Metropolitan Transportation Commission
Programming and Allocations Committee

March 7, 2007 **Item Number 4a**

Subject: Draft Funding Proposal for Proposition 1B Regional Transit Funding

Background: At its January meeting, the Legislation Committee directed staff to prepare a draft proposal for the Proposition 1B Population-based Transit funding, with an emphasis on how these funds might help address the needs of low-income and minority communities. The staff proposal for distribution of the estimated $347 million in population-based transit funding is outlined in the attached Executive Director Memorandum. After input from the Programming and Allocations Committee, advisory committees, partner agencies and the public, the proposal will return to the Committee for expected final action in May 2007.

Summary: Staff recommends augmenting the $347 million of Proposition 1B Population-based funds with $72 million in uncommitted State Transit Assistance (STA) regional discretionary funds estimated to be available over the next ten years and directing the total, $419 million, to the following categories:

Proposed Investment Category	Proposed Funding (in millions)
Lifeline Funding for Transit Operators	$ 153
Urban Core Transit Improvements	$ 169
Small Operators - Operating Enhancements	$ 41
Small Operators - Capital Improvements	$ 25
Zero Emission Buses	$ 20
Program Reserves	$ 11
Total	$ 419

Issues: 1) Staff recommends that the lion's share of the $419 million be invested in Lifeline and transit expansion programs. This will be complemented by an expected significant investment of revenue-based bond funds in system rehabilitation projects.

2) In order to maximize investment of their new bond funds in the region, staff recommends that transit operators be required to provide a 1:1 match for the non-Lifeline capital programs.

3) Staff recommends a comprehensive 10-year program including estimated uncommitted funds in the STA Base Program and Proposition 42 revenues to provide programming flexibility (ensure a source of operating funds) for the Lifeline program as well as for the small operators.

4) Uncertainty remains in schedule and methodology of statewide distribution of bond proceeds. Further definition will be available when statewide program guidelines are released at an undetermined later date. In addition, the estimate of uncommitted STA funds is based on a 10-year revenue projection that may vary from actual results.

Recommendation: Release Draft Program Framework and Proposed Investment Strategy for comment.

Attachment: Executive Director's Memorandum

METROPOLITAN
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COMMISSION

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Memorandum

TO: Programming and Allocations Committee DATE: March 7, 2007

FR: Executive Director

RE: Draft Funding Proposal for Proposition 1B Regional Transit Funding

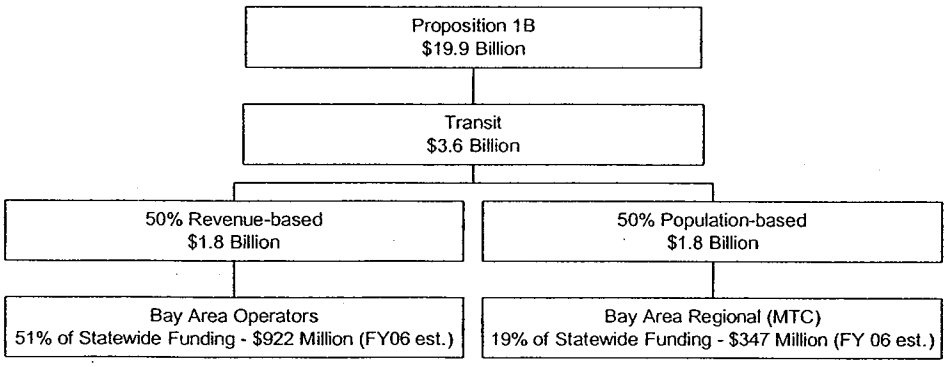
Summary
At its January meeting, the Legislation Committee directed staff to prepare a draft proposal for the Proposition 1B Population-based Transit funding, with an emphasis on how these funds might help address the needs of low-income and minority communities. The staff proposal for distribution of the estimated $347 million in population-based transit funding is outlined below. The proposal is for information only. After input from the Programming and Allocations Committee, advisory committees, partner agencies and the public, the proposal will return to the Committee for expected final action in May 2007.

