



TO: Regional Advisory Working Group

DATE: May 26, 2015

FR: Theresa Romell and William Bacon, MTC

RE: Plan Bay Area 2040 Financial Assumptions

This memo sets forth the proposed financial assumptions for the revenue projections element of Plan Bay Area 2040 (Plan), the update to the Bay Area's Regional Transportation Plan/Sustainable Communities Strategy. As the Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG) begin the development of the Plan, these financial assumptions will guide the Plan's forecast of transportation revenues and costs. MTC staff appreciate feedback on the proposed financial assumptions from regional stakeholders.

Schedule

Once the guiding financial assumptions are finalized, MTC staff will complete draft long-range revenue projections by September 2015. 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 September for review. The draft projections will also be presented to a joint meeting of the MTC Planning Committee and ABAG Administrative Committee in September 2015. The draft projections will 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 2016/17, in order to allow for updates to revenue estimates based on new local revenue measures as well as legislative or economic changes.

General Assumptions

1. Time Frame – The Plan is proposed to cover a time period from FY 2016/17 through FY 2039/40 (24 years). All revenue projections will be prepared in escalated year-of-expenditure (YOES) dollars.
2. Inflation Rate – The Plan is proposed to assume a 2.2% inflation rate, the same inflation rate as the 2013 Plan. This rate is consistent with ten year inflation forecasts for the Bay Area from the California Department of Finance, the U.S. Federal Reserve, and the federal Office of Management and Budget (OMB).
3. Federal Funds Growth Rate – For the three year period of FY 2016/17 to FY 2018/19 the Plan is proposed to assume a 0% annual growth rate for formula funding programs, and for discretionary programs where the Bay Area typically receives a steady share. For the period FY 2019/20 onwards the Plan is proposed to assume a 3% annual growth rate for these same federal fund sources.
4. Motor Vehicle Fuel Prices and Consumption – Assumptions underlying the prices and level of consumption for motor vehicle fuel used in the financial projections strive to be

consistent with those assumptions used by MTC’s travel model as well as by ABAG staff.

For fuel price and consumption assumptions, staff recommends utilizing base figures and growth rates developed jointly by MTC, the Southern California Association of Governments (SCAG), the San Diego Association of Governments (SANDAG), and the Sacramento Area Council of Governments (SACOG), California’s four largest metropolitan planning organizations (MPOs). These joint assumptions will be used by each of the four MPOs in the development of their updated regional plans.

Table 1. MPO Agreement Fuel Assumptions

Year	Price Assumptions (2015\$)	Bay Area Consumption Assumptions (1,000 gallons)	Change in Consumption
2015	\$3.83	7,054	N/A
2035	\$5.29	4,079	-42%

Table 1 shows the fuel assumptions from the MPO agreement for 2015 and 2035 (the final year of the MPO agreement). Staff will use all assumptions contained in the MPO agreement to produce year by year forecasts for the Plan revenue forecast. For the period from 2035 to 2040 staff will use a linear growth rate for the remaining years of the Plan period. It is important to note that consumption forecasts for diesel fuel are expected to increase slightly over the course of the Plan, not decrease, therefore revenues generated from diesel fuel taxes (e.g., STA) are not expected to be significantly impacted.

5. Population and Employment – Population and employment projections are key to the development of sales tax revenue forecasts for the Plan given the impacts of these measures on taxable sales growth rates by county. The Plan will use population and employment projections developed by ABAG staff. ABAG will prepare a long-range forecast for taxable sales that can be used as the basis for the sales tax based revenue sources in the Plan.

Revenue forecasts for individual county transportation sales tax measures will be provided by county sales tax authorities, consistent with the policy from the 2013 Plan. This is done to maintain consistency with projections released by the county authorities and to acknowledge that many of the counties issue debt against their sales tax revenue and their projections may influence financing arrangements.

Revenue Source Assumptions

The below sections provide details on specific assumptions and/or sources to be used in the development of financial projections for key revenue sources from the five main categories of funding in the Plan: local, regional, state, federal, and anticipated/unspecified funds.

