

**Metropolitan Transportation Commission
Programming and Allocations Committee**

November 8, 2023

Agenda Item 3c - 23-1333

**MTC Resolution No. 4619. Regional Short-Term Transit Financial Plan Outline and
Proposed Distribution of Emergency Operating Funding**

Subject:

A request for approval of MTC Resolution No. 4619 adopting the principles to inform the distribution of transit operations funding from the Transit and Intercity Rail Capital Program (TIRCP) and Zero-Emission Transit Capital Program (ZETCP) as governed by Senate Bill 125, the funding distribution framework for these funds, and regional accountability measures that will guide the allocation of funding from these sources, as well as an informational update on the Short-Term Financial Plan, which will be submitted to the California State Transportation Agency (CalSTA) under SB 125 guidelines.

SB 125 Funding and Accountability Requirements

Amendments to the California State Budget Act of 2023 provided immediate transit operating assistance to help avert the near-term transit operating fiscal cliff that has resulted from the COVID-19 pandemic and associated changes in travel patterns. Based on adopted formulas, the Bay Area is expected to receive an estimated \$400 million from the newly created Zero-Emission Transit Capital Program (ZETCP) over the next four years and an additional \$770 million from the Transit and Intercity Rail Capital Program (TIRCP) over the next two years. State action allows these funds to be used flexibly for capital or operating purposes, pursuant to Regional Transportation Planning Agency (RTPA) discretion. Consistent with prior MTC advocacy and supported by the possibility of leveraging between \$6 and \$8 billion in federal funds, staff recommend prioritizing completing the funding plans for BART to Silicon Valley Phase II and BART Core Capacity by using roughly \$725 million of TIRCP funding for capital purposes, leaving \$45 million in TIRCP and \$400 million in ZETCP available for operating purposes.

SB 125 guides the use of these funds and establishes accountability measures for RTPAs and transit operators receiving funding from ZETCP or TIRCP. By December 31, 2023, MTC must submit a Short-Term Financial Plan summarizing the regional strategy for using SB 125 funding,

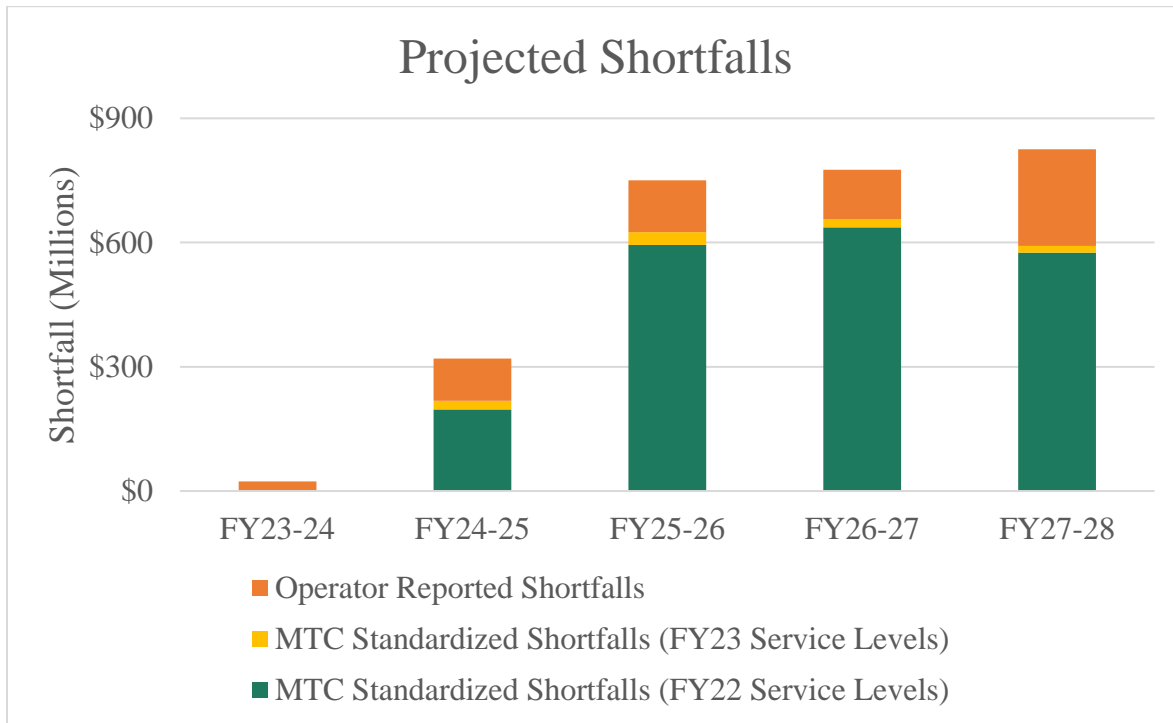
including the contribution of regional funds, the distribution of funding between operators, and a summary of benefits rendered from the use of SB 125 funding. Additionally, MTC must collect and summarize data from operators on a variety of topics, including expenditures on safety, opportunities for enhanced coordination and improvements, and monthly ridership statistics. By June 30, 2026, MTC must submit a Long-Term Financial Plan that demonstrates the implementation of ridership recovery strategies and provides a 5-year operating funding outlook.

