Metropolitan Transportation Commission

Transportation Revenue Measure Select Committee Final Report

December 2024

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Letter from the Chair

Over nearly five months, leaders from around the Bay Area came together to develop a framework for a transportation revenue measure that would avoid major transit service cuts, advance customer-focused transit transformation priorities identified in the *Bay Area Transit Transformation Action Plan*, and garner legislator and voter support.

Senator Wiener and Senator Wahab called on MTC to spearhead this intensive stakeholder effort and it was my honor to chair it. The Transportation Revenue Measure Select Committee (Select Committee) tackled this complex problem head on.

We heard from transportation leaders through the Executive Group that MTC Executive Director Andrew Fremier convened to provide input on the process. We considered comments from all Bay Area counties, from labor, business, community advocates, elected leaders and transit experts. We facilitated and fostered conversations that gradually built trust and developed creative solutions.

Thanks to the Select Committee members' willingness to grapple with hard topics and consider all possible solutions, we made immense progress in refining and sharpening our initial ideas and scenarios. Although the Select Committee did not coalesce around one preferred expenditure plan and funding source, members provided critical ideas, rankings for specific revenue mechanisms and investments, and policies that should be included with enabling legislation.

With the Select Committee's recommendations and future polling results, the Commission will have the crucial components needed to guide its position and pursuit of enabling legislation. By working together we can address the Bay Area's most pressing transportation needs, including protecting vital public transit service that hundreds of thousands of people rely on daily and that is so vital to our economy, climate goals and quality of life.

I want to thank the Select Committee and Executive Group members for their time, expertise and insights.

Sincerely,

SIGNATURE HERE

Jim Spering
Chair, Transportation Revenue Measure Select Committee

Background

The Transportation Revenue Measure Select Committee (Select Committee) was created to help Bay Area leaders and stakeholders develop a framework for a potential transportation revenue measure to bring to Bay Area voters in 2026. This measure would need to, at a minimum, sustain transit service and implement Transit Transformation to improve customer experience and rebuild ridership.

The measure would require legislation to pass in 2025, authorizing MTC or a signature gathering effort to bring it before voters in 2026. An earlier attempt at such legislation, SB 1031 (Weiner and Wahab) failed to advance in spring 2024 amid disagreements over policies and concerns about how funds were distributed. Commissioner Jim Spering chaired the Select Committee, which met monthly between June and October 2024. Members were presented with detailed information and engaged in extensive discussions to:

- understand the fiscal challenges faced by transit operators and develop target funding levels
- analyze potential revenue sources
- review recent polls and voter sentiment
- develop frameworks that could sustain and improve transit, while also meeting other transportation needs
- rate specific components of the potential revenue measure to guide the Commission's position and pursuit of enabling legislation.

Another critical component of the process was the creation of a Transportation Revenue Measure Executive Group, made up of executive leadership from Bay Area transit agencies and county transportation agencies (see roster on page 6). The Executive Group discussed the impact of budget shortfalls on their systems, the timing of those impacts, and possible contingencies. County transportation agency leaders shared the timelines for renewing their local transportation sales tax measures and potential headwinds with certain taxes in their local jurisdiction, and much more.

The Select Committee process generated ideas, helped resolve some sticking points, and brought stakeholders closer together. Committee members did not coalesce around a single preferred funding source and expenditure framework, but they did reveal their preferences across various aspects of a potential measure on a 1 through 5 scale (Appendix B-1). The committee also made several recommendations on both funding and policy (Appendix B-2). These rankings and recommendations, combined with public opinion polling to be conducted in early 2025, will provide MTC commissioners and state legislators critical information to guide their consideration of enabling legislation.

Select Committee Membership

Select Committee members included MTC Commissioners, stakeholder organizations and staff from the offices of State Senators Wiener and Wahab, authors of SB 1031 (2024). Stuart Cohen of SC Strategies facilitated the Select Committee meetings.

MTC Commissioners

Jim Spering, Select Committee Chair, Representing Solano County

David Canepa, Representing San Mateo County

Cindy Chavez, Representing Santa Clara County

Nick Josefowitz, MTC Vice Chair; Representing City and County of San Francisco

Matt Mahan, Mayor, City of San Jose; Representing Santa Clara County

Nate Miley, Representing Alameda County

Sue Noack, Representing Contra Costa County

Stephanie Moulton-Peters, Representing Marin County

Alfredo Pedroza, MTC Chair; Representing Napa County*

David Rabbitt, Representing Sonoma County

Stakeholder Representatives

John Arantes, SEIU

Alicia John-Baptiste, SPUR

Manny Leon, CA Alliance for Jobs

Adina Levin, Seamless Bay Area

James Lindsay, Amalgamated Transit Union

Ellen Wu, Voices for Public Transportation

Jim Wunderman, Bay Area Council

Legislative Representatives

Alicia Lawrence, Office of Senator Wahab, Senate District 10*

Raayan Mohtashemi, Office of Senator Wiener, Senate District 11*

In addition, staff from the Offices of Senate President Pro Tem McGuire, Senator Cortese, and Assemblymember Lori Wilson were invited to attend and participate.

