

# Metropolitan Transportation Commission

May 28, 2025

Agenda Item 11a - 25-0747

## Metropolitan Transportation Commission

### Draft Fiscal Year (FY) 2025-26 Operating and Capital Budget

---

#### **Subject:**

Presentation of the Metropolitan Transportation Commission (MTC) Draft Fiscal Year (FY) 2025-2026 Operating and Capital Budget. With total operating revenue at \$349.6 million and expenses at \$347.1 million, the draft Agency budget projects a net surplus of \$2.1 million after a \$0.3 million transfer to the Capital Budget for funding of projects.

#### **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, which includes 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) and grants from the California Department of Transportation (Caltrans), Office of the Secretary of Transportation/United States Department of Transportation (U.S. DOT), including the Federal Highway Administration (FHWA), 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 cautionary approach in developing the Draft Fiscal Year (FY) 2025-26 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 somewhat higher than the Federal Reserve objectives.
- In an effort to appropriately manage its dual mandate of maximum employment and cost stability, the Federal Reserve has allowed interest rates to remain at levels that are somewhat restrictive of growth.
- New tariff policies (and the significant uncertainties around these) are having effects on supply chains and increasing costs for businesses and consumers alike.

Additionally, while there has been no interruption in federal grant funding for MTC's activities, the current environment revolving around issues of federal grant funding suggests that a cautious approach to budget development and administration is a prudent course of action. As such, while MTC's draft budget maintains a modest surplus, 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 today's economic "top-line" numbers look good, the issues discussed above could present challenges for MTC in FY 2025-26 or FY 2026-27. Furthermore, Bay Area Toll Authority (BATA) traffic levels and toll revenue have not recovered to their pre-pandemic levels. A portion of BATA toll revenue supports MTC overhead costs through administrative transfers, although staffing and other costs associated with MTC operations continues to grow.

The draft FY 2025-26 Operating and Capital Budgets attempt 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 FY 2025-26 as macroeconomic factors such as inflation, tariff policies, and local economic factors such as "hybrid-work" and tech industry trends continue to create economic uncertainty for the region.

**FY 2025-26 Budget Assumptions**

The draft budget incorporates several key assumptions:

- 3.47% net Interest yield
- 3% decrease in Sales Tax revenue from TDA compared to FY 2024-25 projections
- 11.3% increase in Bridge Toll revenue, including RM3, over FY 2024-25 budget
- 42% increase in Express Lane revenue over FY 2024-25 budget
- 30% reduction in Lease Income
- Increase in Federal Grant funding from FY 2024-25 awarded grants for FY 2025-26 projects, and anticipated formulaic and programmed awards in FY 2025-26+
- Decrease in State Grant REAP 2.0 funding, with carryover projects on track to meet the June 30, 2026 expenditure deadline
- 7% Staffing vacancy rate
- 3% cost of living adjustment

The actual cost of living adjustment (2.8%), based on figures released by the Bureau of Labor Statistics On May 13, 2025, will be reflected in the final proposed budgets presented on June 25, 2025.

**New Positions**

MTC is responsible for authorizing staffing for MTC, ABAG, and all operating entities. The draft FY 2025-26 budget includes a total of 429 positions, an increase of 3 new positions, spread throughout all the agencies for which MTC is responsible. These positions provide capacity and leadership for expanded operational requirements (many of which are funded by outside sources), support implementation of new grant funding, and allow MTC to adapt and meet the needs of a growing portfolio of work. These positions are funded by a combination of MTC general fund, reimbursed through overhead distribution, or funded by outside sources such as bridge and express lane toll revenue or ABAG grants.

MTC staff proposes to add 3 positions to fill needs as follows:

- (1) Audio Video Coordinator reporting to Technology Services and funded by 375 Beale Street Operating Fund.

- (1) Billing Specialist and (1) Data Analyst reporting to and fully funded by ABAG Power.

