Transportation Revenue Measure
Scenarios Overview

The Transportation Revenue Measure Select Committee (Select Committee) was established by MTC to help Bay Area policy makers and leaders across multiple sectors reach consensus on a potential 2026 transportation revenue ballot measure. From June through October 2024, Select Committee members helped to shape scenarios that achieve the following objectives.

Sustain Transit: The scenarios took different approaches to defining the transit operating funding target. The two targets in use are:

1. **Adjusted fare loss:** This aims to respond to the need for a new post-pandemic business model, given the loss of ridership and fare revenue. This target starts with the difference between fare revenue in fiscal year 2024 (budgeted) compared to FY 2019 (actual) and adds a 2% annual escalation to account for inflation.[1]
2. **Operator-reported shortfalls:** This sets a target of closing the budget gaps estimated by operators with the goal of sustaining transit service levels for FY 2026-27, the year that the measure would start. This is a higher target than adjusted fare loss since it includes factors such as rising operating costs, including higher energy, maintenance and labor costs.

Improve Transit: Riders want a fast, frequent, coordinated, easy-to-use, safe and affordable transit system. MTC's 2021 *Bay Area Transit Transformation Action Plan* is a comprehensive plan to deliver a better transit system to the Bay Area public. All the scenarios considered by the Select Committee include funding to implement the transformative actions identified in the plan.

Win Support from Legislators and Voters: The Select Committee's work is critical to building regional consensus on the path forward to sustain and enhance public transit in the Bay Area. After the Select Committee completes its work, proposed scenarios are

[1] Inflation was higher than 2% during this period but this level was chosen as some operators have raised fares to account for inflation.

anticipated to be further refined by MTC, working with our partners and informed by updated polling. The goal is to craft legislation that will secure passage in the Legislature in 2025, positioning the region for a successful ballot measure in 2026.

Scenario 1: 30-year Core Transit Framework

Geography and Funding Mechanism

Scenario 1 is proposed as a 30-year, ½-cent sales tax.

The four counties of Alameda, Contra Costa, San Francisco and San Mateo would be automatically included. In these four counties, the measure would generate $540 million/year.[2]

The other five counties would have the option to opt-in, with some requirements. The measure would raise approximately $1 billion/ year in all nine counties combined.

Figure 1: Map of counties that are included in Scenario 1 and those counties that may opt in.

Counties rely on sales taxes for local transportation priorities. Several have sales taxes that expire over the next 12 years: San Mateo County (2033), Contra Costa County (2035) and Santa Clara County (2036).

The 30-year Core Transit Framework introduces a temporal element to help thread the needle between the immediate, urgent need to secure new dedicated transit operating funding to help sustain transit and longer-term county transportation priorities.

[2] This estimate is for the first year of the measure, in 2027.

Expenditure Framework for the Four Baseline Counties

The spending plan invests 10% in Transit Transformation for the life of the measure, to improve the customer experience and grow ridership. A change from the September proposal is that 5% (half of the 10%) would be allocated in proportion to each participating county's share of sales tax generated.