*Ex-Officio

Executive Group Membership

The Transportation Revenue Measure Executive Group was composed of MTC Executive Director Andrew Fremier and executive staff of Bay Area transit agencies and county transportation agencies:

Michelle Bouchard, Caltrain

James Cameron, Sonoma County Transportation Authority

April Chan, SamTrans

Tilly Chang, San Francisco County Transportation Authority

Sean Charpentier, City/County Association of Governments of San Mateo County

Bill Churchill, County Connection

Eddy Cumins, Sonoma - Marin Area Rail Transit

Andrew Fremier, Metropolitan Transportation Commission

Carolyn Gonot, Valley Transportation Authority

Tim Haile, Contra Costa County Transportation Authority

Daryl Halls, Solano Transportation Authority

Michael Hursh, Alameda-Contra Costa County Transit District

Tess Lengyel, Alameda County Transportation Commission

Kate Miller, Napa Valley Transportation Authority

Denis Mulligan, Golden Gate Bridge, Highway and Transportation District

Seamus Murphy, San Francisco Bay Ferry

Bob Powers, BART

Anne Richman, Transportation Authority of Marin

Jeffery Tumlin, San Francisco Municipal Transportation Agency

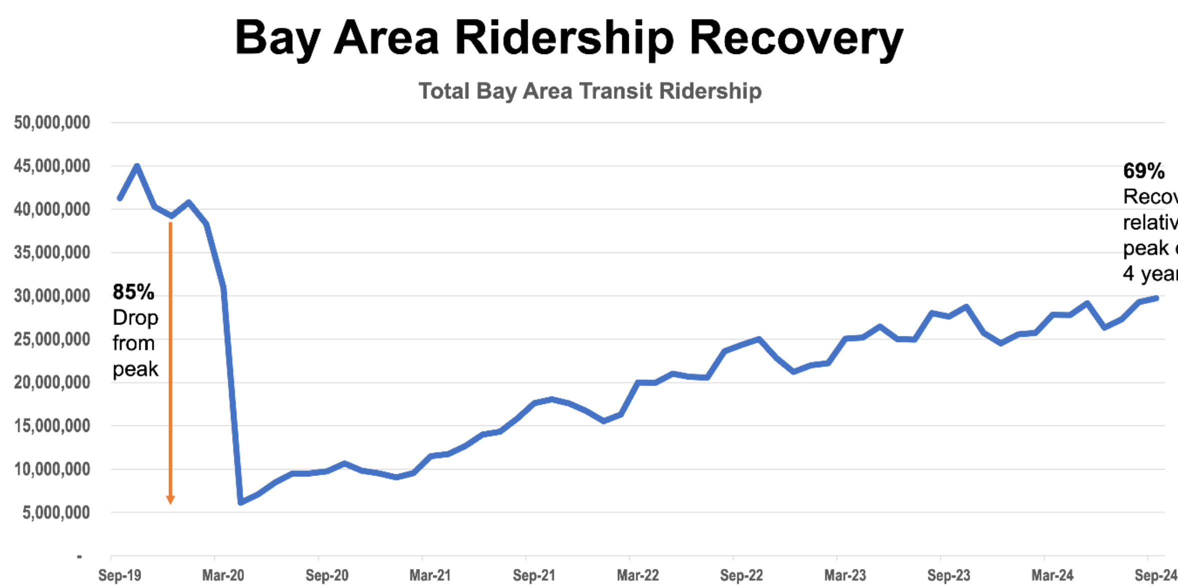
Christy Wegener, Livermore Amador Valley Transit Authority

Nancy Whelan, Marin Transit

Public Transit's Looming Crisis in the Bay Area

Post-Pandemic Travel Patterns Upended Transit's Business Model

The COVID-19 pandemic ushered in dramatic changes to the Bay Area's travel patterns as remote work became commonplace and new habits took hold. While many employers are bringing workers back full time, including a recent increase of this trend in the tech sector, in the most recent employer survey conducted in partnership with EMC Research and the Bay Area Council in May 2024, over 70 percent of employers said they had implemented their long-term schedules and almost half are requiring just one to three in-person days per week, while 9 percent are fully remote.



Note: Data for Vacaville CityCoach and Union City Transit is not available.
Source: National Transit Database, Through Sept 2024

As of September 2024, the region's overall transit ridership recovery is about 2/3 of pre-pandemic levels, as shown above. However, ridership recovery varies significantly across Bay Area operators; agencies that were historically the most commute-oriented are recovering the slowest. For example, comparing average monthly ridership from June-August 2019 to June-August 2024, BART has recovered just 42 percent of its ridership while Caltrain has recovered 51 percent. Both agencies see higher recovery rates on weekends, an encouraging sign of the potential to attract riders to use their systems for non-work trips. Financially, BART and Caltrain are doubly impacted by lower ridership recovery because fares contributed a much larger share of their operating budgets pre-COVID (60-70 percent, respectively) compared to bus operators which tend to serve more local trips. They also have historically relied much more on other operating subsidies, such as local sales tax, more than fares, so the loss of ridership has had less impact on their budgets.

San Francisco Municipal Transportation Agency (SFMTA) and Alameda-Contra Costa County Transit District's (AC Transit) have both recovered about 75 percent of their pre-COVID ridership.

Given the magnitude of this societal change in commuting behavior, this drop in ridership should not be expected to fully rebound anytime soon.

Since 2020, MTC has been working in partnership with transit agencies and other stakeholders to secure funds to help sustain the Bay Area's transit system that has a workforce of over 15,000 that is over 50 years and tens of billions of dollars of taxpayer investment. We successfully advocated for $4 billion in federal COVID relief funds and approximately $500 million in state funds to help sustain transit service.

But as we approach 2025, we are at a crossroads.

Looming Transit Cuts Will Have Dire Impacts; Solving the Problem is In Everyone's Interest

Bay Area transit agencies anticipate they will hit their fiscal cliffs in FY 2026-27. New, reliable and ongoing funding is needed to avert service cuts at AC Transit, BART, Caltrain and SFMTA. Such cuts would harm not just the hundreds of thousands of Bay Area residents who rely on these systems every day (averaging over 950,000 transit trips in August 2024)**,** they would also negatively impact the lives of every person who lives in the Bay Area. Transit service cuts on the magnitude anticipated without a substantial new revenue source would increase traffic congestion, undermine core elements of the region's strategy for tackling housing affordability, and make it infeasible to meet state-mandated climate targets, cutting off access to hundreds of millions of dollars in transportation funds every year.

