Metropolitan Transportation Commission
Programming and Allocations Committee

February 12, 2025 **Agenda Item 3a-25-0112**

MTC Resolution No. 4688. FY 2025-26 MTC Fund Estimate

Subject:

Annual Fund Estimate and proposed apportionment and distribution of approximately $1 billion in Transportation Development Act (TDA) Local Transportation Fund, State Transit Assistance (STA), State of Good Repair (SGR) Program, Assembly Bill 1107 (AB 1107), transit-related bridge toll, Low Carbon Transit Operations Program (LCTOP) funds, and Senate Bill (SB) 125 funds for transit operating assistance for FY 2025-26.

Background:

MTC is required by state statute to prepare and adopt an annual fund estimate of TDA Local Transportation Fund (LTF) ¼ cent sales tax revenues for the upcoming fiscal year by March 1st. This estimate assists the Bay Area’s transit operators in budgeting for the next fiscal year, in this case FY 2025-26. The fund estimate prepared by MTC also includes several other fund sources which MTC allocates to transit operators, primarily for operations.

Economic Overview

Major measurements of the Bay Area economy show either a plateau or minor decline in 2024. Unemployment rates ticked up in all counties except Marin, which remained flat at 3.7%. Unemployment rates in all nine counties remain below the statewide rate, with four counties above the national rate. While there has been much improvement in employment since the pandemic, neither the labor force nor employment levels have returned to pre-pandemic levels in 2019. The regional population stayed roughly the same in 2024, while the statewide population grew 0.2%.

Transportation Development Act (TDA)

State law requires county auditors to submit annual estimates of the ¼-cent TDA sales tax revenue generation to MTC by February 1st. A summary of the county auditors’ mid-year estimates indicate that regional TDA revenue generation is expected to decline by 7% relative to original estimates in the current year of FY 2024-25 to $472 million. The impacts vary across counties. While little change is estimated for Marin and Solano counties, there is an estimated 14% decline in Alameda County, in large part due to reattribution of sales tax revenues by the CA Department of Fee & Tax Administration. County Auditor Offices forecast a subsequent increase of 2.7% in FY 2025-26 TDA revenues to $484 million.

Assembly Bill 1107 (AB 1107)

A portion (25%) of BART’s half-cent sales tax revenue generated in Alameda, Contra Costa, and San Francisco counties is administeredby MTC, and MTC staff is responsible for estimating the annual revenue generation. Based on actual performance to date along with sales tax projections from county auditor offices, staff proposes to retain the $104 million estimate for both FY 2024-

25 and FY 2025-26. This amount would be split evenly between SFMTA and AC Transit per longstanding Commission practice.

State Transit Assistance (STA)

The State Controllers Office estimates $795 million in STA diesel sales tax funds will be available statewide in FY 2025-26. Based on this estimate, the Bay Area would receive approximately $290 million ($213 million in Revenue-Based and $77 million in Population-Based) in FY 2025-26 STA funds.

While the Fund Estimate will reflect the latest available information from the State Controller's Office (SCO) for the current year (FY 2024-25) estimates, the Governor's Proposed FY 2025-26 budget forecasts a decline in FY 2024-25 STA revenues. If the estimates in the Governor's Proposed Budget are correct, the Bay Area will see a reduction of $43 million (13%) in STA revenues in FY 2024-25 from the most recent estimates from the SCO. Staff will return to the Commission to update the estimates following the state budget approval later this year; however, transit agencies should be aware of and prepare for the fact that current year STA revenue may be less than originally forecasted.

State of Good Repair (SGR) Program

Senate Bill (SB) 1 established the State of Good Repair (SGR) Program which will bring $50 million to the Bay Area in FY 2025-26 for transit capital state of good repair projects. The funds from the SGR Program follow the same state-wide distribution policies as the regular STA program, with a Revenue-Based and Population-Based program.

Bridge Tolls

In April 2010, MTC Resolution No. 3948 resulted in a lump sum payment from BATA to MTC for an amount equal to the 50-year present value of AB 664, RM 1, and 2% Toll revenue. Future payments from these toll revenues will be made from this lump sum, in accordance with Commission policies established in MTC Resolution Nos. 4015 and 4022.

Cap and Trade – Low Carbon Transit Operations Program (LCTOP)

The FY 2025-26 Fund Estimate includes details on funding that will flow to the region through the Low Carbon Transit Operations Program, which is a component of the state Cap and Trade program. In FY 2025-26, the region is projected to receive $68 million from the program based on an estimate from Governor Newsom's proposed FY 2024-25 State Budget. Apportionments of these funds are guided by Caltrans policies for the Revenue-Based program (which are the same as the STA Revenue-Based program) and by the MTC Commission for the Population-Based program through the MTC Cap and Trade Framework (MTC Resolution No. 4130, Revised).

Senate Bill 125 (SB 125) Transit Funding

In November 2023, the Commission adopted MTC Resolution No. 4619 which established a distribution framework for SB 125 operations funding from the Transit and Intercity Rail Capital Program (TIRCP) and the Zero-Emission Transit Capital Program (ZETCP), including $375M in

FY 2025-26 for five operators. These funds are complemented by $300 million in regional funds, which the Commission directed to operators in November 2024 through MTC Resolution No. 4619. At the conclusion of FY2025-26, SB 125 funding for operations will be depleted.