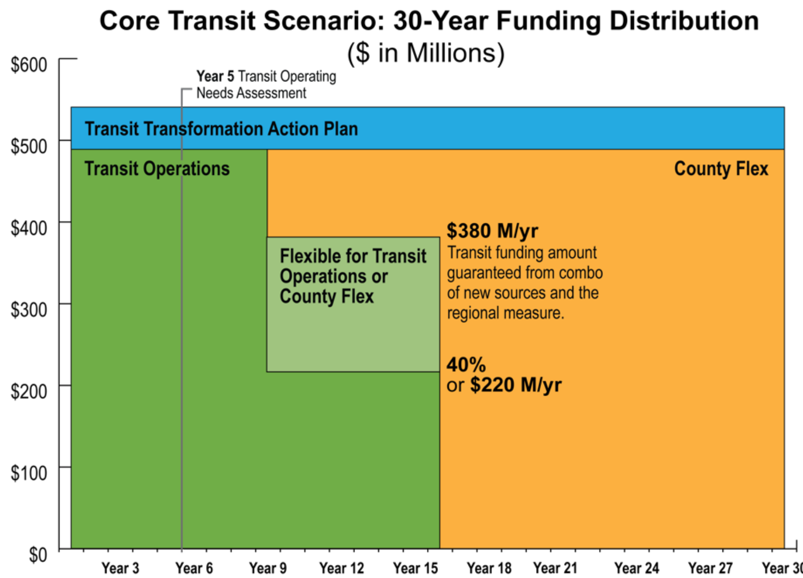

Figure 2: Area graph of the 30-year expenditure plan for Scenario 1

Years 1-8

In the first eight years of the measure, the remaining 90%, or $486 million per year in the baseline scenario, would fund the "adjusted fare gap" for operators primarily serving the four counties. This would mitigate service impacts at BART, Caltrain, AC Transit and Muni as well as the small operators in Alameda and Contra Costa Counties. These first eight years can be an important runway for agencies to build their ridership and fare revenue, as well as identify other sources of funds.

There will be a review in year five by MTC to assess need and if fare revenue or other sources of funds have rebounded enough to avert service cuts, there could be a partial reduction in transit operating funds. The nature of this review would be further developed over the fall and through the legislative process.

Years 9-15

Scenario 1 guarantees a minimum amount of transit operating funding of $380 million per year during years 9-15. This $380 million would come from a combination of the transportation revenue measure as well as new, non-local funding sources such as state and federal funds.

The amount of transit operating funding provided by the measure during this period depends on the amount of new, non-local operating funding sources (such as state funding) received in years 9-15, with the measure providing a minimum investment of $220 million/year even in years where there are substantial new outside sources. For example:

- If there are no new, non-local sources of funds, the measure would allocate $380 million for transit operations.
- If $100 million is raised from outside sources, the measure would allocate $280 million to transit operations, for a total of $380 million.
- If significant new, non-local funds are obtained, e.g. $300 million is raised, the measure would still provide the minimum guarantee of $220 million for a total of $520 million for transit operations.