Cuts to Transit Will Make Traffic Worse for Everyone

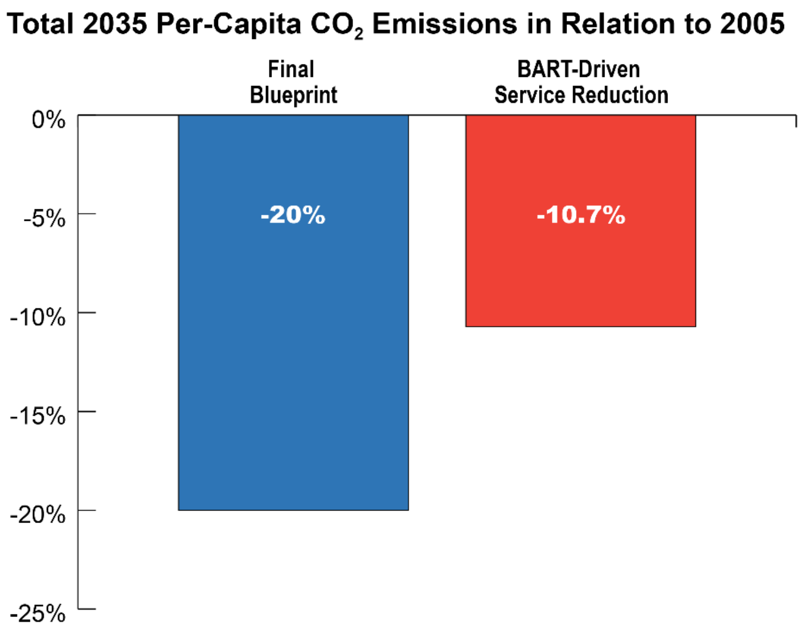
The Bay Area's $1 trillion economy depends on a well-functioning transit system. Consider that the Bay Bridge carries about 118,000 trips per day (one-way) while BART carries almost 200,000. According to BART's "Role in the Region" report, if 50 percent of weekday BART riders shifted to driving, drivers traveling daily from Walnut Creek to San Francisco could expect to be stuck in traffic for an additional six hours per week. Those driving daily from El Cerrito to downtown San Francisco would face an additional 11 hours of traffic per week. For those living in, working in, or visiting San Francisco, major cuts to Muni would cause severe gridlock; the agency currently carries almost 490,000 trips per day.

Transit is Foundational to the Bay Area's Housing Affordability Strategy

Plan Bay Area 2050 assumes significant housing growth around BART stations. Over the next 25 years, hundreds of thousands of affordable homes are planned within ½-mile of BART. If BART service is decimated, demand for housing in these locations will drop and the projects will be much harder to build. Housing near public transit has multiple benefits, reducing vehicle use by those who live in it – and thereby lowering traffic levels for everyone else. This improves quality of life and is critical to the region achieving our climate goals. These benefits of locating housing near transit depend on a frequent and reliable transit system.

Achieving the Bay Area's Climate Goals Depends on a Reliable Transit System

Cuts to transit would mean a direct increase in greenhouse gas emissions as many current transit riders would shift to driving. The Bay Area simply cannot achieve the ambitious climate targets set by the state without a convenient and reliable transit system. As shown below, an analysis of the impact of BART reducing its headways to one train per hour, cutting lines and holding other transit service at early 2023 service levels would almost cut in half our planned per capita reduction in greenhouse gas emissions from transportation. This would translate not only into negative climate and air quality impacts, it would also cut the region off from access to numerous state transportation programs that improve mobility for people and goods, including the Senate Bill 1-funded Solutions for Congested Corridors Program and the Trade Corridor Enhancement Program which are only eligible to regions that have an approved sustainable communities strategy from the California Air Resources Board.



Cuts to Transit Would Affect the Region's Most Vulnerable Residents the Most

Most importantly, public transit is vital to improving equity in the Bay Area, providing mobility and economic opportunity for the region's most economically vulnerable households. According to MTC's most recent travel survey, 44 percent of Bay Area transit riders have a household income below $50,000, compared to about 15 percent of the total Bay Area population. Transit is far more affordable than driving, making it one way to make life in the Bay Area more affordable, especially for households enrolled in the Clipper START program who receive 50 percent fare discounts. Ridership has also recovered much faster at BART stations located in Equity Priority Communities, underscoring the importance of transit to residents of those communities and the benefit of locating affordable housing near transit.

What Types of Service Cuts Are Under Consideration?

Bay Area transit agencies anticipate they will hit their fiscal cliffs in FY 2026-27 when federal, regional and state COVID relief funds will have run out. Without additional funding, operators will have no choice but to make major service cuts and potentially close stations and lines altogether if new funding isn't secured.

For example, BART's projected operating deficit in FY 2026-27 is $385 million. Like all rail services, BART has high fixed costs, e.g. security is needed for a station, even if trains run infrequently. As a result, BART reports that a 20 percent reduction in operating costs requires an approximate 65 percent cut in service. A 30 percent reduction in operating costs would lead to a service cut of approximately 85 percent.[1] If a stable source of funding is not secured by 2026, BART service changes under consideration include:

- 60-minute train frequencies
- 9pm system closure
- Station closures
- Eliminating line(s) of service
- No weekend service

Such service reductions would result in lower ridership whether due to capacity constraints, cancelled service hours, or uncompetitive travel times. Lower ridership would further reduce operating revenues, requiring further service and cost reductions. As a result, there may be no level of service cuts adequate to fully close BART's operating gap.

