Agenda Item 5a

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Memorandum

TO: Partnership Board DATE: February 16, 2011

FR: Alix Bockelman

RE: 2013 SCS/RTP Revenue Projection Assumptions

This memo sets forth the proposed financial assumptions for the revenue projections element of the RTP/SCS.

Background:
The economic landscape for the San Francisco Bay Area has changed since the financial projections were prepared for *Transportation 2035* (T2035). Although changes were made to the revenue projections prior to the Plan's adoption in 2009 to account for the economic downturn, the sustained recession is likely to affect the robustness of future revenue generations, specifically sales tax revenues.

It is important to strike a balance in the revenue forecasts – to maintain the integrity of financial constraint while also realistically anticipating new funding. This balance will ensure that transportation programs and improvements can be delivered in a timely manner.

MTC's past practice, with the exception of anticipated funds in T2035, has been to limit financially constrained revenues to existing, statutorily authorized funding streams. For this plan, staff believes it is reasonable and consistent with federal planning regulations to include revenues when there is a demonstrated record of success in securing them. Examples of these types of revenue streams would include the reauthorization of sales tax measures and bridge toll increases.

Schedule
Once the guiding financial assumptions are finalized, staff will complete draft long-range revenue projections by March 2011. These draft projections will be brought to the Partnership Technical Advisory Committee (PTAC), the Regional Advisory Working Group (RAWG), and the Policy Advisory Council in March for review. The draft projections may be used to guide further development of the Plan; however, financial projections will not be finalized until shortly before the adoption of the Plan in FY 2013, in order to allow for updates to revenue estimates based on legislative or economic changes.

General Assumptions

By way of background, the proposed timeframe and inflation assumptions are as follows:

- Time Frame –The time horizon for the SCS/RTP will be FY 2013 through FY 2040 (28 years).
- Inflation Rate – T2035 assumed a three percent inflation rate. For the 2013 SCS/RTP, staff consulted the Office of Management and Budget (OMB), which is projecting a long-term inflation rate of 1.8 percent. Staff believes this to be on the low side for the Bay Area. A 10-year historical average of the Bay Area's Consumer Price Index (CPI) yields an annual growth rate of 2.6 percent. Staff recommends using a 2.2 percent rate—which is the average of the Bay Area's historical average and the OMB's long-term rate— in order to moderate for the potential difference in Bay Area vs. national CPI growth.

Key Revenue Sources

There are over 50 transportation revenue sources that must be projected for the RTP/SCS; however, some are more significant in terms of their contribution to overall revenue. Figure 1 below ranks the T2035 revenue sources, by percent share of total revenue, with 90 percent of the total revenue identified by specific sources. Sales-tax based revenues comprise approximately 25 percent of T2035 total revenue.

Figure 1: Ranking of Fund Sources by Relative Contribution to T2035 Revenues

Revenue Source	T2035 Baseline	% Share of Total RTP Revenue
Sales Tax (1/2 cent, TDA, AB1107)	$54.7	25%
Local Streets and Road Revenue	$28.4	13%
Transit Fare Revenues	$25.8	12%
FTA Formula Funds (5307 and 5309)	$14.7	7%
Other Local Taxes	$13.2	6%
Bay Area Toll Authority Toll Revenues	$12.9	6%
Anticipated Revenue	$12.9	6%
SHOPP	$10.2	5%
State Transit Assistance	$6.6	3%
Federal Surface Trans. Program/CMAQ	$6.2	3%
HOT/Express Lanes	$6.1	3%
Regional Transp. Improvement Program	$5.5	3%
All Other Revenues	$20.7	9%
Total	**$218.0**	**100%**