Adjustment to TDA Distribution Formula in Sonoma County

As part of the Marin-Sonoma Coordinated Transit Service Plan (MASCOTS), operators and county transportation authorities in Marin and Sonoma have agreed to an adjustment to the TDA distribution formula in Sonoma to mirror the formula currently employed in Marin. This new performance-based formula allocates revenues based on recent ridership and service metrics, and will be in effect for FY 2025-26. This formula will shift approximately $2M from Golden Gate to SMART and bus operators in Sonoma County.

Issues:

1. BART Feeder Bus Agreement – A 1997 agreement between MTC, BART, and four East Bay bus operators (County Connection, LAVTA, Tri-Delta, and WestCAT) established a funding mechanism for BART to support feeder bus operators using BART's STA Revenue-Based and TDA sales tax funds. Initial payment amounts were established by transition agreements, and subsequent payments over the last 25 years have been calculated based on growth of AB 1107 ½-cent sales tax revenues. BART had communicated an interest to amend the agreement before the pandemic and has recently expressed greater urgency given its looming fiscal cliff.
   In advance of the FY 2023-24 Fund Estimate, BART and feeder bus operators agreed to a 15% reduction in FY 2022-23 payments, and 25% in FY 2023-24 payments. The 25% reduction was sustained for FY 2024-25 and staff recommends extending the reduction through FY 2025-26. BART staff have indicated that FY 2025-26 is likely to be the last year that BART will be able to support feeder bus services. MTC staff will work with BART and bus operators to establish a path forward beyond FY 2025-26.

2. STA Revenue-Based Formula – Half of the statewide STA Revenues are distributed through a formula using each operator's share of qualifying revenues (i.e., fares, local taxes, other operating revenues). This formula has been frozen through an amendment to the Public Utilities code since the onset of the pandemic to mitigate the impacts the pandemic has had on transit revenues. This "hold harmless" provision is scheduled to expire at the end of FY 2025-26. There will be opportunities to review this provision and advocate for an extension as part of next year's budget advocacy. However, there is a risk of significant changes to STA revenues if the provision were to expire.
3. Attribution of TDA Revenues by County – TDA revenues stemming from the statewide ¼-cent sales tax are meant to be attributed to the county in which the purchase was made. Over the past few years, audits from the California Department of Tax and Fee Administration (CDTFA) have identified instances – typically centered around e-commerce transactions – where sales tax revenue was instead attributed to the county

where the seller is located. The result has been negative corrections of revenue in multiple counties, with Santa Clara County being particularly affected. The CDTFA, MTC, and Bay Area counties are continuing to coordinate on this issue, though ongoing volatility for TDA revenues due to these audits is likely in the near future.

Recommendations:

Refer MTC Resolution No. 4688 to the Commission for approval.

Attachments:

- MTC Resolution No. 4688
  - Attachment A: Fund Estimate – Regional Summary
- Presentation slides

Andrew B. Fremier

FY 2025-26
MTC Fund Estimate Overview

MTC Programming & Allocation Committee

February 12, 2025

Agenda

1. Fund Estimate Overview
   - TDA, STA, AB1107 estimates
2. Economic Overview
   - Population, Unemployment, Sales Tax
3. BART-Feeder Bus Agreement
4. Other Considerations
   - Sonoma County TDA formula
   - STA Revenue Based Formula Freeze
   - Sales tax revenue attribution audits

Introduction to the Fund Estimate

- Every year, MTC prepares a Fund Estimate to identify how much funding will be available in the upcoming fiscal year from sources including:
  - Transportation Development Act (TDA) – *statewide sales tax*
  - State Transit Assistance (STA) – *statewide diesel sales tax*
  - Assembly Bill 1107 – *regional sales tax*
- The Fund Estimate is informed by state and county revenue projections and reflects latest macroeconomic and demographic trends
- The Fund Estimate is typically amended twice per year to incorporate the latest revenue information from the state
- Transit agencies, County Transportation Agencies, and MTC use the Fund Estimate for budget development and to request allocation of funds