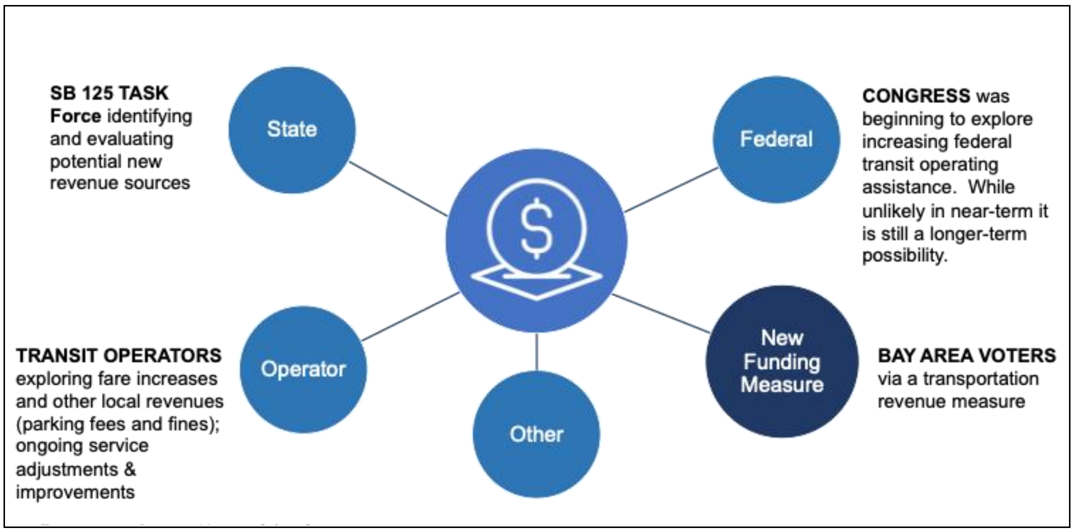
SFMTA's budget has been hit by much lower-than-anticipated parking and city general fund revenues because of a slowdown in San Francisco's overall economy. Without additional resources, Muni has discussed the need to cut up to 20 bus lines and reducing service on up to 28 bus and train routes. AC Transit has an estimated structural deficit of about $30 million, though in FY 2026-27 it's estimated at $60 million due to a one-time pension obligation. They have already reduced service by 15 percent and would require reducing service to 70 percent of pre-COVID levels if additional funds aren't secured. Caltrain's budget deficit is forecast to average about $80 million from FY 2026-30 and would require service cutbacks that would

[1] From: *BART's Role in the Region* report, June 2024, page 52

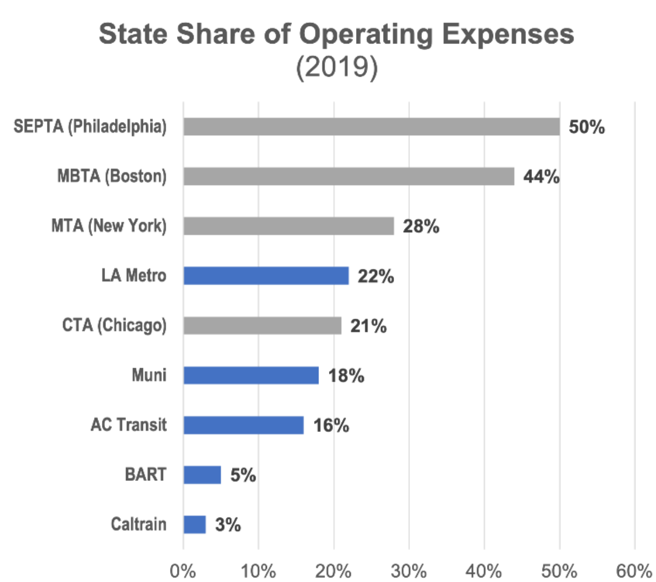
undermine the frequency benefits of electrification that are just starting to yield increases to ridership since the service launched in September 2024.

State Partnership is More Important than Ever

In setting the context for the current financial challenge facing the Bay Area's transit system, MTC staff provided background on how transit service has historically been funded, namely as a partnership with the state, region, transit operators, Bay Area voters, and – as part of COVID relief -- the federal government. A partnership approach will be needed going forward as well, as illustrated below.



The Bay Area has a proud history of supporting transit through self-help ballot measures (including sales taxes, registration fees and parcel taxes) and through high farebox revenues pre-pandemic. The state provides dedicated transit operating funding through the State Transit Assistance Program and the Low Carbon Transit Operations Program, formula programs funded by the sales tax on diesel fuel, the Transportation Improvement Fee (a vehicle registration fee) and Cap and Trade funds. That said, California transit agencies get less state funding than their peers from other states (shown at right).



Historically, the federal government has primarily supported Bay Area transit on the capital side, with the exception of the one-time COVID relief funding and allowance for small operators to spend federal funds on transit service.

When it comes to addressing the operating shortfall and securing sufficient new revenues to prevent the devastating service cuts and outcomes described above, a partnership approach will continue to be needed. And in the near term, this partnership will likely require additional local funds (in the form of new tax revenue and growing fare revenue) and potentially new state funds.

What Are Transit Agencies Doing to Solve the Problem?

Transit agencies across the region are taking action to build ridership and identify new sources of funding:

- Transit agencies are participating in the Regional Network Management Council and participating in MTC-led regional fare programs that are helping increase transit ridership like Clipper START and Clipper BayPass.
- BART has updated its schedules to provide more consistent frequencies at all hours of the day and week, is replacing its fare gates to combat fare evasion and taking various measures to improve safety.
- SFMTA has implemented transit-priority improvements such as bus-only lanes to speed up bus service and is seeing ridership on those routes exceed pre-COVID levels.
- On the funding side, the S.F. Controller's Office started the Muni Funding Working Group that includes the Mayor's Office, Board of Supervisors, Controller, SFMTA leadership, community partners and the public to gather public input, identify solutions, and provide recommendations to address the near-term and medium-term funding gap.
- Caltrain switched to faster, cleaner, and more comfortable electric service in September 2024 and has seen excellent ridership growth.
- AC Transit recently completed a realignment of their service routes and frequencies to better align with demand.

While efforts like these are essential and transit agencies must continue to prioritize taking actions that attract new riders (and thereby increase fare revenue) a partnership approach will continue to be essential to address transit agencies' funding gap driven by post-pandemic fare losses and higher costs because of inflation.

