



METROPOLITAN  
TRANSPORTATION  
COMMISSION

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## *Memorandum*

TO: Partnership Technical Advisory Committee

DATE: September 11, 2006

FR: Theresa Romell

RE: SRTP Revenue Projections—State Transit Assistance Forecast (FY 2007 – FY 2016)

For planning purposes, this memo is intended to provide transit operators with MTC's projection of State Transit Assistance (STA) revenue, as well as highlight key factors affecting the availability of funding over the next ten years. Attachment A contains the projection details for the base STA Revenue & Population Based estimates, the Proposition 42 increment, and sample allocation estimates containing the Department of Finance's forecast of spillover revenue.

Although the information contained in this memo pertains only to the STA revenue projection, MTC staff intends to provide transit operators with ten-year projections of the following revenue sources by September 18, 2006.

- 1/4 cent county sales tax based Transportation Development Act (TDA) funds
- AB1107, the 25 percent that MTC administers
- Bridge toll revenue
- Federal Formula funds

### **General STA Distribution Assumptions:**

STA funds are distributed 50 percent based on population share and 50 percent based on revenue share statewide.

Population-Based: MTC's share of the population-based STA funding is based on the long-term population forecast data completed by the California Department of Finance (DOF). The population projection shows a trend of decreased population share in the Bay Area as a percentage of the state total population over the next ten years. The base STA population-based funds are distributed to each apportionment area based on distribution factors from the FY2006-07 Fund Estimate. A 3.5 percent inflation rate is applied to the Paratransit program over the 10-year period since the STA Population-Based policy includes an inflation-based annual adjustment for the Paratransit program. For the Proposition 42 increment, the population-based funds are not disaggregated as this funding is dedicated to the Lifeline and TransLink® programs per Transportation 2030 policy starting in FY2008-09.

Revenue-Based: The region's share of the statewide revenue-based STA funding is based on the FY2006-07 Fund Estimate and is held constant over the 10-year period. Because of the volatility in an operator's revenue base depending on changes of local revenue contribution to their operating funds, the estimates use a ten-year average of the historic shares for each operator's revenue base share, holding this basis constant for the entire SRTP period, with the exception of FY 2006 and FY 2007.

### **STA Base Revenue:**

State Transit Assistance program funding levels depend primarily on forecasts of diesel and gasoline price and consumption levels. There is no way to accurately predict the future price of gasoline. Many “experts” predict that the dramatic upturn in price over the last fiscal year will be matched by a dramatic downturn, with prices nearing the \$2.00 mark in the very near future. Others predict that gas prices will reach \$4.00 by the end of the decade.

Long-range forecasts from Caltrans and the U.S. Department of Energy’s Energy Information Agency (EIA) are similar in that both assume that the *rate of increase* in the price of gasoline will reach its peak around FY 2006-07, followed by a decade or more of negative rates of change in the base price of gasoline. However, the negative rates of change are not sufficient to counteract the effect of assumed inflation, therefore, they do not expect gas prices to fall below their current retail levels within the next ten years.

The fuel price and consumption forecasts contained in these projections are based on Caltrans’ *2005 California Motor Vehicle Stock, Travel and Fuel Forecast*. For projection purposes, it is assumed that the rate of change for diesel fuel prices is identical to that of gasoline (Caltrans does not provide projections for diesel fuel prices). A deviation from the Caltrans source was made in that the gasoline price rate of increase was shifted dramatically upward for FY 2006 and FY 2007, in order to mirror actual gas prices that have occurred within the 2006 calendar year, but were not reflected in the 2005 Caltrans forecast. The upward shift was then reversed in subsequent years so that the overall rate of increase used in the projections is consistent with the Caltrans forecast for the ten-year period.

Considering it is far easier to make budgetary adjustments when actual revenue exceeds expectations than it is to adjust when actual revenue falls short of estimates, MTC has taken a slightly conservative approach to the revenue projection for base STA funding. In order to account for the possibility that gasoline prices will fall significantly in the near term, a reduced base-year figure was used. Instead of the \$197 million that is contained in the enacted state budget, the FY 2006-07 *proposed* budget amount of \$162 million has been substituted as the basis for future year estimates. The \$162 million is roughly the mid-range figure between the FY 2005-06 actual STA amount, and the \$197 million final budget amount for FY 2006-07.

### **Proposition 42**

Proposition 42 funding has been unreliable due to the existing loopholes in the law that allows funds to be diverted to the State General Fund. Proposition 1A, if passed in November, would close that loophole and ensure that Proposition 42 funds flow to the transportation programs for which they were intended. For the purposes of the STA projections, full Prop 42 funding was assumed. Should Prop 42 funds be suspended again, it is assumed that repayment, with interest, would be made by the State, as has been the case for past suspensions.