Image Credit: Unsplash

TDA Sales Tax Forecast
FY 2025-26

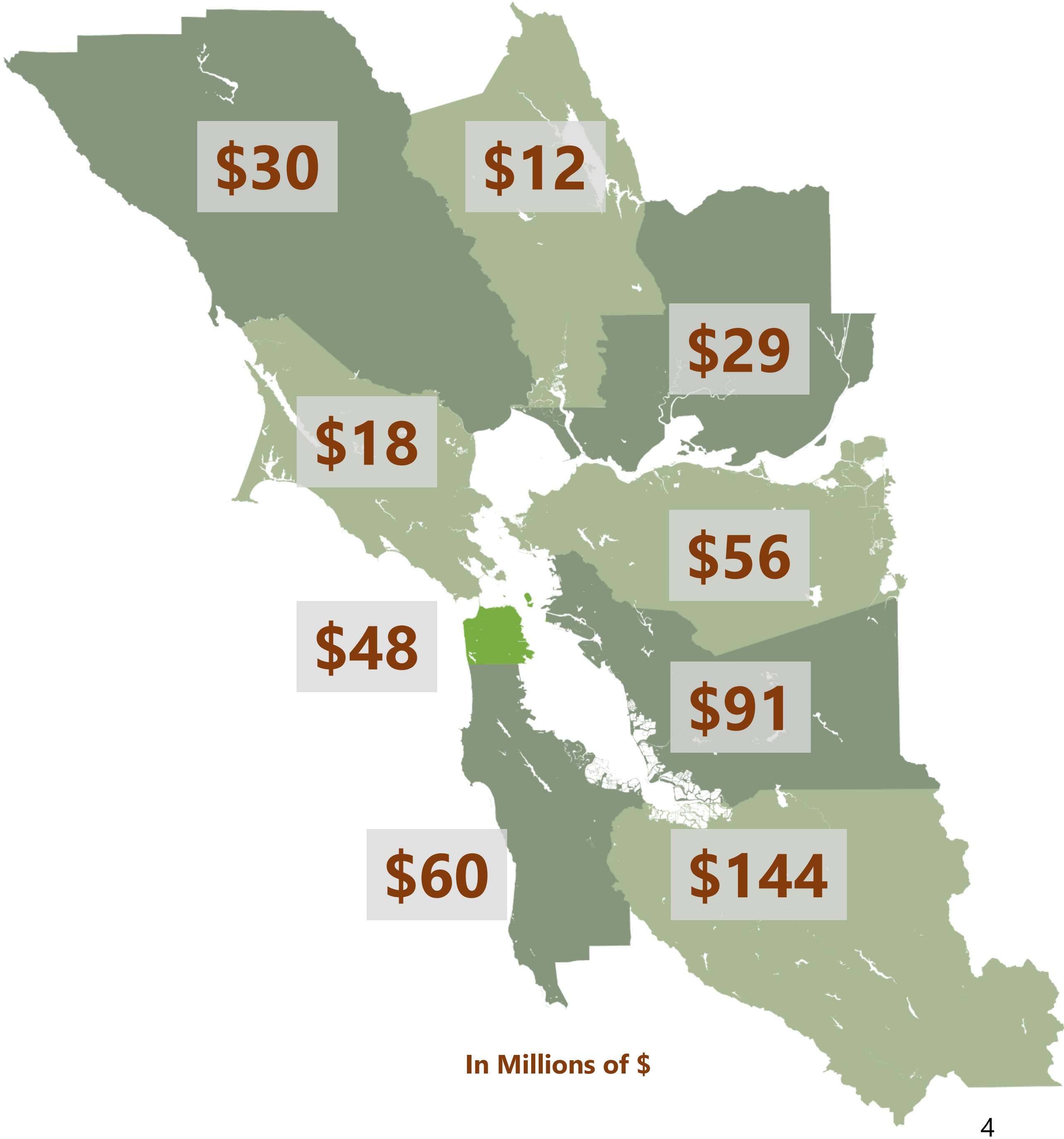
Estimates for each county prepared by individual county Auditor/Controllers. Funds within counties are distributed to operators based on city/service area population, or by county-specific formulas

TDA receipts in the first half of FY25 are tracking below original estimates

FY25 (Current Year) estimates revised to **$472M**

- Down 7% from original $509M FY25 estimate
- Down 3% from FY24 Actuals ($486M)