Key Factors in Designing Revenue Measure Scenarios

To develop options for how a Bay Area ballot measure could be structured, Select Committee members first had to grapple with issues such as:

- how to "define the problem", i.e., how much funding the measure would contribute to transit operations,

- pros and cons of potential revenue sources,
- how much funding to contribute to Transit Transformation projects and programs to improve transit and rebuild ridership.

Feedback on these questions supported the development of the revenue measure scenarios developed for the third meeting.

Defining the Problem to Solve

Select Committee members spent several meetings considering what problem the measure is aiming to solve, and specifically, how much funding should be provided for transit operations to help offset transit operating deficits. The Select Committee used FY 2026-27, the first fiscal year of a ballot measure passed in November 2026 and the first year in which operators will run out of stopgap funds, as the basis for analysis. Two approaches were considered:

1. Adjusted Fare Loss. This represents the gap between fare revenue from FY 2019 to FY 2024 (budgeted) plus a 2 percent annual escalation factor to help account for cost growth since 2019.[2] This approach is easy to verify and directly measures the impact of post-pandemic ridership declines [3]

2. Operator-Reported Shortfalls. This approach sets a target of fully funding the operating deficits, as forecast by the transit agencies. These shortfalls are higher than just the "adjusted fare loss" since they also reflect the expenditure side of the ledger, including increases in energy, maintenance, and labor costs. For SFMTA, operator-reported shortfalls are more than double the adjusted fare loss, since parking and general fund revenues play a major factor in SFMTA's budget, and both have been negatively impacted by the pandemic.

As shown below, operator-reported shortfalls are much larger than the adjusted fare amounts in some instances, so a revenue measure that targets that level of transit operating funding would help sustain more transit service than one that funds at the adjusted fare loss level. But there is a tradeoff; higher funding levels require a higher tax.

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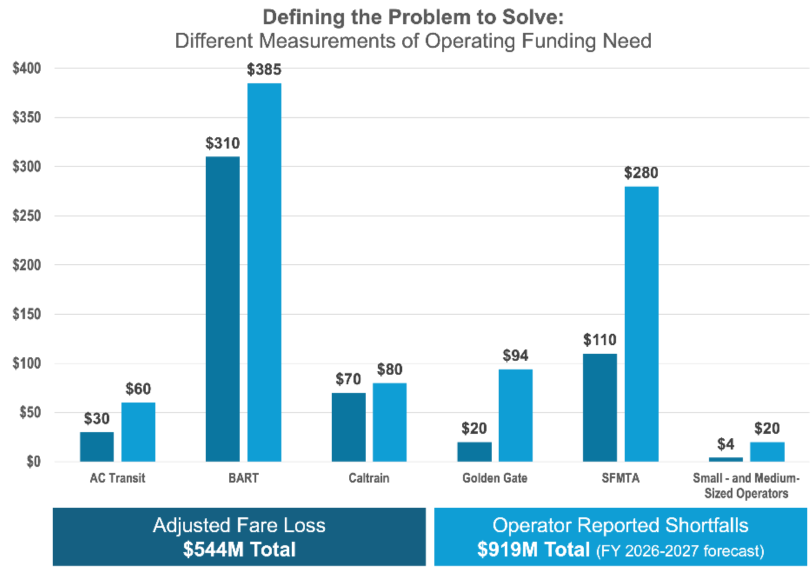
[2] This was calculated using FY 2019 actuals compared to FY 2024 budgeted except for SFMTA, where FY 2025 budgeted levels was used as FY 2024 budgeted amounts were known to be overestimated but actuals for FY 2024 were not yet available.

[3] Adjusted fare loss is defined as the difference between expected fare revenue in fiscal year 2024 compared to pre-pandemic FY 2019 fare revenue. A 2 percent annual escalation is added to account for inflation. While inflation was higher than 2 percent during this period some operators have raised fares to partially account for inflation.

Defining the Problem to Solve: Different Measurements of Operating Funding Need



Consideration of Different Revenue Options

The Committee spent significant time discussing different potential revenue mechanisms. (See Appendix D for details.) Sales taxes, for example, are commonly used to support transportation in California, with eight of the nine Bay Area counties now having at least one dedicated transportation sales tax, but this means some counties have high base rates, with some jurisdictions in Alameda County topping the list at 10.75 percent. Three counties have ½-cent transportation sales taxes that expire in the next decade: San Mateo (2033), Contra Costa (2035) and Santa Clara (2036). The SMART district's ¼-cent sales tax expires in 2029. There is a concern that if voters approve a new sales tax to address the region's transit operating needs, they may be unwilling to support a renewal of existing transportation sales tax measures. The Committee also heard concerns from some advocates and members of the public that sales taxes are a regressive tax.

Parcel taxes and payroll taxes were also explored. Some members were worried about a parcel tax making it harder to pass a future regional housing measure, given it would likely be funded by a property tax (the Bay Area Housing Finance Authority (BAHFA) is authorized to put a general obligation bond backed by property taxes or a parcel tax on the ballot among other options). There was concern that payroll taxes would negatively impact the Bay Area economy, causing more businesses to relocate to areas with lower tax burdens. Given the inability to know what voters may be willing to support two years before the measure is on the ballot, several members suggested the legislation should provide flexibility by authorizing two or three different sources -- the "menu" approach taken in SB 1031 and AB 1487 (Chiu, 2019), which established BAHFA.