A. Estimated Revenues

$1.3 Billion Available for Transit in the Bay Area

Proposition 1B, directed $3.6 billion of the roughly $20 billion bond toward transit improvements through the Public Transportation, Modernization, Improvement, and Service Enhancement Account. This represents a significant infusion of capital funding for transit agencies throughout the state. This funding is for distribution using an existing funding formula – which dictates that 50% flow through a population-based formula and 50% through a revenue-based formula. Currently, State Transit Assistance (STA) funds are distributed annually using this formula. Based on this formula, there will be roughly $1.3 billion in new bond funding (restricted to capital expenses) for the Bay Area. Note that statewide program guidelines have not been developed and the timing for release is undetermined. Based on the methodology of distribution and availability of bond proceeds, estimates presented in this proposal may change. In particular, the basis by which any formula is "fixed" for purposes of distributing the revenue-based funding is the source of continuing discussion. The estimated flow of funds based on FY 2005-06 information is reflected in the chart below.

Proposition 1B - Transit Funding



$347 Million to MTC
Within this $1.3 billion, about $347 million in bond funds is anticipated to come directly to MTC from the population-based portion of the STA formula for priority setting with our partner agencies. The remaining roughly $1 billion will be distributed directly to the transit operators.

$922 Million Directly to Transit Operators
An initial survey of Bay Area transit operators suggests that the nearly $1 billion in revenue-based bond proceeds will be used for a combination of activities: fleet expansion, bus replacement, purchase of rolling stock, maintenance facilities, fare collection equipment, bus stop improvements and other capital improvements. For example, BART has indicated that it intends to use all of its revenue-based funds for system maintenance and repair. By contrast, AC Transit has requested to coordinate Federal Transit Administration (FTA) and Proposition 1B funds to allow service expansion. In this request, FTA formula funds would be directed to preventive maintenance and Proposition 1B to replace buses that would otherwise have been purchased with FTA funds. A summary of the estimated revenue-based bond amounts for the region with detail for the large transit properties is shown below.

Public Transportation, Modernization, Improvement, and Service Enhancement Account	
Operator	**Dollars in Millions***
Revenue Share	
AC Transit	$ 87.1
BART	$ 248.4
CalTrain	$ 41.8
Golden Gate Transit	$ 35.5
SamTrans	$ 44.5
San Francisco Muni	$ 316.9
Santa Clara VTA	$ 123.3
Other Transit Agencies	$ 24.5
Population Share - MTC	$ 347.0
Regional Total	**$ 1,269.0**

*Based on FY 2006 State Controller's Figures, with estimate of population-share for the total 10-year period.

B. Prop 1B Population-based Funds Distribution Framework
The availability of Proposition 1B Population-based funds presents the Commission with an opportunity to augment the STA Base Program and the Proposition 42 transit funding to strengthen investments throughout the region.

STA Base Policy
MTC receives a population-based formula share of STA funds. These funds can be used for operating or capital expenses. MTC's current policy distributes these funds to 1) Small operators/northern counties that, in comparison to the large operators, receive a small portion of the region's STA revenue-based funds; 2) Paratransit services to assist ADA implementation; and 3) MTC's Regional Coordination Program.

Proposition 42
Passed by state voters in 2002, Proposition 42 dedicated the sales tax on gasoline to transportation, creating an additional transit revenue stream based on the STA formula. The Proposition 42 funds may be used for operating or capital expenses. As part of MTC's adoption of the regional transportation plan, Transportation 2030 (T2030), the Commission recognized the importance of regional needs by dedicating MTC's population-based share of the Proposition 42 revenues exclusively to the Lifeline and TransLink® programs.

In 2006, MTC attempted to revisit the Base Policy, but operators recommended maintaining the existing policy. However, staff did learn that transit operators wanted to better understand MTC Regional Coordination needs and wanted to gain access to potential revenue growth in the STA base. The staff proposal for Proposition 1B responds by freeing up uncommitted STA funds after 1) firming up 10-year MTC Regional Coordination needs; and 2) meeting 10-year Lifeline and TransLink® commitments in T2030.

Below is an outline of the staff proposed framework to distribute the Proposition 1B population-based proceeds:

1. **Combine estimated uncommitted transit funding from the STA Program (Base and Proposition 42) with Prop 1B proceeds for a comprehensive 10-year transit investment strategy**

   Based on current revenue estimates and after honoring existing programming policies, there is an uncommitted surplus of STA and Proposition 42 funds available over the next ten years. The estimated cash flow for Proposition 1B transit funds is also ten years. Staff recommends adopting a programming strategy utilizing all three fund sources:

Fund Source	Amount (in millions)	
State Transit Assistance (Base Program Increment)	$	26
State Transit Assistance (Prop 42 Increment)	$	46
Proposition 1B Transit (Population-based)	$	347
Total	**$**	**419**

   The above strategy provides the Commission with:

   - Funding to make significant investments across various transit categories;
   - Flexible funds (for both capital and operational purposes) to balance the capital project restriction on the Proposition 1B funds; and
   - An opportunity to work with transit operators to match MTC's investment with local funding.