1. Local Funds – Transportation Development Act (TDA), AB 1107, County Sales Tax Measures

Sales tax based revenue sources form a critical and growing portion of the anticipated Plan revenues. While revenues tied to fuel consumption or federal funds are expected to diminish over the Plan period, sales tax revenues form an ever increasing share of the regional transportation revenue pie. As more counties augment their existing sales taxes

(such as Alameda County) or consider an augmentation, sales taxes are expected to become even more important to transportation projects, which at the same time shifts an increasing amount of discretionary funding to the local level.

Recommendation: Use ABAG's forecast models to project TDA and AB 1107 sales tax revenues. Use county sales tax authority revenue projections, in line with expenditure plans, for county sales tax measures. Revenue for county sales tax reauthorizations (e.g. the period beyond the expiration of existing adopted expenditure plans through FY 2039/40) will be assumed for each applicable county by using the same county sales tax authority revenue projections carried forward to FY 2039/40 unless directed otherwise by a county sales tax authority.

2. Local Funds – County Vehicle Registration Fees

2010's SB 83 allowed counties to seek voter approval for a \$10 vehicle registration fee (VRF). In the Bay Area five counties (Alameda, Marin, San Francisco, San Mateo, and Santa Clara) have local registration fees. Each fee is permanent except for San Mateo County's fee which expires in FY 2035-36.

Recommendation: Base projections on VRF expenditure plans and projections from each county VRF administering authority.

3. Regional Funds – Bridge Tolls and Bay Area Express Lanes

Revenues from the various different bridge tolls collected by the Bay Area Toll Authority (BATA) and the anticipated revenues from the express lanes network in development form a key portion of MTC's regional discretionary funds.

Recommendation: Use projections from BATA for all bridge toll forecasts. Use projections from MTC's travel model for anticipated revenues for the Bay Area Express Lanes network. Each of these assumptions is consistent with what was used in the 2013 Plan.

4. State Funds – Gas Tax Subvention

Gas tax subvention funds form the basis of local streets and roads maintenance funding for most jurisdictions in the region. Given the significant decrease in gas tax revenue that is expected over the Plan period due to reduced consumption, it is likely that alternative funding sources will need to be developed to maintain the current levels of funding for local streets and road maintenance. The forecasting of gas tax revenues is further complicated by the 2010 Gas Tax Swap which requires the Board of Equalization to adjust the gas tax each year based on changes in fuel prices.

Recommendation: Project revenues consistent with the MPO agreement on fuel prices and consumption between MTC and the other three large California MPOs.

5. State Funds – State Transportation Improvement Program (STIP)

The STIP provides funding for a broad range of transportation projects across the region and is approved by the California Transportation Commission. The STIP and its corresponding Regional Transportation Improvement Program (RTIP) county shares form a significant source of discretionary funds for the Plan. However due to the

expected decreases in state gas tax revenues over the Plan period it is likely that STIP revenues will fail to grow in line with regional needs.

Recommendation: Assume the same funding levels as are contained in the 2014 STIP Fund Estimate. For the period beyond the STIP Fund Estimate assume that new revenues will come from the share of the state gas tax dedicated to funding the STIP. The gas tax revenues will be based upon the price and consumption forecasts from the MPO agreement.

6. State Funds – State Transit Assistance (STA)

The STA program is funded by the statewide sales tax on diesel fuel. The STA program in turn funds both transit operations around the region as well as key regional programs, including MTC's Regional Coordination Program which principally supports 511 and Clipper® operations.

Recommendation: As the MPO agreement on fuel prices and consumption does not contain projections for diesel fuel, staff propose to use consumption estimates from the California Air Resources Board's Emission Factor Model. For diesel price assumptions staff propose to calculate diesel prices by year based on the price of gasoline in the MPO agreement and adjusted based on the 2015 core price (e.g. excluding taxes) differential between gasoline and diesel in California.

7. State Funds – Cap and Trade Programs

California's recently established Cap and Trade programs are expected to provide significant funding support for transportation projects in the Plan period. For the purposes of the financial projections staff propose to incorporate funding from four main Cap and Trade programs:

- Low Carbon Transit Operations Program
- Transit and Intercity Rail Capital Program
- Affordable Housing and Sustainable Communities Program
- High Speed Rail Program

Recommendation: For overall Cap and Trade statewide revenues staff propose to use an estimate of \$2.5 billion (nominal \$) in annual revenues through the Plan period. This estimate is consistent with the amount of proceeds generated by the first round of Cap and Trade auctions to include transportation fuels which were conducted in February 2015. The second round of auctions will occur in May 2015 and should help provide a clearer picture on expected revenues in the longer term. Staff propose to calculate the region's Low Carbon Transit Operations Program revenue based on the same assumptions as the STA program. For the other Cap and Trade programs staff propose to base the region's revenues on the Bay Area's current population share of the state, 19%.