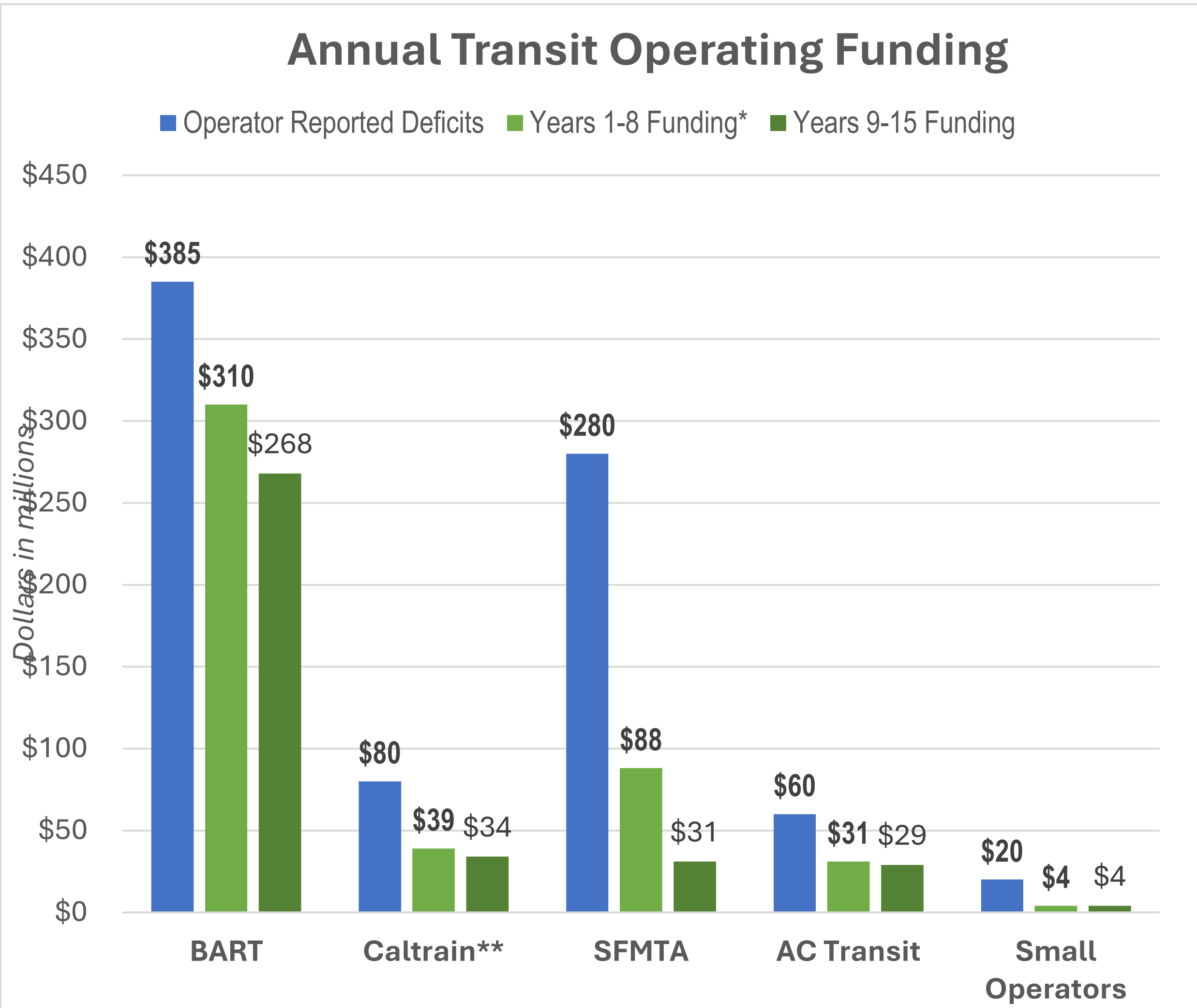

Figure 3: Annual Operating Funds in Scenario 1.
**Years 1-8 funding is sufficient to meet the targeted Adjusted Fare Loss shortfall except for SFMTA*
***Caltrain would receive $67 million in years 1-8 but Santa Clara's contribution is not reflected in these totals.*

With this contingent funding approach, the measure can make meaningful contributions to support transit for 15 years as it shifts to a post-pandemic business model. Muni would still be left with a large shortfall, and MTC has committed to working closely with San Francisco and other partners to identify solutions that can help fill that gap.

The remaining funds, or 20-50% of the total measure, would go towards County Flex. These funds would be invested by County Transportation Agencies for any county transportation priority, including local road repairs or other infrastructure, as long as aligned with Plan Bay Area 2050+ (and successor plans).

Years 16-30

In years 16-30, 90% of funding is allocated to County Flex while 10% continues to be allocated to Transit Transformation to continue improvements to the transit rider experience. Importantly, counties would have the option of investing their County Flex in transit capital, operations and maintenance.