Standardized Shortfall Framework

Operator-provided estimates produced using independent assumptions and at various stages of pandemic recovery total \$2.7 billion over the next five years (or \$1.1 billion for the next three years) for the Bay Area region. Transit operators like BART, San Francisco Municipal Transportation Agency (SFMTA), AC Transit, Caltrain, and Golden Gate Transit are expected to face the most acute financial challenges over the coming years due to the nature of their pre-pandemic revenue sources and the trends toward remote work.

As discussed in greater detail at the October Commission meeting, MTC collaborated with operator staff to estimate shortfalls under a set of standardized assumptions (Table 1). While these standardized needs are based on assumptions that may differ from those used by individual operators for their own financial planning purposes, the standardized shortfalls allow the needs to be compared across operators on a level playing field and contextualize a minimum funding level to keep transit afloat while more sustainable sources of funding are identified.

SB 125 guidelines mandate that transit operators and regional agencies demonstrate a plan for retaining service at 2022 service levels, which aligns with the standardized shortfalls shown in Table 1. However, operators across the region restored service in 2023, meaning that the standardized shortfalls plan for a lower service level than what is currently on the ground today. Analysis performed by MTC staff suggests that providing 2023 service levels could increase the standardized shortfall by roughly \$100 million between FY2023-24 and FY2027-28 and could result in a 10 to 20% increase in shortfalls for individual operators.



Operator Reported Shortfall (FY2023-24 to FY2027-28): \$2.7 billion
 MTC Standardized Shortfall with FY2021-2 service (FY2023-24 to FY2027-28): \$2.0 billion
 MTC Standardized Shortfall with FY2022-23 service (FY2023-24 to FY2027-28): \$2.1 billion

Following the October Commission meeting, staff made several targeted refinements to the standardized shortfall funding framework. Staff made a technical correction to restore \$9 million in expenses for non-deferrable operating to capital transfers to Golden Gate Transit, increasing the agency’s FY2025-26 shortfall by \$9 million. This change addresses funding necessary to provide a local match to unlock federal dollars, consistent with treatment of similar expenses for other operators. Additionally, staff have provided further clarity on the envisioned distribution of \$40 million in funding to address other operators’ shortfalls and support enhancements to the regional transportation system, including support for initiatives related to Regional Network Management. Table 1 shows \$20 million to address standardized shortfalls for small- and medium-sized operators. MTC is continuing to work with individual operators to refine their needs and assess other opportunities for resolving shortfalls. Staff will provide additional detail on the “Other Operator” category at the Committee meeting on November 8th, and Attachment B to the resolution will be updated to reflect proposed dollar amounts to be made available to

specific small and medium-sized transit agencies by fiscal year. Regional Network Management would receive \$2 million in FY2025-26 to support delivery of initiatives identified in the Short-Term Financial Plan, which will be summarized in the Long-Term Financial Plan due to CalSTA at the end of FY2025-26. The remainder of the \$40 million not attributed to the technical correction to Golden Gate Transit’s funding, small operators, or Regional Network Management was removed from the funding framework, reducing the total regional shortfall by \$10 million.

Table 1. Standardized Shortfall Framework (Millions)

	FY 23-24	FY 24-25	FY 25-26	Total (\$)	Total (%)
SFMTA	\$0	\$99	\$209	\$309	39%
BART	\$0	\$58	\$294	\$352	45%
AC Transit	\$0	\$4	\$29	\$33	4%
Caltrain	\$0	\$0	\$25	\$25	3%
Golden Gate Transit	\$0	\$3	\$38	\$41	5%
Other Operators	\$0	\$8	\$12	\$20	3%
Regional Network Management	\$0	\$2	\$0	\$2	0%
Bay Area Total	\$0	\$174	\$607	\$781	100%

With a total projected standardized shortfall of \$781 million between FY2023-24 and FY2025-26, the state support of \$445 million from TIRCP and ZETCP leaves a sizeable funding gap. As such, additional regional revenues will be needed to keep transit operational.

In discussions with state legislators leading up to the state budget funding for transit operations, MTC leadership had indicated the potential to contribute up to \$300 million from a menu of funds to help address the funding gap. Assembling the regional contribution will require tradeoff discussions related to shifting funding from future use for transit capital maintenance, regional coordination programs, or local implementation of transportation and land use strategies identified in Plan Bay Area 2050 to transit operations. Funding sources under consideration include unprogrammed FTA formula funds, bridge tolls, State Transit Assistance Population-Based funds, and federal funds that support the One Bay Area Grant program.