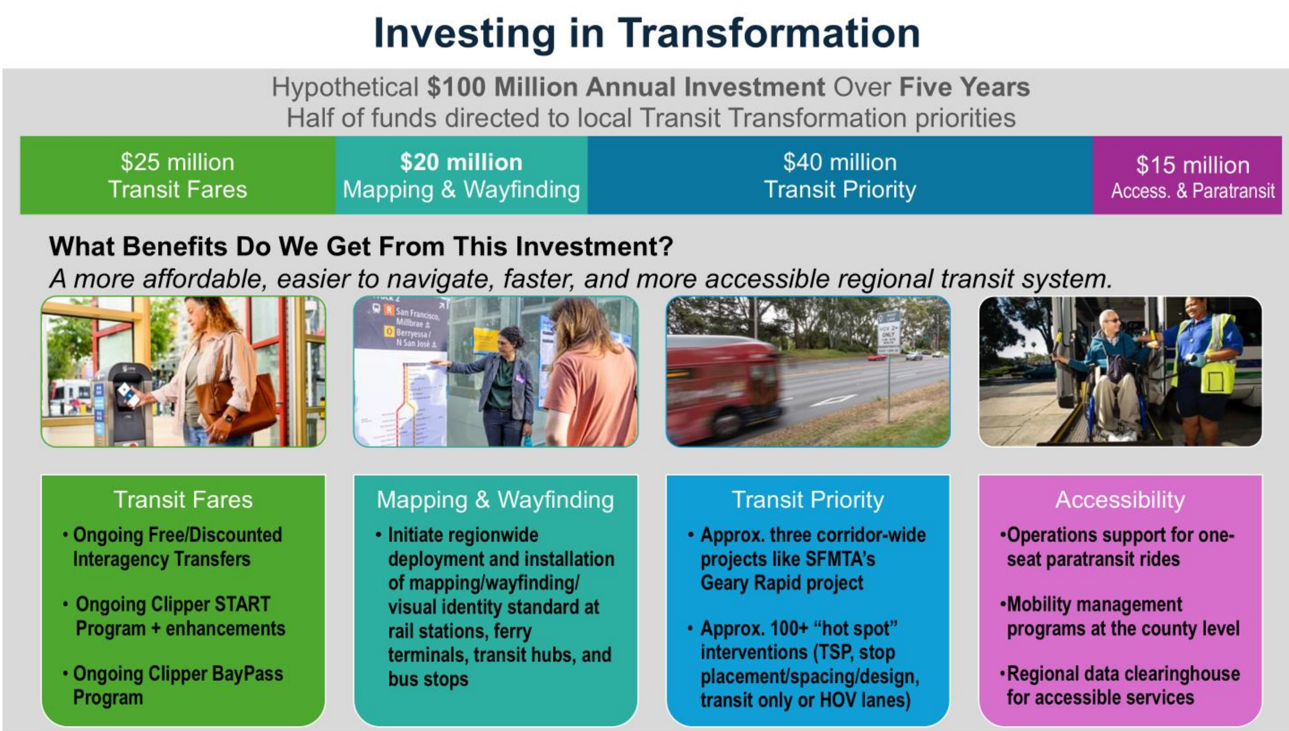
In the Select Committee's gradients of agreement exercise, sales tax performed the best with parcel tax and payroll tax tied.

Transit Transformation

The Bay Area public prioritizes 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 such improvements throughout the region. Four of the Plan's recommendations were prioritized for early-action and are in the implementation phase, showing significant promise, including fare programs (free and discounted transfers coming with Next Generation Clipper next spring), Regional Mapping & Wayfinding standards, Transit Priority and Accessibility improvements.

Given the importance of attracting more riders to transit to help achieve the region's economic, equity and climate goals -- plus prior research findings that Bay Area voters support these customer-experience enhancements -- all scenarios considered by the Select Committee dedicate 10 percent of the sales tax funds to Transit Transformation.

If funded in all nine counties from a ½-cent sales tax, $100 million would be available per year. The Select Committee supported committing half of these funds to local Transit Transformation priorities, in a manner that benefits each county in proportion to their share of sales tax generated. One example of how those funds could be allocated for Transit Transformation over a five-year period and what they could accomplish is illustrated below.



Evolution of the Proposed Scenarios

The Select Committee explored four different frameworks from August to October. Two scenarios were presented for feedback at the August meeting: Scenarios 1 and 2. These were revised and evolved into new options presented at the September and October meetings. A high-level summary is provided below to show the progression of the conversation with more details available in Appendix C.

Scenario 1 – Core Transit Framework

Scenario 1 is a 30-year, ½-cent sales tax. As a baseline, it includes the four counties served by transit facing the most significant shortfalls – Alameda, Contra Costa, San Francisco and San Mateo. The other five counties – Santa Clara, Marin, Sonoma, Napa, and Solano – would have the opportunity to opt in. In the four baseline counties, this scenario was described as generating $540 million per year and $1 billion per year in all nine counties.[4]

As with all the scenarios, 10 percent of funding from the sales tax would be dedicated to Transit Transformation.

The remaining 90 percent of funds are proposed to be focused on the immediate, urgent need to sustain transit service. In the first eight years, all 90 percent, or $490 million would be used to offset loss of fare revenue at BART, Caltrain, AC Transit, and Muni, plus provide funding for small operators in Alameda and Contra Costa counties.

In years nine to 15, the amount available for transit operations would decline as the measure starts transitioning to support county transportation priorities, since several counties have sales taxes expiring in 2033 or soon after. Up to 50 percent of the funds would be for "County Flex," available to county transportation agencies for any local priority, including road repairs and other infrastructure, if the projects are aligned with the region's sustainable communities strategy, Plan Bay Area 2050, or successor plan. Transit service would also be an eligible expense.

In the final 15 years, all 90 percent of the funds would go towards County Flex. In total, counties would receive 50-57 percent of funding from the measure as a direct subvention to spend on county priorities.

For Marin, Napa, Santa Clara, Solano, or Sonoma counties to opt in, their county transportation agency would have to agree to three commitments:

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

[4] MTC updated the sales tax revenue forecast in September so Scenario 1A reflects a higher sales tax revenue forecast than Scenario 1 from August.

2. Provide funding to help close shortfalls for local transit operators as well as multi-county operators in that county. Amounts required for transit operations would be subject to negotiation with MTC and relevant transit operators. All the remaining funds after Transit Transformation and transit operations would be County Flex.
3. Invest at least 30 percent of the County Flex in transit capital, operations or maintenance for operators providing service in that county.