FY26 estimates projected to be 2.6% higher at **$485M**



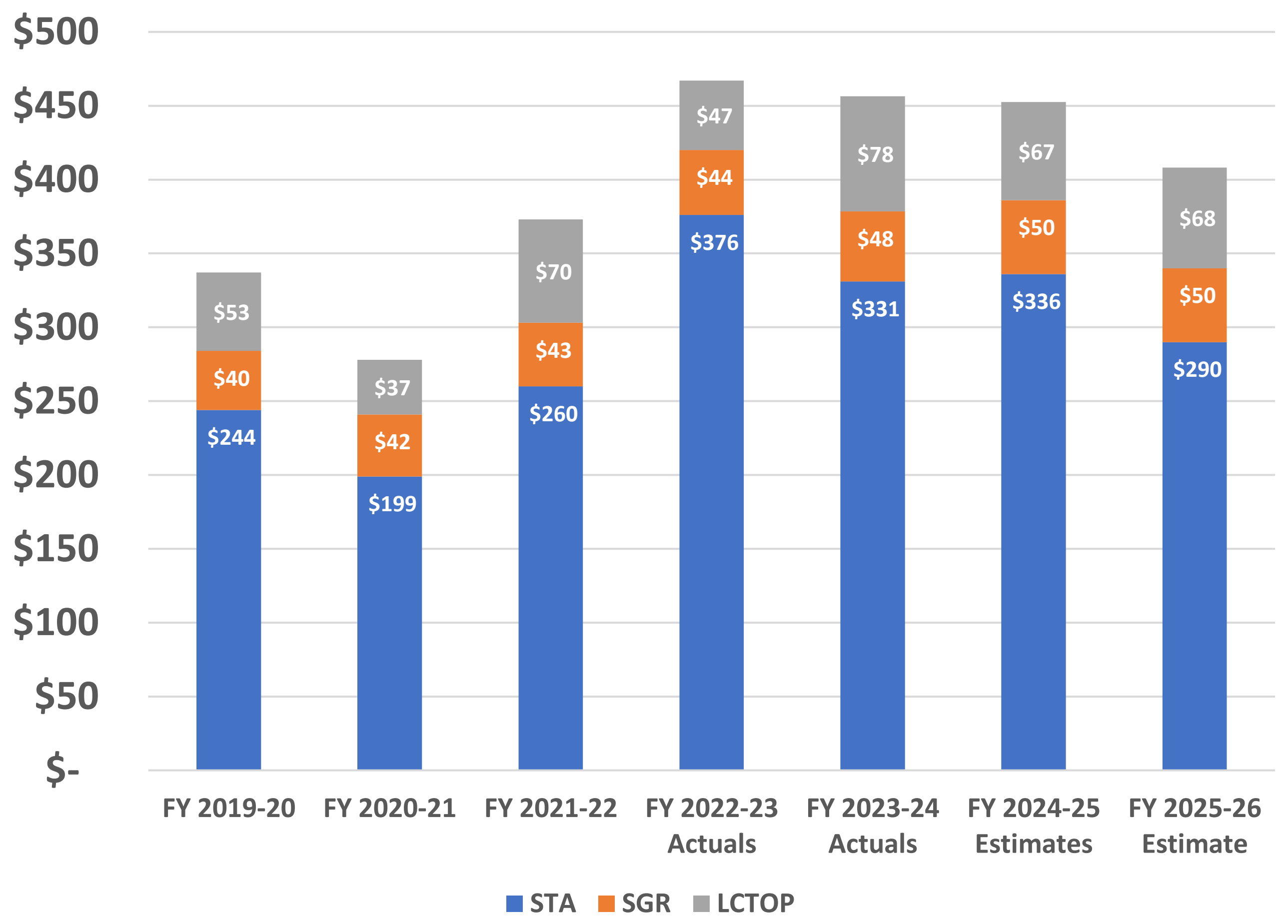
STA Formula Programs
FY 2025-26

State Transit Assistance (STA) formula splits statewide revenue 50/50 between a Revenue-Based program and a Population-Based program.

Revenue-Based funds flow to transit operators via MTC based on their qualifying local revenue. **A hold harmless provision has frozen the revenue-based formula until 6/30/26**

Population-Based funds flow to the Bay Area based on our ~19% share of the state's population and are programmed by MTC

FY 2025-26 forecast of $408 million for the Bay Area in STA, State of Good Repair (SGR) Program and Low Carbon Transit Operations Program (LCTOP) revenue



AB 1107 Sales Tax Forecast
FY 2025-26

- 25% of total revenue from BART’s sales tax in Alameda, Contra Costa, and San Francisco counties
- MTC estimates revenue and establishes funding policy
- Only AC Transit, BART, and SFMTA eligible to receive AB 1107 funds per state statute
- Historically, Commission policy is to distribute 50% of funds to AC Transit and 50% to SFMTA (or 12.5% of the total revenues to each)
- **FY 2025-26 forecast of $104 million is an estimate based on sales tax trends in Alameda, Contra Costa, and San Francisco counties**

FY 2024-25 forecast remains at the original estimate of $104 million.