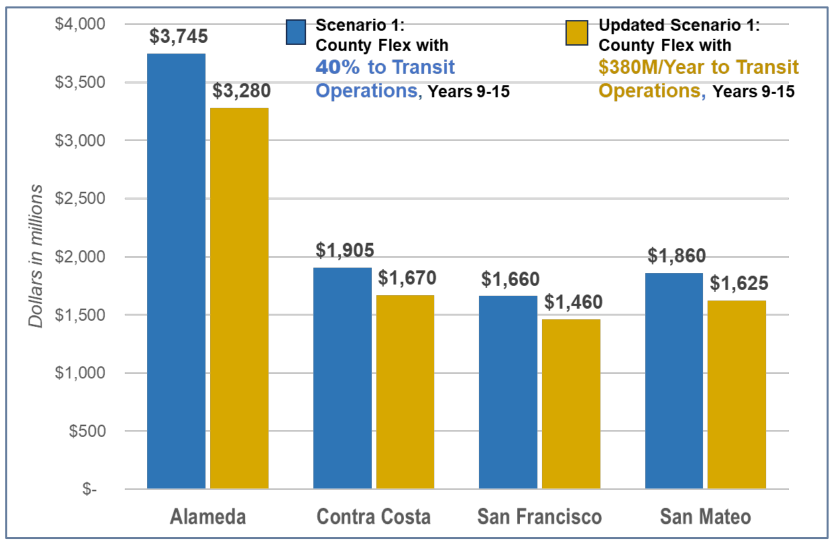

Figure 4: Bar graph representing the minimum and maximum County Flex over the life of the measure in current dollars.

In Figure 2, the gold bars represent the minimum County Flex funding that counties would receive over the life of the measure, with the blue bars representing the maximum.

Opt-In County Provisions

In Scenario 1, Marin, Napa, Santa Clara, Solano and Sonoma counties have the opportunity to opt into the measure. For a county to opt in, their county transportation agency would have to agree to three commitments:

1. Support Transit Transformation with 10% per year of funding generated.

2. Provide funding to help close shortfalls for local transit operators as well as multi-county operators in that county. The level of operating support would be subject to discussions with transit operators and an agreement with MTC and would account for existing contractual agreements. All the remaining funds after Transit Transformation and transit operations would be County Flex.
3. Over the life of the measure, invest at least 30% of the County Flex in transit capital, operations or maintenance for operators providing service in that county. Investments would be fully at the discretion of the county transportation agency. Any funding for transit operations would count towards the 30% minimum for transit. The remaining 70% of County Flex could be used for other county transportation priorities.

The distribution of funding for opt-in counties is shown in Appendix A, Table 2. In terms of timing, it is crucial that the geographic scope of the measure is detailed in the enabling legislation. Counties will be asked to opt in by the first policy committee hearing on the enabling legislation, likely to occur by April 2025.

After the legislation is passed, the four base counties and any opt-in counties would develop expenditure plans for their County Flex funds. Doing so by early 2026 will leave time to develop clear and compelling communications about the measure before it goes to the voters.

Scenario 1A – 10-year Core Transit Framework

Several Select Committee members, transportation agency leaders, and the public made the request that a measure shorter than 30 years be considered. Scenario 1A is a 10-year version of the Core Transit Framework, with the same four baseline counties but with an opt-in option available only to Santa Clara County. This is because in the 10-year Core Transit scenario there is no County Flex and Santa Clara County is the only county that is also served by BART and Caltrain but not already included in the Core Transit scenario.

Scenario 1A uses the same funding ratios from Years 1-8 in Scenario 1 and extends them an additional two years, as follows:

- 10% for Transit Transformation with 50% guaranteed to provide benefit to each county in proportion to its share of sales tax revenue generated.

- 90% for transit operations. Fully funding the adjusted fare loss of most operators (as shown above for years 1-8 in Figure 3).
- For information on the expenditures in this scenario, refer to Appendix A, Tables 3 and 3A

Hybrid Scenario

MTC received requests from Senator Weiner's office, Voices for Public Transportation and several labor organizations to analyze a framework that:

1. Provides at least $1.5 billion per year, ideally from a progressive funding source.
2. Covers all nine Bay Area counties.
3. Provides transit operating funding aimed to sustain 2023 transit service levels for the life of the measure.

In August, MTC staff presented a framework in response to this request that would be funded by either a parcel tax or a payroll tax. But there was concern that a new tax generating $1.5 billion/year through a single funding source would have low political viability.

Several Select Committee members recommended exploring a measure with multiple funding sources so that the tax rate for each source could be lower. In September, MTC staff presented a scenario that would incorporate two funding sources. It is called the "Hybrid Scenario" since it combines the ½-cent sales tax and expenditure elements of Scenario 1 with a payroll tax. In October, in response to feedback from Select Committee members and other stakeholders, MTC staff have added a parcel tax as a potential alternative to the payroll tax in the Hybrid Scenario.