8. Federal Funds – Surface Transportation Program/Congestion Mitigation and Air Quality (STP/CMAQ) and Federal Transit Administration (FTA) Funds

Given the lack of a long term federal transportation funding authorization and the impending expiration of the current MAP-21 extension, it is difficult to project with much certainty the level of federal support for transportation over the Plan period. As noted in greater detail above staff are proposing to use a federal funds growth rate of 0% through FY 2018/19 and then a 3% growth rate through FY 2039/40.

Recommendation: For most programs, assume the region receives a similar share of federal funds as we currently receive under MAP-21 and that funds are distributed through the same program structure. Assume a 0% growth rate through FY 2018/19 and then a 3% growth rate through FY 2039/40.

9. Anticipated/Unspecified Funds

In the 2013 Plan \$14 billion was added to the financial projections to incorporate “anticipated” revenues based upon an analysis of unexpected revenues that materialized for the region through legislation in the 15 year period from 2002 to 2016, such as Proposition 1B and the American Recovery and Reinvestment Act (ARRA)

Recommendation: Staff recommend continuing to use a 15 year “look back” analysis to develop the projection for anticipated funds. For the Plan this will involve analyzing the period from 2006 to 2020.

Local Ballot Measures

The outlook for the November 2016 election indicates that there could be up to five significant transportation revenue measures on the ballot: a county sales tax extension and/or augmentation in Contra Costa County, a vehicle license fee increase in San Francisco, a new county sales tax in Santa Clara County, a new county sales tax in Solano County, and a general obligation bond in the three counties of the BART district. It is not clear at this time exactly which measures will make the ballot, and if measures are placed on the ballot, whether voters would approve them. However, collectively these measures could produce up to \$15 billion in additional revenue over the Plan period depending on the specific design of each measure. In addition, Sonoma County voters will consider a local sales tax measure on the June 2015 ballot related to local streets and roads maintenance.

Revenue from these new measures is proposed to not be included in the Plan until the measures are approved by voters in the respective jurisdiction. Should voters approve a measure, MTC will amend the revenue forecast for the Plan to include the approved new funding sources. However, CMAs and regional transit operators are asked to submit projects during the Call for Projects process consistent with these new local measures being approved. This will allow MTC the opportunity to conduct analysis and performance evaluations on the proposed projects. Should a measure not be placed before voters or fail to secure voter approval, CMAs and regional transit operators will be given the opportunity to work with MTC to adjust the assignment of discretionary funding for their projects in the Plan.

New Revenue Sources

As with the 2013 Plan MTC proposes to include several new, not yet approved revenue sources within the financially constrained revenue forecast.

- a. One \$1 Bridge Toll Increase – The 2013 Plan included a \$1 increase in bridge tolls starting in 2018. For the Plan staff propose to assume a \$1 increase in 2022.
- b. 10¢ Regional Gas Tax – As with the 2013 Plan, the Plan propose to include a 10¢ regional gas tax, but will assume that funding begins in FY 2018 rather than FY 2022.
- c. Cap-and-Trade Goods Movement Funds – Staff propose to assume a limited amount of revenues dedicated to goods movement from the 40% of overall Cap and Trade revenues which have not been allocated by the Legislature. This

projection will be based upon an assumption of 5% of annual Cap and Trade revenues dedicated to goods movement with the region receiving a 10% share based on past trends for state goods movement funding distributions.

- d. SB 16 (Beall) Revenues – Staff propose to include a State revenue source based on the anticipated revenue that would flow to the Bay Area under the currently proposed SB 16 (Beall). Revenue forecast for SB 16 would be considered committed for Local Street and Road maintenance and the SHOPP. Should SB 16 or a similar measure fail to be enacted by the Legislature, the projected amount for this stop-gap revenue source would be removed from the revenue forecast.
- e. Value Capture – Staff propose to include project-specific revenues derived from value capture strategies such as enhanced infrastructure finance districts (EIFD), community facilities districts (Mello-Roos), assessment districts, public-private partnerships, and other applicable revenue sources.