Regional funding sources currently under consideration would not require reprogramming of funding from existing projects, as they are either funds anticipated for future years or currently accessible funds that are unprogrammed. The Short-Term Financial Plan must identify specific

regional funding sources and amounts to address the operating needs, though programming and allocation of regional funds would be contingent upon later Commission action.

However, state funding and the \$300 million regional contribution are still expected to fall short of fully addressing the \$781 million near-term operating shortfall, leaving a remaining gap of roughly \$35 million in FY2025-26. To fully close the gap, MTC will leverage projected interest earned on TIRCP capital funds. TIRCP funds are anticipated to earn a significant level of interest over the coming years given funds will be drawn down gradually as the capital projects progress.

Funding Framework

The proposed funding framework to address these standardized shortfalls, included as Attachment B, is informed by principles identified by MTC in partnership with transit operators, which are summarized in Attachment A. These principles seek to prioritize funding for operators with the most dire shortfalls as well as to ensure the protection of service for the most riders and the transit dependent. The principles also highlight the need for accountability in exchange for funding, consistency in forecast development across operators, and flexibility to make adjustments as conditions change.

In particular, MTC will seek to balance flexibility to make adjustments in response to changing conditions while providing operators with advance notice of the funding they can expect to receive for agency budgeting purposes. As such, the distribution framework will be revisited on a rolling basis, beginning in advance of the development of FY2024-25 transit agency budgets, slated for Spring 2024.

Under SB 125, MTC is eligible to use up to \$5 million for administration of SB 125 and for planning expenses related to implementation of the Long-Term Financial Plan, including efforts to support ridership recovery and retention. The funding framework includes \$2 million for MTC to use for Regional Network Management staffing as part of the Regional Network Management category.

In accordance with SB 125's guidelines and the principles outlined in Attachment A, MTC staff are proposing a set of accountability requirements including customer experience and efficiency

enhancements in exchange for SB 125-related funding. For all operators receiving funding, these requirements will include participation in ongoing Transit Transformation Action Plan initiatives, and implementation of schedule coordination and real-time transit data improvements. Other accountability requirements are specific to individual operators and center around safety and security, fare evasion reduction, and comprehensive service improvements. Additional detail on the proposed accountability requirements will be contained in Attachment C to this item and made available to the Committee on November 8th. MTC will develop milestones and monitor operator progress toward the accountability requirements and will assess opportunities to augment existing Transit Transformation Action Plan funding to assist with the delivery of customer experience and efficiency enhancements.

Next Steps

In order to meet the December 31, 2023 deadline to submit materials to CalSTA, staff will return to the Commission in December to request adoption of the Short-Term Financial Plan. MTC will receive FY2023-24 SB 125 funds no later than April 30, 2024, and will be eligible to receive FY2024-25 funds early in that fiscal year, pending CalSTA's review of MTC's allocation package.

Staff intends to incorporate the FY 2024-25 SB125 funding in the FY 2024-25 Fund Estimate that will be adopted by the Commission in February 2024. Programmed amounts will be allocated through a separate programming action in July 2025, or upon receipt of funds from CalSTA.

FY 2025-26 SB125 funding will be incorporated in the FY 2025-26 Fund Estimate and will be subject to a review of operator finances prior to allocation in July 2025, or upon receipt of funds from CalSTA.

In the coming months, staff will work to develop procedures for allocating and utilizing the SB 125 funding, including criteria for assessing satisfaction of accountability milestones, and additional detail on operators' financial and operating data reporting deliverables.

Issues:

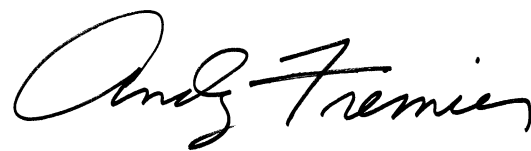
1. Attachment B: Senate Bill 125 Transit Operations Funding Distribution Framework – Additional detail pertaining to proposed dollar amounts to be made available to specific small and medium-sized transit agencies by fiscal year, will be provided as a handout at the November 8th meeting and incorporated into the attachment thereafter.
2. Attachment C: Regional Accountability Measures -- Specifics on proposed accountability requirements will be provided as a handout at the November 8th meeting and attached to this item thereafter.

Recommendations:

Refer MTC Resolution No. 4619 to the Commission for approval.

Attachment:

- MTC Resolution No. 4619
 - Attachment A: Principles to Inform the Distribution of Transit Operations Funding from Senate Bill 125
 - Attachment B: Senate Bill 125 Transit Operations Funding Distribution Framework
 - Attachment C: Regional Accountability Measures
- Presentation



Andrew B. Fremier