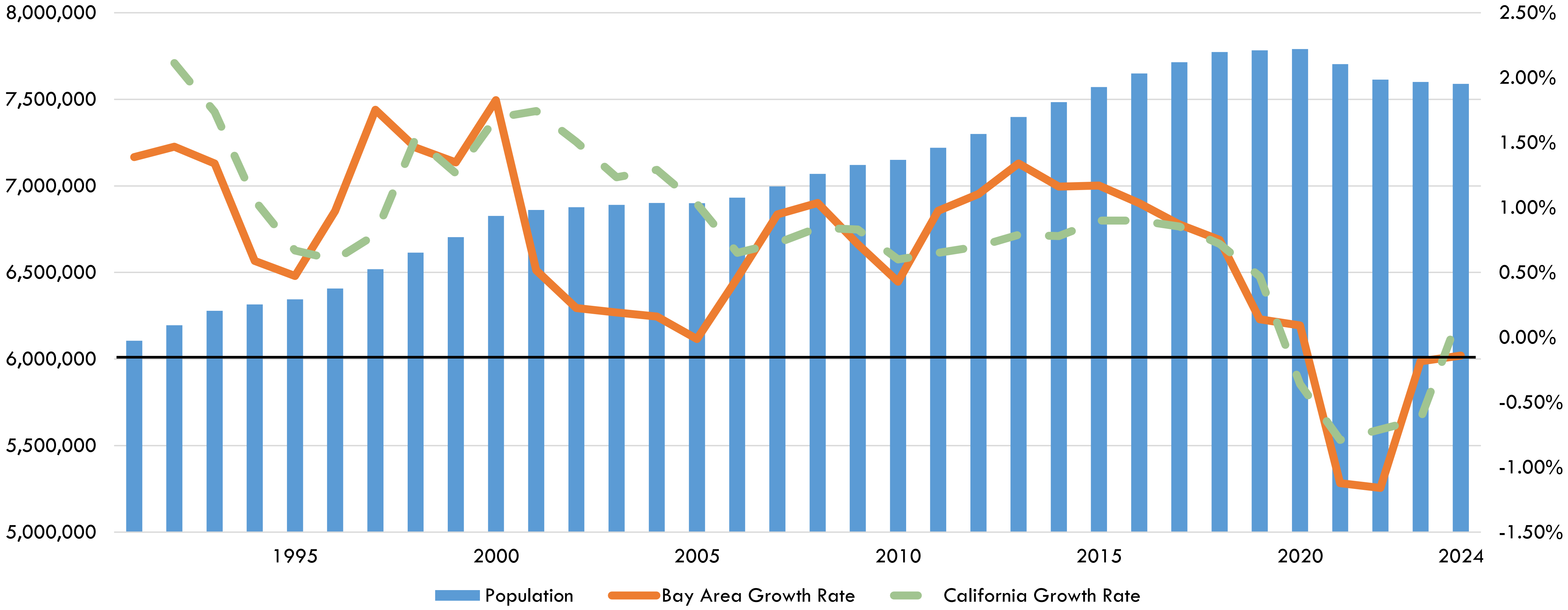
Fund Estimate Summary

	Program	Description	FY 2023-24 Actuals	FY 2024-25 Revised Estimates	FY 2025-26 Estimates
Sales Taxes & Tolls	Transportation Development Act (TDA) ¼ ¢ Sales Tax	¼ ¢ sales tax in each county	$486M	$472M	$484M
	AB 1107 ½ ¢ Sales Tax	MTC administers 25% of the revenue from the ½ ¢ sales tax in the three BART district counties	$107M	$104M	$104M
	Bridge Tolls	MTC 2% Toll Revenues and 5% State General Fund Revenues	$5M	$5M	$5M
STA Formula	State Transit Assistance (STA)	Sales tax on diesel fuel in CA.	$331M	$336M*	$290M
	State of Good Repair (SGR) Program	Transportation Improvement Fee (vehicle registration fee)	$48M	$50M	$50M
	Low Carbon Transit Operations Program (LCTOP)	5% of Cap-and-Trade auction revenues	$78M	$67M	$68M

*FY25 STA forecasts are revised down to $294M based on the Governor's Proposed FY26 budget
Note: Estimated revenue amounts are rounded to nearest million.

Bay Area Population

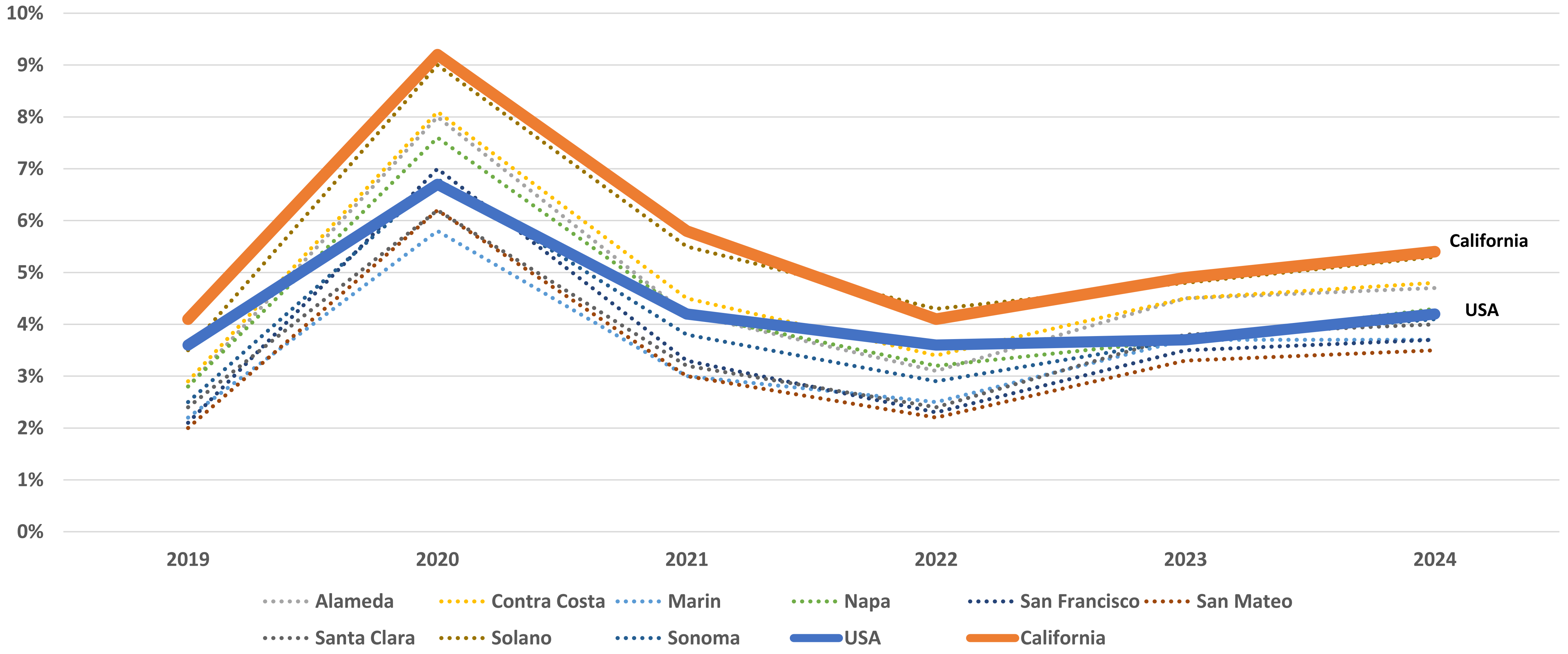
- Bay Area Population has declined for 4 consecutive years
- The regional population change continues to track behind the state population, which grew marginally in 2024