Recommended Assumptions by Revenue Category

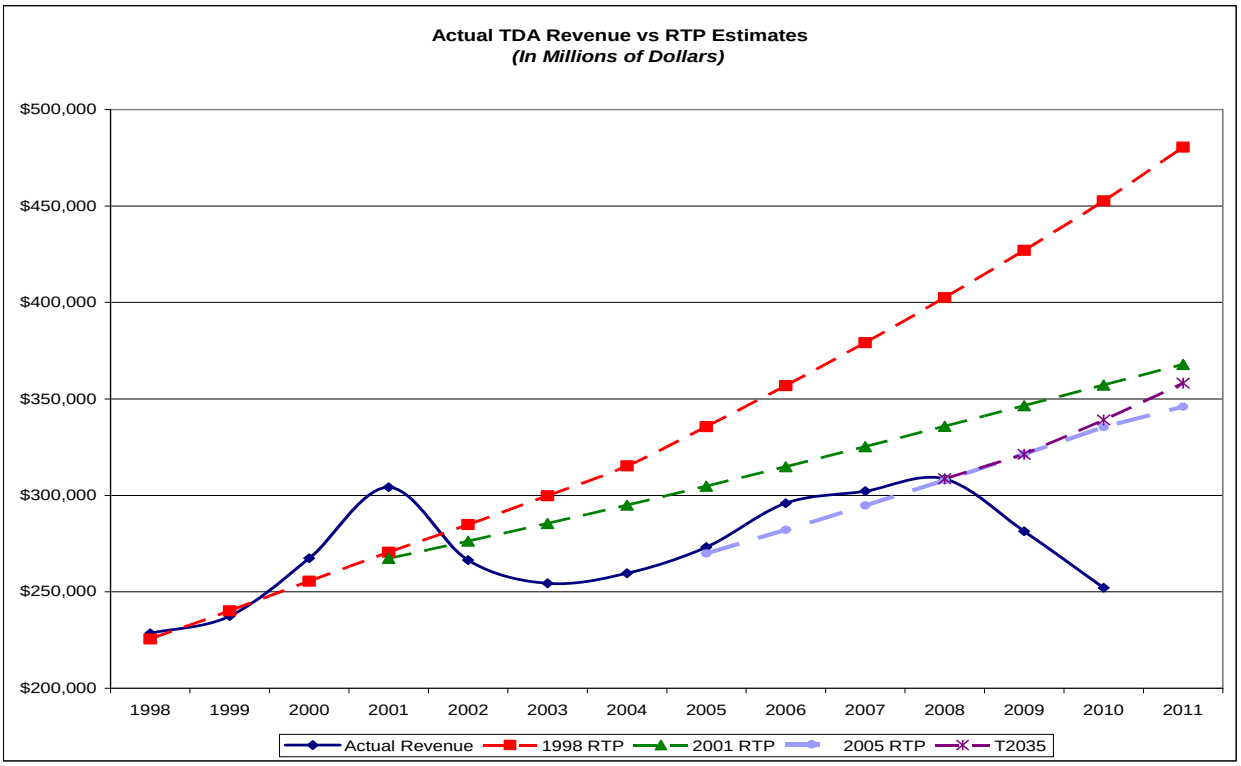
The discussion below highlights several key revenue sources and recommends assumptions for use in estimating the long-range revenues. Further, preliminary estimates are included for most revenue sources; however, please note the amounts may be revised based on additional data between now and March.

Local Funds:

Sales Tax (TDA, AB 1107 and local sales tax measures)

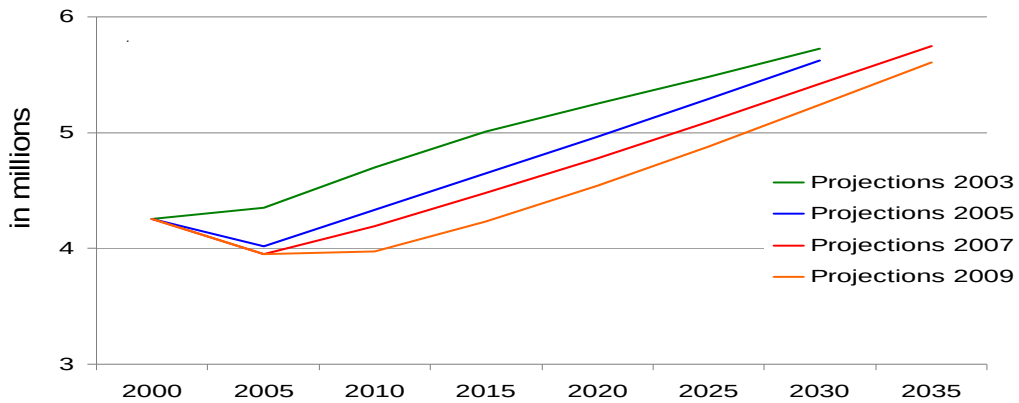
Sales tax-based revenue is difficult to forecast since it is subject to the inevitable contractions and expansions of the general economy. As illustrated in Figure 2 below, in each of the last four RTPs, Transportation Development Act (TDA) sales tax revenue projections have been higher than actual receipts. In T2035, staff modified the base year used in order to be more conservative, but could not have predicted the dramatic downturn that occurred in FY 2009.