Preliminary Plan Bay Area 2040 Revenue Estimate

Below is a high level estimate that provides a preliminary look at the level of revenue expected for the Plan. This estimate yields about \$3 billion less than was forecast for Plan Bay Area, about a 1.3% decrease overall. Discretionary revenues in the Plan are projected to be almost equal to those for Plan Bay Area, with only a .01% decrease. However, the significant increase in the State Funds total is primarily due to the inclusion of funding from SB16, which adds about \$15 billion in funding over the Plan period. Please note that these rough, preliminary estimates will change based on final information collected by MTC before the release of draft projections in September 2015.

Table 2. Preliminary Plan Bay Area 2040 Revenue Estimate (in Billions \$)

Revenue Category	Plan Bay Area Revenue (FY2012-13 to FY2039-40)	Plan Bay Area 2040 Revenue (FY2016-17 to FY2039-40)	Difference (%)
Federal Funds Total	\$33.50	\$25.51	-24%
State Funds Total	\$48.57	\$53.80	11%
Regional Funds Total	\$36.90	\$34.98	-5%
Local Funds Total	\$148.25	\$151.34	3%
Anticipated/Unspecified Total	\$14.00	\$14.00	0%
Other*	\$10.59	\$9.47	-11%
TOTAL	\$292	\$289	-1.3%

*Regional gas tax, S.F. cordon pricing, and VTA express lanes.

Plan
BayArea
2040



Plan Bay Area 2040 Financial Assumptions

Regional Advisory Working Group
June 2, 2015



PURPOSE

- To guide the Plan's forecast of transportation revenues and costs.

SCHEDULE

- Assumptions Development: April/May 2015
- Revenue Forecast Development: Summer 2015
- Draft Revenue Forecast: September 2015
- Revised Revenue Forecast: January 2016, November 2016





TIME FRAME

- FY 2016/17 through FY 2039/40 (24 years)

INFLATION RATE

- 2.2% inflation rate, the same inflation rate as the 2013 Plan

FEDERAL FUNDS GROWTH RATE

- FY 2016/17 to FY 2018/19 the Plan will assume a 0% annual growth rate for formula/discretionary programs
- For the period FY 2019/20 onwards the Plan will assume a 3% annual growth rate for these same federal fund sources.

MOTOR VEHICLE FUEL PRICES AND CONSUMPTION

- Assumes prices and consumption consistent with an agreement between the four large MPOs in CA
- Gasoline consumption in the Bay Area is projected to **decline by 42% by 2035**

POPULATION AND EMPLOYMENT FORECASTS

- Key to sales tax revenue forecasts, will be developed by ABAG
- County transportation sales tax forecasts provided by county sales tax authorities



FUND SOURCES

- Federal Transit Administration (FTA) formula and discretionary funding programs
 - Surface Transportation Program (STP)
 - Congestion Mitigation and Air Quality Program (CMAQ)
 - FHWA National Highway Performance Program
 - FHWA Ferry Boat Formula Program
 - Other federal programs (high speed rail, etc.)
- } One Bay Area Grant (OBAG)

KEY ISSUES

- Expiration of MAP-21, lack of a long term federal bill
- Assuming that the federal Highway Trust Fund is “held whole” through transfers and that federal transportation programs are not directly impacted by the reduction in gasoline consumption forecast over the Plan period



FUND SOURCES

- State Highway Operation and Protection Program (SHOPP)
- Regional Transportation Improvement Program (RTIP)
- Interregional Transportation Improvement Program (ITIP)
- Active Transportation Program (ATP)
- State Transit Assistance Revenue-based and Population-based (STA)
- State Motor Fuel (Gas) Tax Subventions and AB 105 for Local Streets and Roads
- Cap and Trade Funds (LCTOP, TIRCP, AHSCP, HSR)
- SB 16 (Beall) Revenue placeholder
- Other state programs

KEY ISSUE

- How to address the decline in state fuel tax revenues due to the anticipated decrease in gasoline consumption