To get to $1. 5 billion, the ½-cent sales tax in all nine counties would generate $1 billion per year. A payroll tax of 0.18%, or 18 cents for every $100 of payroll, would generate $500 million annually. Alternatively, a parcel tax of approximately $0.09 per building square foot could also be used to raise $500 million annually.

Expenditure Framework

As a foundation, the Hybrid Scenario includes the same general expenditure plan from Scenario 1, illustrated in Figure 2.

It then adds three new layers.

- Adds $300 million per year to fund regional transit operations, funded by the payroll or parcel tax. This would be used to offset shortfalls for operators in all nine counties, including Golden Gate Transit and the small operators.
- Adds $200 million per year in additional County Flex. Funding would be distributed to each county based on the amount of the payroll or parcel tax collected in that county. Alameda, Contra Costa, San Francisco and San Mateo Counties would receive some County Flex starting in the first year of the hybrid scenario, unlike Scenario 1.
- Adds over $490 million per year of County Flex for the five counties that were "opt-in counties" in Scenario 1. This includes 90% of their sales tax dollars and 40% of their payroll or parcel taxes

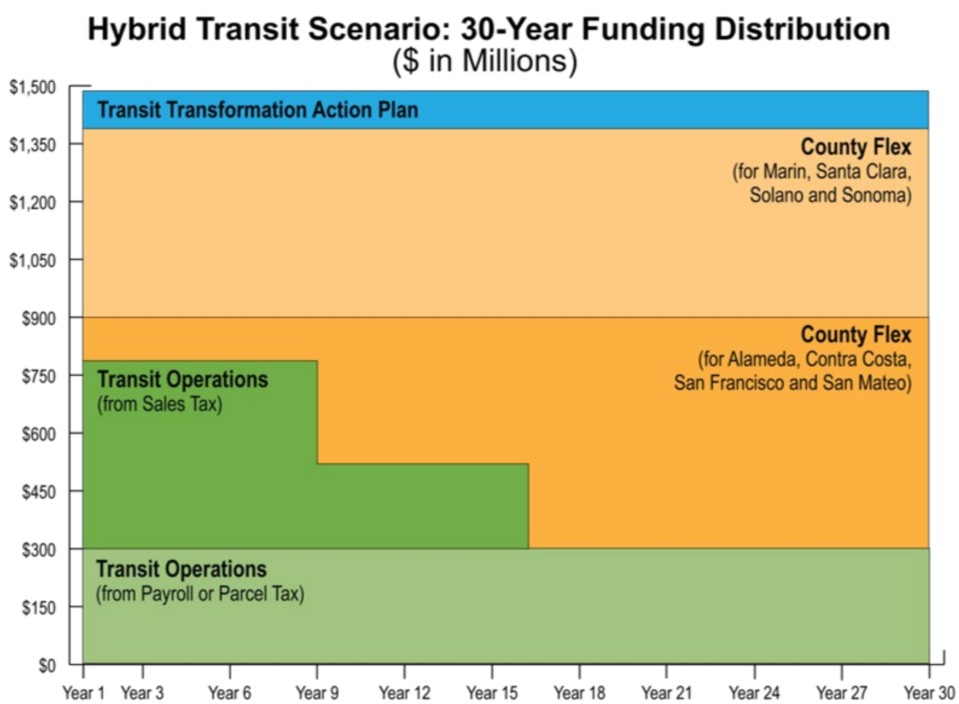

Figure 5: Area graph of the Hybrid Scenario, referencing annual expenditures, in current dollars.

County and Operator Financial Information

By providing approximately $790 million per year for transit operations in Years 1-8, the Hybrid Scenario can cover about 90% of the most recent operator-reported deficit estimates for FY 2026-27. In Years 9-15, the Hybrid Scenario would provide sufficient funding to cover about 65% of the forecasted deficits. Funding for Muni would decline more substantially in these latter years, as shown below.