Figure 2: TDA Sales Tax Revenue –RTP Projected vs. Actual



Taxable sales tax growth is driven by demographic changes as well. As shown in Figure 3, past RTPs have similarly overestimated job growth, at least in the near-term.

Figure 3. Regional Job Projections (in millions)



- Projections 2003 forecast 4.2 million jobs in 2010; as of November 2010 there are 3.3 million employed residents in the region
- Regional job projections have been steadily decreasing with each new Projections
- Indicates weaker growth in sales tax likely

Source: ABAG Projections
2010 current employment from Bureau of Labor Statistics as of November 2010

For the RTP/SCS, MTC intends to rely primarily on projections of sales tax revenues provided by the relevant sales tax authorities, which have generally been more conservative because of added financial review related to bond issuance. The growth rates assumed in these estimates will also inform the projections of Transportation Development Act and AB 1107 funds. Figure 4 on the next page summarizes the average growth rates assumed by the sales tax authorities, based on information currently provided to MTC.

In addition, the Association of Bay Area Governments (ABAG) is preparing forecasts of taxable sales for the region in order to provide a reasonableness check compared to what is forecasted by the sales tax authorities. This forecast is expected to be available in February 2011. MTC staff will work with the sales tax authorities to refine estimates where there are significant differences. ABAG estimates of taxable sales will likely be used to forecast TDA revenue for Napa and Solano counties.

Figure 4: Draft Sales Tax Revenue Growth Rates by County/District

County	Average Annual Growth Rate
Alameda	2.0%
Contra Costa	1.1%
Marin	3.0%
Napa**	2.8%
San Francisco	3.6%
San Mateo	2.9%
Santa Clara	2.1%
Solano**	2.8%
Sonoma	4.0%
SMART*	3.4%

*The SMART growth rate is a placeholder and subject to change once sales tax estimates are provided.

**Napa and Solano growth rates represent their weighted average of growth rates in the other seen counties and will be updated in February 2011 based on ABAG's forecast.

Recommendation: Use estimates and assumed growth rates provided by the sales tax authorities for sales tax measure revenue and to forecast TDA and AB 1107 revenue. Use forecast of taxable sales prepared by ABAG to estimate TDA revenue in Napa and Solano counties, and to use as a comparison against the sales tax authority estimates. An estimate prepared using the numbers in figure 4 would yield the following totals:
Estimated Totals
TDA --$11.2 Billion
AB 1107 -- $9.2 Billion
Sales Tax Measures (Authorized) -- $24.5 Billion
*The local sales tax measures revenue estimate does not assume passage of a county sales tax in Napa and Solano Counties.

Countywide Vehicle Registration Fees

New revenue generated from the $10 vehicle registration fees, per SB 83 (Hancock), passed in November 2010, in Alameda, Marin, San Francisco, San Mateo, and Santa Clara counties.

Recommendation: Include currently active Vehicle Registration Fees in the Local Revenue Category
Estimated Total:
$1.4 billion