Just as STA base revenue is largely dependent on the price of diesel fuel, Proposition 42 revenue is subject to the volatility in the price of gasoline, and is therefore very difficult to predict. To be consistent with the conservative methods used to estimate the base STA revenue, a reduced base price of gasoline (retail - sales tax), of \$2.52 per gallon was used as the starting point in FY 2008 for projecting Proposition 42 funding levels. This price is the average between the actual California average base gasoline price in FY 2006 and the estimated average gasoline price for FY 2007. Also for consistency, the same rates of increase in gasoline prices that were used to estimate the available funding for the base STA program were assumed for forecasting Proposition 42 revenue. The repayment of Proposition 42 funds that had been suspended in prior years is not included in these projections, the reason being that the remainder of funds to be repaid is very minor.

In FY 2008-09, the Traffic Congestion Relief Program will end and the gasoline sales tax proceeds that currently are set aside for it will no longer result in a reduction to the Proposition 42 funding. Currently, the set aside for the TCRP projects is \$678 million. In FY 2007-08, the final year of the program, the set aside will be \$601.9 million, per the statute.

**Spillover**

In FY 2006-07, for the first time in 17 years, the Public Transit Account was budgeted a portion of the “spillover” funding that is supposed to be directed to it in full when the growth in sales tax on gasoline exceeds the growth in other sales tax revenues. Under the FY 2005-06 Budget Agreement, in FY 2006-07, it was agreed that the first \$200 million of generated spillover would be diverted to the State General Fund, and \$125 million would be directed to BATA for the seismic retrofit program. The amount above \$325 million would be directed towards the PTA, where it would be split between STA and other transportation purposes. Of the statewide \$668.7 million in spillover that is estimated for FY 2006-07, STA will be getting approximately \$248 million, which is roughly 80% of the total amount transferred to the PTA.

California Department of Finance and Board of Equalization forecasts for spillover project that there will be approximately \$4.3 billion dollars available over the next ten years. Historic law would direct all of these funds to the PTA where 50% would be made available for STA. On average, this would mean \$200 million per year over the next ten years for STA.

While it may not be realistic to assume this level of funding over the next ten years, it is likely that some portion of the spillover will be made available to STA in light of the existing legislative and political environment. It should be noted, that there has been recent talk among interested parties of permanently converting the spillover revenue to Proposition 42 revenue. If this occurred, STA would get roughly \$40 million per year (10% of the \$400 million annual estimate).

Since it is difficult to predict future trends based on a single year of actual spillover payment, MTC is not including spillover revenue in its STA revenue projection. The DOF forecast of spillover revenue is shown in the table below. In addition, assuming based on current law that 50 percent of the total spillover will flow to STA, the potential ten-year statewide STA spillover figure and the MTC region’s Revenue-Based and Population-Based shares are also illustrated below. Transit operators should make their own assumptions regarding the amount of the spillover, if any, to include in their estimates of available revenue.

<b>DOF Spillover Forecast (In millions)</b>	
<b>Year</b>	<b>Total Spillover</b>
FY 2007 (Actual)	\$ 669
FY 2008	\$ 652
FY 2009	\$ 579
FY 2010	\$ 484
FY 2011	\$ 376
FY 2012	\$ 356
FY 2013	\$ 334
FY 2014	\$ 308
FY 2015	\$ 279
FY 2016	\$ 248
<b>TEN-YEAR TOTAL</b>	<b>\$ 4,284</b>

**Possible Total 10-Year STA Spillover Revenue (In Millions)  
(FY2006 - FY2017)**

	<b>Base Revenue</b>
<i>Statewide STA Spillover</i>	<b>\$ 2,058</b>
<b>MTC Share</b>	
<b>Revenue Based</b>	<b>\$ 724</b>
<b>Population Based</b>	<b>\$ 197</b>

**Summary**

MTC forecasts that approximately \$3.44 billion will be available in statewide STA revenue over the next ten years (FY 2007 – FY 2016), of which \$1.85 billion is base revenue and \$1.59 billion is Proposition 42 revenue. As shown in the table below, the statewide totals translate into approximately \$1.21 billion in STA revenue for the region.

**Total 10-Year STA Revenue Forecast (In Millions)**

	<b>Base Revenue</b>	<b>Proposition 42</b>	<b>Total</b>
<i>Statewide STA</i>	<b>\$ 1,854</b>	<b>\$ 1,586</b>	<b>\$ 3,441</b>
<b>MTC Share</b>			
<b>Revenue Based</b>	<b>\$ 653</b>	<b>\$ 558</b>	<b>\$ 1,211</b>
<b>Population Based</b>	<b>\$ 475</b>	<b>\$ 406</b>	<b>\$ 881</b>
	<b>\$ 178</b>	<b>\$ 152</b>	<b>\$ 330</b>

It is important to note that even with the conservative “reduced base” approach to estimating the STA base revenue and Proposition 42 increment, the exclusion of spillover revenue, the ten-year STA forecast is approximately 24% greater than the ten-year forecast that was generated in 2005. The primary reason for the significant increase in the total STA program estimate is the rise in diesel and gasoline prices.