Source: California Department of Finance

Bay Area Unemployment Rate

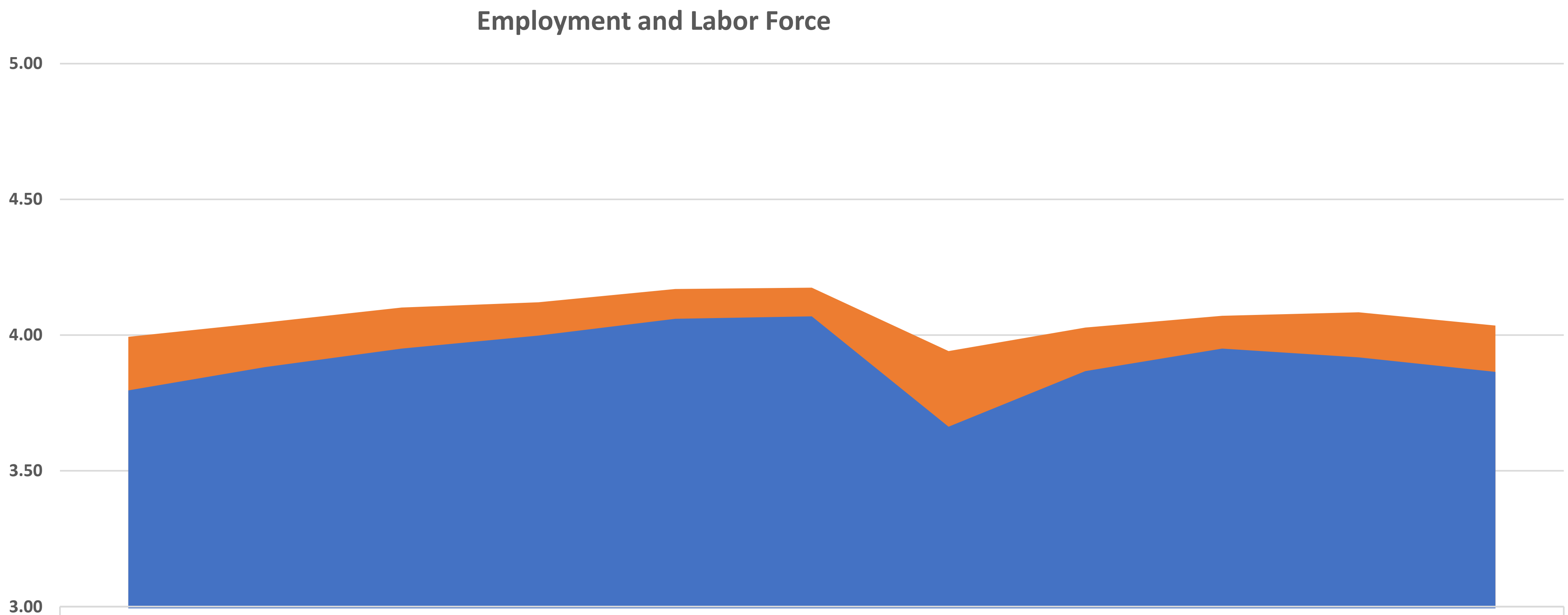
- Unemployment rates have worsened in the last year, mostly lagging behind the national average



Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics
Graph reflects November unemployment rates of each year

Bay Area Labor Force

Neither the regional labor force, nor employment levels have recovered to pre-pandemic levels