Regional Revenues: Bridge Tolls

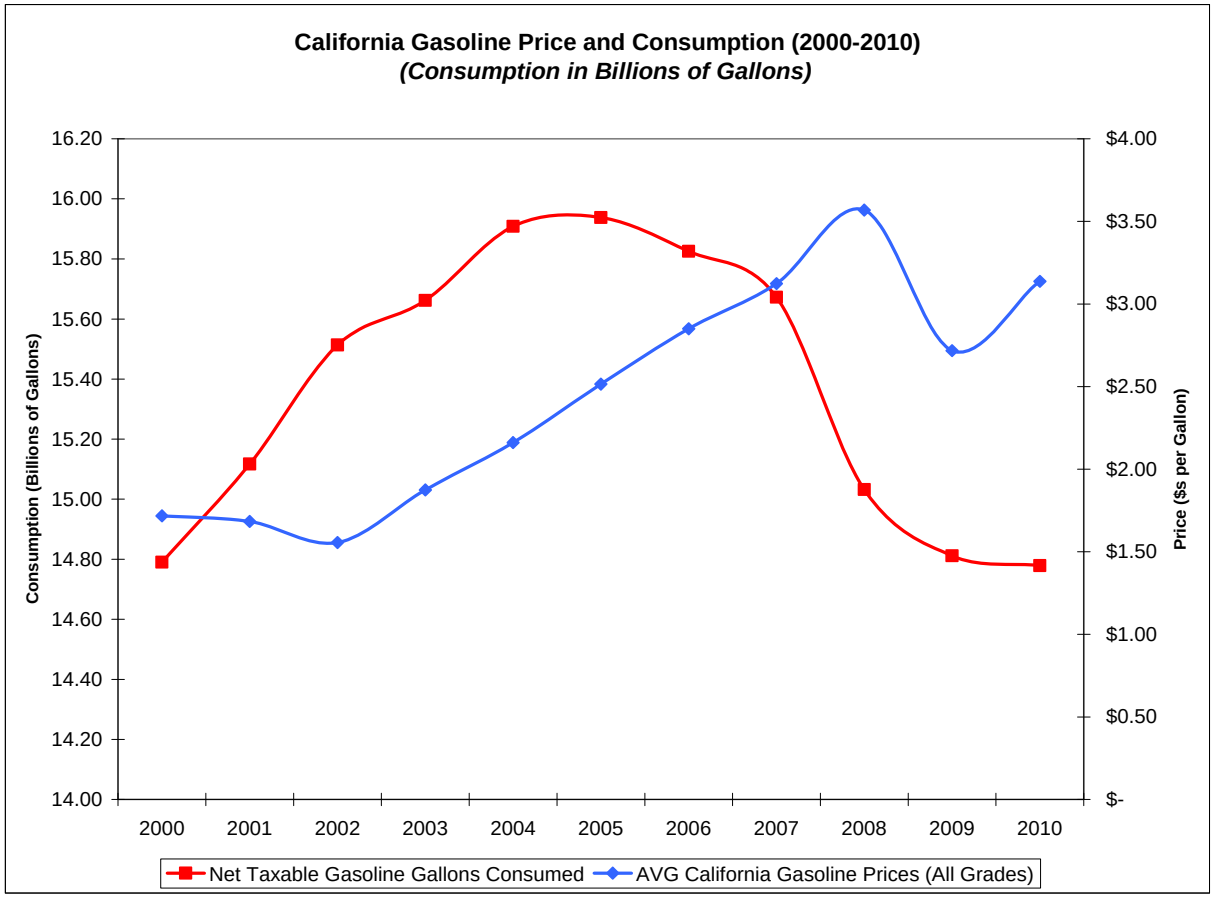
Growth assumptions based on the Bay Area Toll Authority (BATA) model average 0.3 percent growth per year for the combined regional bridges.

Recommendation: Assume that toll-paid vehicle growth averages 0.3 percent per year.
Estimated Total:
$18.5 billion

State Revenues

Several of the more significant State revenues are fuel tax based and are dependent on assumptions for fuel price and consumption growth. As with sales-tax based revenues, growth rates relevant to fuel are difficult to predict, and are subject to trends in the general economy. Figure 5 below shows a 10-year trend of price and consumption growth for fuel in California. As shown, consumption has generally declined as prices increased and further declined as a result of the economic recession. The downward trend seems to have flattened beginning in 2010. Fuel prices also turned sharply downward as a result of the recession, but are rising again as the economy begins to recover.

Figure 5: Comparison of Retail Gasoline Prices vs. Consumption



For T2035, MTC relied on information about price and consumption provided by the Legislative Analyst's Office. For the RTP/SCS, staff proposes to use consistent fuel price and consumption assumptions for both the financial projections and the scenario modeling activities.

Revised fuel price and consumption growth rates will be available in March. In the meantime, staff is assuming the same growth rates that were used in T2035. To produce the draft estimates contained in this memo, a fuel price growth rate of approximately 2.4 percent for both gasoline and diesel was applied to a FY 2009 base price of $2.86 per gallon. Consumption is estimated to grow at 1.25 percent annually for gasoline and 2.5 percent annually for diesel fuel.