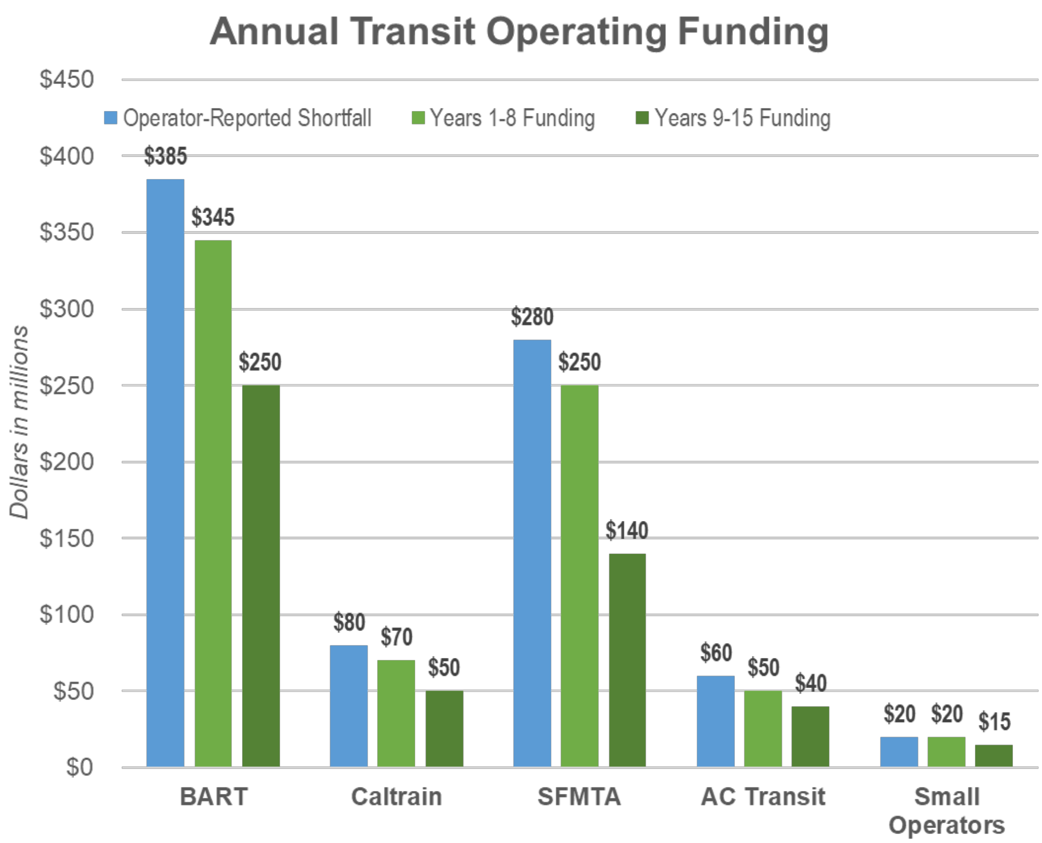

Figure 6: Note that the level of operating funding for Golden Gate Transit to be developed in consultation with Marin and Sonoma County agencies and the Golden Gate Bridge, Highway and Transportation District.

Years 16-30 would provide $300 million per year for transit operations. Since it is impossible to predict the extent of transit operating funding needs so far into the future, there would be a process starting in Year 14 to assess need and equitably allocate funding during the latter half of the measure.

For a full breakdown of funding from the Hybrid Scenario, see Appendix A, Table 4 through Table 7.

A Future Regional Transportation Measure Can't Be the Only Solution

In presentations to the Select Committee, MTC staff have emphasized that multiple sources of new funding may be needed to support a new post-pandemic business model to sustain transit service and improve the rider experience in the Bay Area. It's important to keep this in mind as the Select Committee members, stakeholders and the public consider the merits of Scenario 1 and the Hybrid Scenario. What's ultimately most important is identifying a solution that can solve *much* of the problem and secure the support of the Legislature and passage by voters in 2026.