Scenario 2

Scenario 2 is a 30-year, $1.5 billion per year measure that covers all nine Bay Area counties. Scenario 2 is funded by either a payroll tax or a parcel tax based on building square footage. This scenario provided 20 percent for Transit Transformation, 50 percent for transit operations and 30 percent for County Flex over all 30 years.

There was concern that such a large measure with a single funding source would have low political viability due in large part to the nature of the funding sources. Several Select Committee members recommended exploring a measure with multiple funding sources so that the tax rate for each source could be lower.

Hybrid Scenario

In response to feedback, in September MTC staff presented the "Hybrid Scenario" which combines the ½-cent sales tax and expenditure elements of Scenario 1 with a payroll tax to generate $500 million in a nine-county scenario. In response to objections from some Select Committee members to the payroll tax, a parcel tax was added as a potential alternative to the payroll tax to keep both revenue options open for the Hybrid.

A full explanation of the Hybrid's proposed revenue mechanism and expenditure framework is included in Appendix C.

Scenario 1A – 10-year Core Transit Framework

In response to several requests from Select Committee members for a shorter measure, Scenario 1A was developed for the final Select Committee meeting. As implied by the name, it is a variant of Scenario 1 – the Core Transit Framework – with the same four baseline counties, but for just 10 years. Scenario 1A uses the same funding ratios from the first eight years in Scenario 1 – 10 percent for Transit Transformation and 90 percent for transit operations – but extends them for an additional two years. In this shorter, transit-only measure, Santa Clara would have the option to join but this framework is not proposed as opt-in for North Bay counties since it's a transit-only measure with no funding available for County Flex.

At the October meeting the Select Committee endorsed the concept that half of the Transit Transformation funds be used for county Transit Transformation priorities, benefiting each county in proportion to its share of sales tax revenue generated, resulting in an overall structure in which 95 percent of the revenue is allocated to transit serving the county in which it's generated.

Transit Agency Alternatives

Several transit agencies are preparing back-up plans for local measures in the event that a regional measure is not considered viable. The large agencies with budget shortfalls plan to conduct polls to gauge public support for their own ballot measures. BART released their poll just days before the final Select Committee meeting and the results were sobering; a ½ cent sales tax to generate operating funds for BART and other transit systems in the five counties that have BART service received just 51 percent support (after pro and con arguments). A large parcel tax (at a flat rate of over $500 per parcel) fared much worse.

In addition to these operator-specific measures, SFMTA led the development of a framework that tries to resolve some of the differences between stakeholders. They presented their concept at the final Select Committee meeting, which included a minimum geography of the five counties that have BART service, as well as these creative concepts:

- **Variable Tax Rates by County: T**he framework would allow for rates to vary by county – whether for a parcel tax or sales tax – to allow each county to generate the revenue required to cover their needs.
- **Variable Payback Periods:** Some counties, especially San Francisco, have large needs as soon as the measure is passed, while others may be willing to delay early funding and receive more later in the measure.
- **Loans to Cover Operations:** A revenue measure would not start generating funds until at least January 2027, halfway through the FY 26/27 fiscal year. The SFMTA framework would allow borrowing against future years to help cover shortfalls in year 1.

Several of the concepts in SFMTA's proposal were ranked favorably on the gradients of agreement exercise (Appendix B-2). MTC is coordinating closely with SFMTA and other operators on polling to ensure common approaches.

Outreach and Engagement

A concerted outreach effort allowed stakeholders, elected officials and community advocates to have in-depth conversations and provide input into the development of revenue measure frameworks.

From September through November, stakeholder convenings took place both in-person and remotely. This included:

- Three labor convenings gathered the leaders of Central Labor Councils from many counties as well as representatives from SEIU, ATU and others that represent transit workers, as well as Operating Engineers, Liuna and others from the construction trades.
- Two convenings included leaders from county and regional business associations, including Bay Area Council, Silicon Valley Leadership Group, SAMCEDA and the East Bay Leadership Council.
- Several meetings with community advocates, including members of equity-focused Voices for Public Transportation, environmental groups like the Sierra Club and Greenbelt Alliance, bicycle and transit advocates and disability rights advocates.

Additionally, Select Committee Chair Jim Spering, MTC's executive team and staff had well over 100 meetings with state legislators, including members of the Bay Area Caucus, staff and board members from transit agencies and community groups. At times, larger meetings were arranged, e.g., following the introduction of Scenario 1, MTC initiated two meetings with executives and board leadership from four baseline counties – Alameda, Contra Costa, San Mateo and San Francisco. (See Appendix A-2 for comment letters from the county transportation agencies in each of these counties.)

This engagement was a crucial complement to the Select Committee process, as small group meetings fostered a deep understanding of the goals, interests, and concerns of the many regional actors. As the revenue measure process continues into 2025, MTC will continue to engage key stakeholders.

MTC's Policy Advisory Council received regular updates on the Select Committee's work throughout the process. In their final meeting they adopted a motion urging the Commission to support the Hybrid scenario as they support a measure that will improve transit across all nine counties and provide funding for Transit Transformation regionwide.

Select Committee Recommendations to MTC

At the final Select Committee meeting, members ranked components of a transportation revenue measure on a scale of 1 - 5, with 1 being most favorable (full results in Appendix B-2). While none of the components had mostly 1s and 2s, some clear patterns emerged:

Geography: There was a preference for the measure to be placed on ballot in the four counties of Alameda, Contra Costa, San Francisco, and San Mateo, with the option for the other five counties to opt in. Requiring all nine counties to participate was not as popular.

Duration: The Select Committee had a slight preference for a measure of 10 years. The commissioners representing the four counties, however, had a strong preference for this 10-year time frame. Santa Clara County commissioners, on the other hand, strongly preferred a 30-year measure.