Gas Tax Subvention

The projection of gas tax revenue is complicated given the Gas Tax Swap that was enacted by the Legislature in 2010 and the subsequent approval by the voters of Propositions 22 and 26. In the first case, the "swap" raised the excise tax on gasoline and eliminated the sales tax on gasoline from Proposition 42 in a manner that was intended to be revenue neutral for transportation. Subsequently, voters enacted propositions that retroactively require a 2/3 vote to validate the excise tax increase by November 2011. It could take a court decision to clarify the how Proposition 26 affects the gas tax swap. The worst case is that elements of the swap that lowered the sales tax would remain in effect while the new excise tax and higher diesel sales tax would be repealed. The draft assumptions assume that the gas tax revenues will be consistent with current levels either through a 2/3rd re-enactment of the gas tax swap (as proposed in the Governor's FY2011-12 State Budget proposal) or a substitute measure.

Recommendation: Project revenues for the 18 cent base excise tax and an excise augmentation amount that is consistent with estimated Proposition 42 levels. Assumptions are subject to change based on up-coming legislative activity. Fuel price and consumption rates will be consistent with the RTP/SCS scenario modeling activities. The current estimates assume T2035 price and consumption rates described above.
Estimated Total:
$14.8 Billion

State Transportation Improvement Program (STIP)

Recommendation: Assume the same revenue projections as are contained in the 2010 STIP Fund Estimate. Assume that new funding for the post-STIP period will come only from the share of the augmented excise gas tax to be directed towards the STIP, plus any remaining resources available from the Public Transportation Account. For the projections, the STIP is assumed to be continue to be split 75% to the Regional element, or RTIP, and 25% to the Interregional element, or ITIP.
Estimated Total:
RTIP-- $6.1 Billion
ITIP -- $1.5 Billion

State Highway Operation and Protection Program (SHOPP)

Recommendation: Assume the same revenue estimates for the SHOPP as are contained in the 2010 STIP Fund Estimate. Assume that funding in periods after the time horizon of the STIP fund estimate will grow at a constant rate.
Estimated Total:
SHOPP-- $14.2 Billion

State Transit Assistance (STA)

Revenue levels for the STA program are derived primarily from the sales tax on diesel revenue, and formerly, with a portion of Proposition 42 funds. STA funding amounts are also in question due to the passage of Propositions 22 and 26. The gas tax swap raised the *sales tax* on diesel to 1.75 percent and reduced the excise tax, while eliminating Proposition 42. It also redirected a portion of State Highway Account funds to the STA and increased the share of PTA funds that would go to

fund the STA program from 50 percent to 75 percent; however, with the passage of Proposition 22, it is believed that the share will revert to 50 percent. It is possible that a re-enactment of the gas tax swap through a 2/3rd vote of the Legislature would allow the share of PTA revenue that goes to fund the STA program to remain at 75 percent.

Recommendation: Assume that the provisions of the gas tax swap remain in place, but that the STA program will only receive 50 percent of the diesel sales that would go to the PTA. Assumptions are subject to change based on up-coming legislative activity. Fuel price and consumption rates will be consistent with what will be assumed by MTC in the Plan's scenario modeling activities.
Estimated Total:
$6.3 Billion

High Speed Rail (HSR)

Recommendation: Assume the Bay Area will receive a share of the $40 billion dollar HSR project from San Francisco to Los Angeles that is consistent with the proportional share of track mileage that will be built in the Bay Area (18.3 percent), relative to the total.
Estimated Total:
$7.3 Billion

Federal Formula Funds

Without a new multi-year authorization, it is difficult to assume a growth rate for federal funds. The T2035 assumed annual growth rate of four percent has proven to be too optimistic in the short term for on-going formula funds.

Recommendation: Assume a three percent annual growth rate
Estimated Total:
FTA Formula Funds (5307 and 5309) -- $16.3 Billion
STP/CMAQ -- $7.9 Billion

Reasonably Anticipated Revenue:

"Reasonably Anticipated Revenue" represents funding that is likely to become available from federal or state sources over the course of the Plan period, but is unspecified in terms of source or expenditure requirements. Reasonably Anticipated Revenues differ from new, specific revenue that would be generated under local or regional control such as sales tax rollovers or regional toll increases. An example of Reasonably Anticipated Revenue would be the American Recovery and Reinvestment Act (ARRA) transportation funding that was distributed by the federal government in FY 2009 in response to the national recession. In T2035, an estimated $13 billion in "anticipated" revenue was added to the financially constrained revenues based on revenue sources that materialized over a fifteen year period from 1998 through 2012. Shifting the period of analysis forward by four years yields approximately the same amount of 'anticipated' revenue.