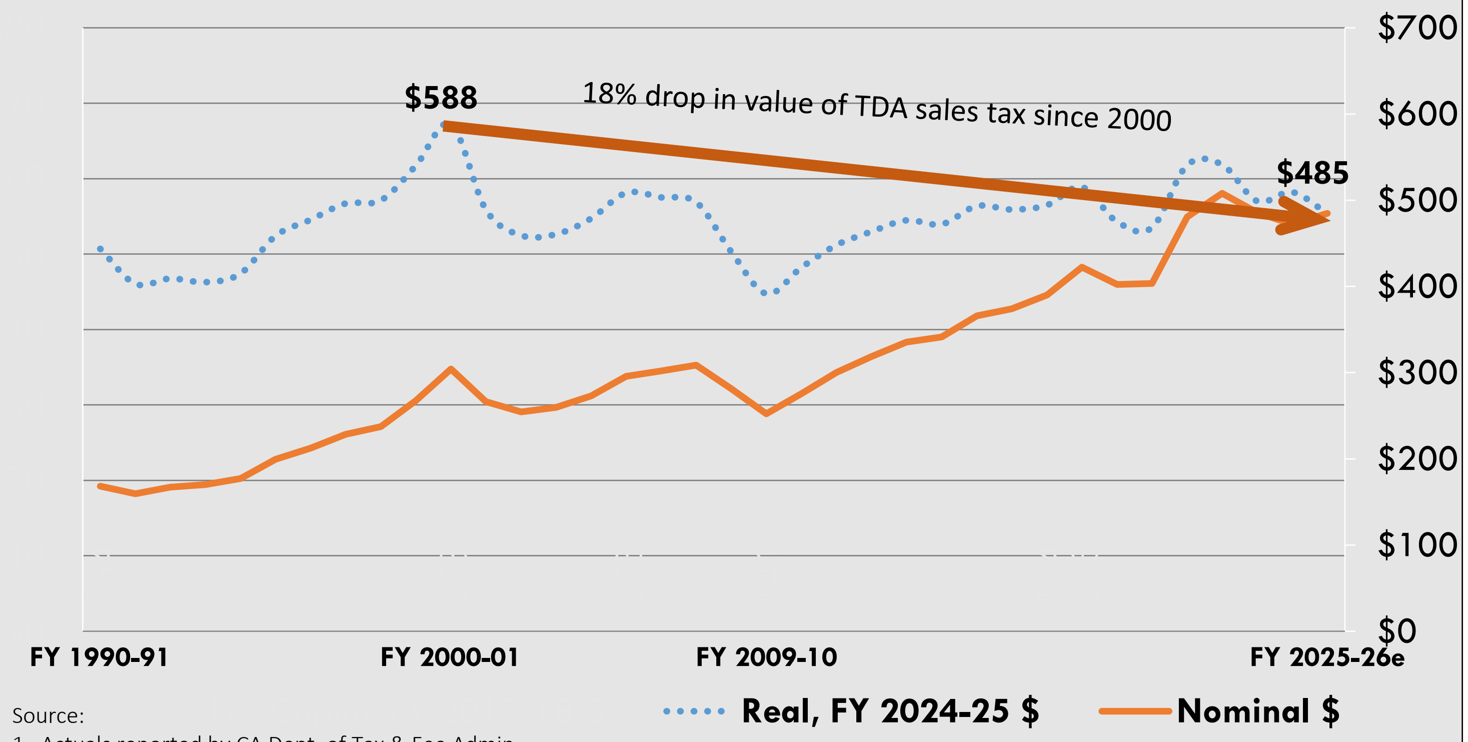


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Labor Force	3.99	4.05	4.10	4.12	4.17	4.17	3.94	4.03	4.07	4.08	4.04
Employment	3.80	3.88	3.95	4.00	4.06	4.07	3.66	3.87	3.95	3.92	3.86
Regional Unemployment Rate	4.9%	4.1%	3.7%	3.0%	2.6%	2.5%	7.1%	4.0%	3.0%	4.1%	4.2%

Labor Force Regional Unemployment Rate Employment

Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics

Real Sales Tax Revenue: 18% drop since 2000



Source:
1. Actuals reported by CA Dept. of Tax & Fee Admin.
2. FY 2025-26 estimates from County Auditor Offices
$ in millions

- In addition to the recent plateau in sales tax revenues in nominal terms, revenues have also not kept up with inflation, further diminishing its purchasing power
- Since an all-time high in 2000, real sales tax revenues have declined 18%
- FY 2025-26 Estimates of $485M are about even with the 20-year inflation-adjusted average of $481M

BART-Feeder Bus Agreement

Background

- Established in 1997 to transfer feeder bus operations from BART to East Bay bus operators
- Initial payment amounts were established by transition agreements, with subsequent payments adjusted based on changes to AB1107 sales tax revenues
- Payments are made using BART's STA Revenue-Based and TDA Sales Tax Funds

FY21: BART communicated an interest in establishing a path to reduced feeder bus payments, as well as a new approach for how payments are calculated

FY22: With much uncertainty around the pandemic along with federal relief funding available to address shortfalls, operators agreed to postpone discussion on feeder bus payments

FY23: While programming amounts remained unchanged, disbursements were capped at 50% until an agreed upon resolution

FY24: Operators agreed to reduce FY23 payments by 15% and FY24 payments by 25%.

FY25: Continued 25% reduction of Feeder Bus Payments. BART has indicated FY26 will be the last year it will be able to continue feeder bus payments.

