Percent Change in Bay Area Sales Tax Revenue, FY 2007-08 to FY 2018-19*

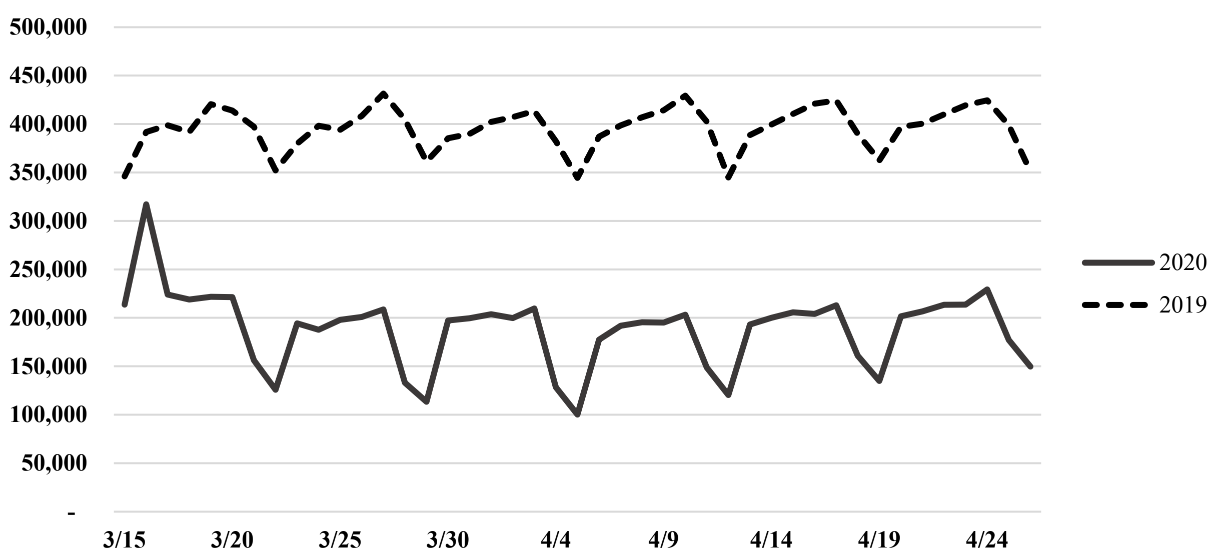


Motor Vehicle Based Taxes and Tolls:

Motor vehicle travel also impacts transit operations funding primarily by its generation of toll revenue and diesel fuel sales taxes. Fewer vehicle miles traveled (VMT) translates into fewer bridge crossings and less demand for fuel. In addition, the collapse in global oil prices and the resulting lower price of diesel fuel further depresses diesel sales tax revenue. However, on a somewhat brighter note for transit funding the U.S. Energy Information Administration (EIA) forecasts that diesel prices will decline significantly less than regular gasoline in the near-term due to increased demand for long-haul trucking and last-mile delivery.

Since the SIP order was issued VMT across the Bay Area has fallen by unprecedented levels. Based on data from the Caltrans Performance Measurement System (PeMS), which tracks VMT on the state highway system (freeways and certain highways/arterial roads), VMT statewide has decreased by at least 40%. Here in the Bay Area we know that crossings on the seven state-owned toll bridges managed by the Bay Area Toll Authority (BATA) are down by over 50% and mobile phone location based services (LBS) data collected and analyzed by San Francisco firm StreetLight Data indicates that VMT across all streets, roads, freeways, and highways in the Bay Area is down by an average of over 80% when compared to VMT data for January 2020.

Chart 2. *Total Bridge Crossings - All BATA Bridges*



Based on lower bridge traffic volumes, MTC's Finance Section estimates that bridge toll operations programs will see a revenue decline of approximately 15 percent from what was originally budgeted for FY 2019-20 and approximately 30 percent in FY 2020-21 over the previous year.