Recommendation: Estimate the amount of anticipated funding that will become available over the course of the RTP/SCS based on the average annual amount of revenue that has become

available between the years 2002 to 2016 that was not otherwise accounted for in the estimates. To be conservative, staff recommends not assuming any anticipated funding in the first five years.
Estimated Total:
$14 billion

Additions to Constrained Revenue:

Public Private Partnership (PPP) Funds
Estimate assumes private contribution of funds roughly equal to 2.5 percent of the total cost of all projects with a cost over $50 million (based on T2035 projects). This estimate does not take into account potential express lane revenue or public revenue streams that may be accelerated through PPPs. This figure will be refined based on project totals for the new RTP/SCS and further information on the likelihood of PPP contributions over the horizon of the Plan.

Estimated Total:
$500 million

New Bridge Tolls
Assumes one $1 increase in bridge tolls over the RTP/SCS period. This increase would take place by FY 2019.

Estimated Total:
$ 2.3 billion

Sales Tax Reauthorization
Estimate assumes that all existing sales tax measures will be renewed and revenues will extend for the full course of the Plan.

Estimated Total:
$5 billion

Express Lane Revenue
For the RTP/SCS, MTC intends to include net revenues from the Regional Express Lanes Network. Net revenue is the amount of toll revenue remaining after subtracting annual operating and maintenance costs, lifecycle roadway rehabilitation costs, capital construction and financing costs for the express lane system.

MTC and Caltrans are preparing an application to the California Transportation Commission to authorize MTC to implement the Regional Express Lane Network. As part of this effort, MTC is presently updating revenue forecasts, cost estimates of (capital, operating and maintenance and lifecycle rehabilitation costs) and the financial analysis, which may include bond financing. The updated revenue estimates will reflect current ABAG Projections 2011. Where available, staff will incorporate more detailed revenue and cost estimates developed for specific projects in more advanced planning stages. Draft updated costs and revenues should be available in April 2011. Draft estimates of net revenue should be available in May 2011. The express lane revenue

included in the final SCS/RTP financial forecast will reflect the Express Lane facilities included in the RTP/SCS investment program, based on an assessment of financial feasibility and policy considerations.

Estimated Total: **$TBD**

Summary-Constrained Revenues:

The summary below does not represent all revenue categories in either the Draft RTP/SCS or T2035. Once additional estimates are available, staff will provide a comprehensive summary. Note that until the Express Lane Network revenue estimates are updated, the comparison in Figure 6 does not include, in either column, HOT/Express lane revenue, which totaled approximately $6 billion in T2035.

Figure 6: Draft 2013 SCS/RTP Revenue Totals Compared to T2035

Revenue Category	**Draft RTP/SCS (Billions)**	**T2035 (Billions)**
Sales Tax (Measures, TDA, AB1107)	44.9	54.8
Enacted Vehicle Reg Fees	1.4	0
Bridge Toll	18.5	13.0
Extended Sales Tax/Bridge Tolls	7.3	0
Gas Tax Subvention	14.8	12.0
RTIP / ITIP	7.6	7.4
SHOPP	14.2	10.2
STA	6.3	6.6
High Speed Rail	7.3	3.0
Federal Formula Funds (5307/5309 & STP/CMAQ)	24.2	20.9
Reasonably Anticipated Revenue	14.0	13.0
Total	160.5	140.9

Potential Revenues

In addition to the financially constrained revenues, we will need to consider whether to incorporate potential revenues that may become available over the Plan period. Although there are substantial hurdles to secure these revenue streams, it is worthwhile to consider them for advocacy and planning purposes.

- 10-Cent Regional Gas Tax -- $9 Billion (Approximately $300 million annually)
- Parking Revenue -- $TBD (This is potential revenue that could be generated through local parking policies)
- $10 Vehicle Registration Fee for Contra Costa, Napa, Sonoma and Solano Counties -- $619 million