Proposed FY26 Action:

- Continue 25% reduction of Feeder Bus Payments
- Work with operator staff to identify a path forward that considers both a successful and unsuccessful 2026 ballot measure

Other Considerations

Proposed Adjustments to TDA Distribution Formula in Sonoma County

- Marin-Sonoma Coordinated Transit Service Plan (MASCOTS) recommended change to formula in Sonoma
- Goal to mirror the formula in Marin, where funds are allocated using a performance-based model
- Revised formula would shift approximately $2M in funding from Golden Gate to SMART and bus operators in FY26

STA Revenue-Based Formula Freeze Expiration

- Half of statewide STA revenues are distributed based on each operator's share of "qualifying revenues" - i.e., fares and local taxes
- Formulas have been frozen at pre-pandemic levels, with the freeze set to expire at the end of FY2025-26
- There will be opportunities to advocate for the continuation of this freeze
- However, there is a risk of significant changes to STA revenues if the provision were to expire

Sales Tax Attribution for County TDA Revenues

- Resolution of CDTFA audits related to attribution of sales taxes have resulted in negative corrections of revenue
- Ongoing volatility due to these audits is likely for the near future

Staff Recommendation

Staff Recommendation is to refer MTC Resolution No. 4688 to the MTC Commission for approval.

Date: February 26, 2025
W.I.: 1511
Referred by: PAC

ABSTRACT

Resolution No. 4688

This resolution approves the FY 2025-26 Fund Estimate, including the distribution and apportionment of Transportation Development Act (TDA), State Transit Assistance (STA), State of Good Repair (SGR) Program, Assembly Bill (AB) 1107 sales tax, Low Carbon Transit Operations (LCTOP) cap-and-trade auction revenues, transit-related bridge toll funds, and Senate Bill (SB) 125 funds for transit operating assistance.

- Attachment A – FY2025-26 Fund Estimate Summary Tables

Further discussion of this action is contained in the MTC Programming and Allocations Summary Sheets dated February 12, 2025.

Date: February 26, 2025
W.I.: 1511
Referred by: PAC

RE: Determination of Transportation Development Act (TDA) Area Apportionments and Proposed Distribution of Operating Funds for FY 2025-26

METROPOLITAN TRANSPORTATION COMMISSION
RESOLUTION NO. 4688

WHEREAS, the Metropolitan Transportation Commission (MTC) is the regional transportation planning agency for the San Francisco Bay Area pursuant to Government Code Section 66500 *et seq*.; and

WHEREAS, the Transportation Development Act (TDA), Public Utilities Code (PUC) Sections 99200 et seq., provides that funds are made available from the Local Transportation Fund (LTF) for various transportation purposes; and

WHEREAS, pursuant to 21 California Code of Regulations Section 6620, the County Auditor for each of the nine counties in the Bay Area has submitted the revised and new TDA fund estimates for FY 2024-25 and FY 2025-26 as shown in Attachment A to this resolution, attached hereto and incorporated herein as though set forth at length; and

WHEREAS, MTC is required to determine and advise all prospective claimants, prior to March 1 each year, of all area apportionments from the LTF for the following fiscal year pursuant to 21 California Code of Regulations Section 6644; and

WHEREAS, all area apportionments of TDA funds for the 2025-26 fiscal year are shown in Attachment A to this resolution, attached hereto and incorporated herein as though set forth at length; and

WHEREAS, MTC has prepared a proposed distribution of operating/capital assistance funds, including TDA, State Transit Assistance (STA) pursuant to Public Utilities Code § 99310 et seq.), State of Good Repair (SGR) Program pursuant to Public Utilities Code § 99312.1, Low Carbon Transit Operations Program (LCTOP) pursuant to Health and Safety Code § 39719(b)(1)(B), the twenty-five percent (25%) of the one-half cent transaction and use tax collected pursuant to PUC Section 29142.2 (AB 1107), and estimates of certain toll bridge revenues (SHC §§ 30910 et seq.), in order to provide financial information to all prospective claimants to assist them in developing budgets in a timely manner; and

WHEREAS, the proposed distribution of such operating assistance funds is also shown in Attachment A; now, therefore, be it

RESOLVED, that MTC approves the area apportionments of TDA funds, and the proposed distribution of operating assistance funds for the 2025-26 fiscal year as shown in Attachment A, subject to the conditions noted therein; and, be it further

RESOLVED, that MTC intends to allocate operating assistance funds for the 2025-26 fiscal year, based on the area apportionments of TDA funds, the proposed distribution of operating assistance funds and upon the receipt of appropriate claims from eligible claimants; and, be it further

RESOLVED, that Attachment A may be revised by the MTC Executive Director or his/her designee to reflect funds returned to the Local Transportation Fund and expired capital allocations or by approval of the MTC Programming and Allocations Committee, except that any significant changes shall be submitted to the full Commission for approval.

METROPOLITAN TRANSPORTATION COMMISSION

Susan A Noack

Sue Noack, Chair

The above resolution was approved by the
Metropolitan Transportation Commission
at a regular meeting of the Commission held
in San Francisco, California, and at other remote
locations, on February 26, 2025.