### **FY 2025-26 Revenue and Expense**

Total revenue estimated for FY 2025-26 is \$349.6 million, down \$22.4 million from the amended FY 2024-25 budget. Summaries of revenue and expenses are shown below. The increase in federal funding of \$14.1 million is largely driven by grants awarded in FY 2024-25 for projects beginning in FY 2025-26, along with anticipated awards in FY 2025-26. The \$39 million decrease in state funding stems primarily from carryover remaining budget within one-time awarded state grants, as these previously awarded grants continue to be expended in FY 2024-25. Local Funding is also projected to decrease by \$2.9 million mainly caused by the reductions in programming of MTC and State Transit Assistant (STA) Exchange funds.

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

	<b>Total</b>	<b>% Change</b>	<b>\$ Change</b>
Federal Grants (primarily formula funds)	\$182.8M	8%	\$14.1 M
State Grants	68.1M	(36%)	(39.0M)
Local Funding	35.7M	(7%)	(2.9M)
General Fund	16.8M	(3%)	(0.4M)
Transfer from Other Entities/Funds	7.9M	22%	1.4M
Administrative Overhead Reimbursement	35.6M	16%	4.9M
Other	2.7M	(15%)	(0.5M)
<b>Total</b>	<b>\$349.6M</b>	<b>(6%)</b>	<b>(\$22.4M)</b>

Total expenses for FY 2025-26 are estimated at \$347.1 million, down \$25.8 million from the amended FY 2024-25 budget. The decrease is primarily attributable to contract services, including passthrough arrangements. The lower anticipated expenditures in FY 2025–26 reflect that MTC expects to carry over only the remaining balance of REAP 2.0 funds, following planned spending in FY 2024–25 which included the \$45.8 million advance transfer of REAP 2.0 grant funds to the Bay Area Housing Finance Authority. A summary of expense changes is shown below:

	<b>Total</b>	<b>% Change</b>	<b>\$ Change</b>
Salaries and Benefits	\$60.9M	5%	\$3.0M
Computer Services	9.0M	11%	0.9M
General Operations	6.3M	15%)	0.8M
Consultants	268.9M	(10%)	(30.6M)
Other	2.0M	5%	0.1M
<b>Total</b>	<b>\$347.1M</b>	<b>(7%)</b>	<b>(\$25.8M)</b>

Total salaries and benefit cost increase are due to the FY 2025-26 Cost-of-Living Adjustment (COLA) and Benefit expenses. Computer Service increases are primarily driven by increased software license costs and computer hardware upgrades.

### **Post Retirement Costs**

The combined MTC post-retirement obligation is nearly \$15.7 million: \$10.6 million and \$5.1 million for PERS and OPEB obligations, respectively. 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 draft contract services budget for FY 2025-26, including all contract services funded by new grants, is \$268.9 million. The Commission's adoption of the FY 2025-26 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 71 active grants and funding sources, totaling \$595.5 million in awarded and allocated funds. The grant schedule in the proposed budget highlights the addition of approximately \$36.9 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 \$249.7 million. Some of the federally funded projects supported by the grant funds include:

- Priority Conservation Areas (PCA) Grant Program

- Priority Development Area (PDA) Growth Framework Implementation
- Innovative Deployments to Enhance Arterials Transit Signal Priority Program (IDEA TSP)
- Bike Station Electrification
- Regional Mapping and Wayfinding
- Adaptive Ramp Metering

### **MTC Capital Budget**

The draft MTC Capital Budget for FY 2025-26 includes \$0.3 million for the additional costs of implementing Capital projects including File Migration, VMWare Alternative Solutions and hardware purchases; it will be funded by MTC Operating Reserve. This proposed increase in expenses will bring the MTC Capital Budget to a life-to-date total of \$29.7 million. The costs of implementing these projects will eventually be distributed among the various entities benefiting from these projects.

### **Clipper Operating**

The draft Clipper operating budget for FY 2025-26 is \$54.3 million, down from the amended FY 2024-25 budget of \$68.0 million. Draft Clipper operating expenses decrease as we continue to transition to the new Clipper system. The FY 2025-26 budget expects full parallel operations of the Clipper 1 card-based system and the Clipper 2 account-based system must be supported during the entire fiscal year with a cessation of Clipper 1 operations in June 2026.