Transit Operating Funding Target: There was a split on what amount of funding should go towards transit operations. Overall, there was a slight preference for targeting the pandemic-based loss of fare revenue (adjusted for inflation) rather than the larger operator-reported shortfalls. Commissioners, business community and construction labor representatives strongly prefer adjusted fares; transit operating union labor representatives and advocates favored operator-reported shortfalls.

Funding Mechanism: The most highly rated funding mechanism was sales tax, with parcel tax and payroll tax getting significantly less support. That said, committee members showed support for including multiple funding sources in a single measure.

Consensus recommendations

After this ranking exercise, the Committee members worked to reach consensus on several specific recommendations related to both funding and policy. The final resolutions are in Appendix B-2 and include several recommendations that will be considered as enabling legislation is developed, including:

Transit Agency Accountability: Strengthen oversight of transit agency financial information and condition new funding from measure on operators complying with Transit Transformation policies adopted through the Regional Network Management framework.

Transit Agency Consolidation: Transit consolidation is worthy of further study but should be pursued separate from enabling legislation for the measure.

Transit Transformation: Support for investing 10 percent of measure in improvements to make system more connected, affordable, and reliable, with 50 percent invested in proportion to each county's contributions to the measure.

Chair Spering encouraged Select Committee members to communicate any specific concerns about the scenarios for inclusion in this report. Appendices B and H include all relevant letters received from Committee members and other stakeholders who were heavily engaged in the Select Committee process.

Summary of Commission Action

MTC at a special Commission meeting on December 9, 2024, approved by a vote of 15 ayes and one abstention (see Appendix A) a motion directing staff to conduct public opinion polling on several frameworks for a potential 2026 transportation tax measure that could avert deep service cuts by BART and other transit agencies; and could spur implementation of the Bay Area Transit Transformation Action Plan to improve the customer experience for transit riders.

Scenario 1A

The first of the frameworks to be explored for a possible ballot measure in 2026 is Scenario 1A, a 10-year, half-cent sales tax that would appear on the ballot in Alameda, Contra Costa, San Francisco and San Mateo counties, with an option for Santa Clara County to participate as well. Under this scenario, the sales tax would generate about $560 million each year, with 90 percent of the money used to support transit operations and the remaining 10 percent reserved for Transit Transformation.

Hybrid Scenario

The second framework — which would raise an estimated $1.3 billion to $1.5 billion each year — is the Hybrid Scenario, which includes a 30-year, half-cent sales tax plus a parcel tax of nine cents per square foot of any building(s) on the property. This measure would appear on the ballot in Alameda, Contra Costa, San Francisco, San Mateo and Santa Clara counties. Marin, Napa, Solano and Sonoma counties would have the option to join. This measure would only be pursued if Santa Clara wanted to participate. As with the first framework, 90 percent of the money from the sales tax portion would be used to support transit operations and 10 percent would be invested to improve the customer experience for transit riders. Sixty percent of parcel tax revenues would be used to support transit operations with the remaining 40 percent reserved as a "county flex" available to address a range of transportation needs in each participating county.

Variable Rate

The Commission also endorsed staff coordinating with transit agencies on polling a variable rate option. Developed by the San Francisco Municipal Transportation Agency, this third option would feature a higher tax rate in San Francisco (which has proportionally higher transit operating needs than other counties), a lower rate in Santa Clara County, and equivalent rates in Alameda, Contra Costa and San Mateo counties.

The Commission directed staff to share polling results and sponsorship considerations for transportation revenue measure enabling legislation in February 2025.

The Commission also endorsed several policy provisions for inclusion in enabling legislation, including requiring stronger oversight of transit agencies' financial information and requiring transit agencies to adopt policies to help improve the transit customer experience as a condition of receiving new funds. The Commission recommended against including transit agency consolidation as a topic for enabling legislation.

A link to meeting materials, the motion and final vote tally from the December 9, 2024, special Commission meeting are included in Appendix A to this report.

Next Steps

In January, 2025, MTC will begin a poll of Bay Area voters that explores voter sentiments related to the policy provisions endorsed by the Commission and the level of support for Scenarios 1A and Hybrid funding frameworks, along with a variable rate option to be developed in coordination with transit agencies. MTC will develop the poll questionnaire in December 2024 and provide an opportunity for input from key stakeholders. Results will be presented to the Commission in February of 2025 (at the February 14 Joint MTC/ABAG Legislation Committee at the earliest) along with a recommendation about key provisions to include in enabling legislation and bill sponsorship considerations. Early in 2025, MTC also plans to retain a consultant to conduct a third-party independent review of transit agency finances and local contributions to develop a common understanding and assist in reaching consensus on each county's level of contributions to transit agency operations for transit operators serving that county.

MTC looks forward to working with the Bay Area delegation next year to ensure a viable path forward so that the region's transit system can continue to play the vital role it does today and for generations to come.

Appendices

(**NOTE:** Appendices are not included in this draft. Final version with appendices will be posted on Monday 12/16/24)

Appendix A: Special Commission Meeting (12/9/24)

Appendix A-1: Materials, Motion and Public Comment

Appendix A-2: Letters from Contra Costa Transportation Authority (CCTA), Alameda County Transportation Commission (ACTC), San Francisco County Transportation Authority (SFCTA), San Mateo County Transportation Authority/SamTrans and City/County Association of Governments of San Mateo County (C/CAG)

Appendix A-3: MTC Policy Advisory Council Recommendation

Appendix B: Select Committee Meeting #5 (10/21/24)

Appendix B-1: Final score of gradients of agreement

Appendix B-2: Motions approved

Appendix B-3: Formal submittals from organizations represented on the Select Committee

Appendix C: Transportation Revenue Measure Scenarios

Appendix C-1: Transportation Revenue Measure Scenarios Overview

Appendix C-2: Expenditure and Allocation Details

Appendix D: Revenue Sources Examined

Appendix E: BART & Caltrain funding background

Appendix F: Transit Transformation fact sheet

Appendix G: Bay Area sales tax rates

Appendix H: Other correspondence received