FUND SOURCES

- AB 1107 sales tax
- Bridge tolls
- Service Authority for Freeways and Expressways (SAFE) Vehicle Registration Fees
- Regional Express Lanes revenues
- Transportation Fund for Clean Air (TFCA)



FUND SOURCES

- County sales tax measures and reauthorizations of existing measures
- Local Streets and Roads funds
- Transportation Development Act (TDA) sales tax revenues
- Transit fare revenues
- Transit non-fare revenues
- Transit operator local fund sources (General Fund transfers, parking revenue, etc.)
- Property tax revenues
- Parcel taxes
- Transportation Fund for Clean Air
- SB 83 Vehicle Registration Fees (VRF)
- Land sales, public-private partnerships, and private sector revenues
- Golden Gate Bridge tolls
- Other local revenues (bonds, local jurisdiction taxes, local fees, etc.)

KEY ISSUE

- Local ballot measures before Plan adoption in spring 2017



ISSUE

- Several counties as well as BART are considering asking voters to approve new revenues for transportation from various different fund sources including sales tax augmentations, increases in the vehicle license fee, and new general obligation bond issuances

APPROACH

- Revenue from new measures will not be included in the Plan until the measures are approved by voters in the respective jurisdiction
- Should voters approve a measure, MTC will amend the revenue forecast for the Plan to include the approved new funding sources
- CMAs and regional transit operators are asked to submit projects during the Call for Projects process consistent with these new local measures being approved
- Should a measure not be placed before voters or fail to secure voter approval, CMAs and regional transit operators will be given the opportunity to work with MTC to adjust the assignment of discretionary funding for their projects in the Plan.



MEASURES TO BE INCLUDED

- \$1 Bridge Toll Increase – The 2013 Plan included a \$1 increase in bridge tolls starting in 2018. For the Plan staff will assume a \$1 increase in 2022
- 10¢ Regional Gas Tax – As with the 2013 Plan, the Plan will include a 10¢ regional gas tax, but will assume that funding begins in FY 2018 rather than FY 2022
- Cap-and-Trade Goods Movement Funds – The Plan will assume a limited amount of revenues dedicated to goods movement from the 40% of overall Cap and Trade revenues which have not been allocated by the Legislature
- SB 16 (Beall) Revenues – Based on currently proposed SB 16 (Beall). Revenue forecast for SB 16 would be considered committed for Local Street and Road maintenance and the SHOPP. Should SB 16 or a similar measure fail to be enacted by the Legislature, the projected amount for this stop-gap revenue source would be removed from the revenue forecast
- Value Capture – Staff propose to include project-specific revenues derived from value capture strategies such as enhanced infrastructure finance districts (EIFD), community facilities districts (Mello-Roos), assessment districts, public-private partnerships, and other applicable revenue sources.
 - More information on this proposal will be forthcoming soon

PRELIMINARY REVENUE ESTIMATE



Plan
BayArea
2040

Preliminary Plan Bay Area 2040 Revenue Estimate (in Billions \$)

Revenue Category	Plan Bay Area Revenue (FY 2012-13 to FY 2039-40)	Plan Bay Area 2040 Revenue (FY 2016-17 to FY 2039-40)	Difference (%)
Federal Funds Total	\$33.50	\$25.51	-24%
State Funds Total	\$48.57	\$53.80	11%
Regional Funds Total	\$36.90	\$34.98	-5%
Local Funds Total	\$148.25	\$151.34	3%
Anticipated/Unspecified Total	\$14.00	\$14.00	0%
Other*	\$10.59	\$9.47	-11%
TOTAL	\$292	\$289	-1.3%

*Regional gas tax, S.F. cordon pricing, and VTA express lanes.

- This estimate yields about \$3 billion less than was forecast for Plan Bay Area, about a 1.3% decrease overall
- Discretionary revenues in the Plan are projected to be almost equal to those for Plan Bay Area, with only a .01% decrease
- Significant increase in the state funds total is primarily due to the inclusion of funding from SB16, which adds about \$15 billion in funding over the Plan period
- These are rough, preliminary estimates will change based on final information collected by MTC before the release of draft projections in September 2015

Plan
BayArea
2040

Thank You