The Clipper 2 operation continues in limited operation until its expected full revenue service date in FY 2025-26, in which several Clipper 2 contracts will begin to incur full operations and maintenance costs. At full operations, most operating costs incurred will be fixed. Primary funding sources of operating costs are:

- Transit operator contributions (\$17.4 million)
- State Transit Assistance (STA) (\$6.6 million)
- State of Good Repair (SGR) (\$3.1 million)
- Low Carbon Transit Operations (LCTOP) (\$14.0 million)
- Clipper inactive accounts fund (\$1.5 million)
- Float Account Interest (\$7.1 million)

- Regional Measure 2 (\$4.5 million)

The operating budget is balanced as proposed.

### **Clipper Capital**

The Clipper capital budget includes Clipper 1 and Clipper 2. Capital costs for Clipper 1 will be closed out in FY 2025-26. Clipper will have a marginal increase to its life-to-date budget by approximately \$0.2 million. Funds will come from card sales and support staff costs and consultant expenses. The life-to-date budget for Clipper will be \$244.0 million through FY 2025-26.

The draft life-to-date Clipper 2 budget for FY 2025-26 will be \$332.9 million, with a proposed increase of \$16.7 million to support expected Clipper 2 development, testing, and deployment needs. Primary new funding will be from SGR of \$10.3 million, STA of \$2.0 million and Clipper Card revenue of \$3.1 million. These sources will fund equipment and capital consultant costs.

### **Bay Area Forward**

The draft FY 2025-26 Bay Area Forward budget reflects a reconciliation and alignment of funding sources across active and planned projects, resulting in a \$97.9 million increase to the life-to-date budget from \$128.6 million in FY 2024-25 to \$226.5 million in FY 2025-26. 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 \$57.7 million for the West Oakland Link project, which draws on a diverse portfolio of funding, including \$17.6 million from the Active Transportation Program (Cycle 6), \$10 million in Surface Transportation Block Grant (STBG) funds, \$7.5 million from BATA's Regional Measure 3, and additional contributions from Congestion Mitigation and Air Quality (CMAQ), the Alameda County Transportation Commission, cities and local funds, the State Transportation Improvement Program (STIP), and others. This project alone represents nearly 60% of the total FY 2025-26 budget increase, and highlights one of MTC's larger capital projects in recent years

In addition, the budget includes \$30 million in Regional Measure 3 funds for the SR 37 Sears Point to Mare Island Improvement project and \$3 million in CMAQ funding for new adaptive ramp metering

efforts on I-680 and SR 4. Other adjustments include refined funding allocations for Bay Bridge Forward 2016 and 2020 (a combined \$4.4 million) and a \$4 million update for the Dumbarton Forward bike/pedestrian improvements project.

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 \$22.4M:

- Priority Conservation Area Grant Program - \$6.1M
- Priority Production Area Grant Program - \$2.2M
- Bike Share Investments - \$2.8M
- Active Transportation Technical Assistance Program - \$3.3M
- Other Multimodal Investments - \$8.0M

### **MTC Reserves**

The maintenance of appropriate financial reserves is a crucial 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

Staff are analyzing projected balances for FY 2025-26 and will include an update at the June Commission meeting.

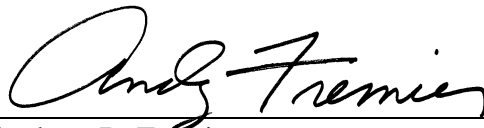
### **Recommendation:**

This is an information item.

### **Attachments:**

- Metropolitan Transportation Commission Draft FY 2025-26 Operating and Capital Budget Schedules

- Metropolitan Transportation Commission Draft FY 2025-26 Operating and Capital Budget Presentation

A handwritten signature in black ink, reading "Andrew B. Fremier", written over a horizontal line.

Andrew B. Fremier