2. **Maximize availability of operating funds to the Lifeline program and smaller systems**

   As mentioned above, Proposition 1B funds are restricted to capital purposes such as: purchase of new vehicles, repair and rehabilitation of transit vehicles and stations, new bus shelters and transit stop amenities, and facility repairs and rehabilitation. Operating activities such as running additional bus service, running community shuttles, subsidizing multi-ride passes or providing fare discounts are not eligible for Proposition 1B funding.

The uncommitted STA funds are available for transit capital and operating purposes. Combining the Proposition 1B funds with the estimated surplus STA funds enables the Commission to fund capital projects as well as providing operating funds in the Lifeline program. This same benefit would apply to the small transit operator component of our proposal. A portion of these STA funds will be made available by "swapping" Proposition 1B funds for previously planned STA capital expenditures.

3. **Work with transit operators to combine Proposition 1B population-based funds with Proposition 1B revenue-based funds to provide a comprehensive strategy for addressing transit needs.**

As described below, staff recommends that non-Lifeline capital investments made in this proposal require matching funds from transit operators. Seventy-five percent of the region's Proposition 1B capital funds are directed to transit operators. Staff proposes working in tandem with the transit operators to deliver a balanced investment program.

C. Staff Recommendation for Increments of STA Base/Proposition 42 and Proposition 1B Transit Funds

Based on the above framework, staff has identified the following strategic investment opportunities for the estimated $419 million available from the funding sources identified above. This is in addition to the following existing investments under the Base and Proposition 42 STA policies: Northern Counties and Small Operators, Regional Paratransit, Lifeline, and Regional Coordination, including TransLink®.

Proposed Investment Category	Proposed Funding (in millions)
Lifeline Funding for Transit Operators	$ 153
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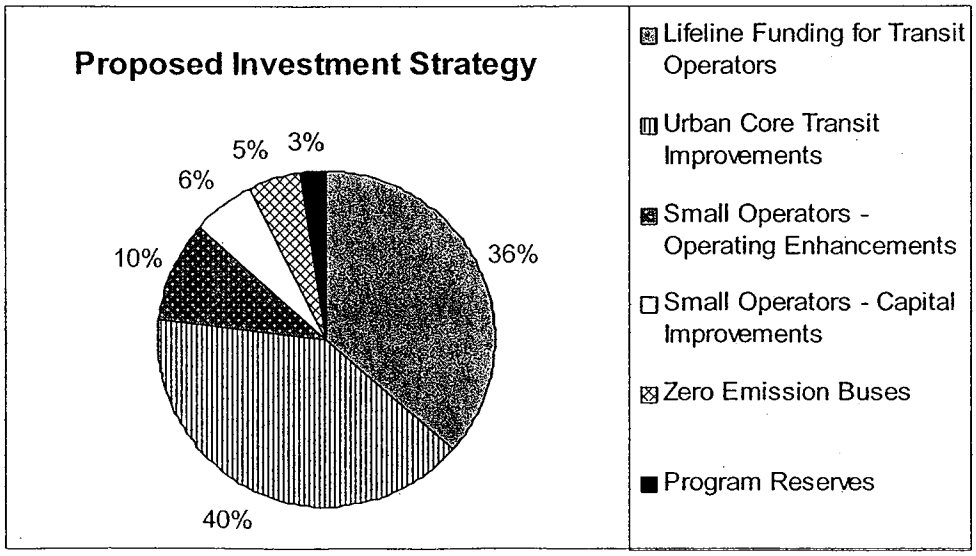

1. Lifeline Funding for Transit Operators

The Commission has shown a strong commitment to the Lifeline program and directed staff to consider augmenting this program with Proposition 1B funding. Our proposal directs over one-third of available programming to Lifeline programs, including $52 million for operating purposes.

Based on the existing Lifeline formula, the funds would be distributed according to share of low-income population as follows:

County	Proposed Lifeline Funding (in millions)	
Alameda	$	42
Contra Costa	$	19
Marin	$	4
Napa	$	3
San Francisco	$	23
San Mateo	$	11
Santa Clara	$	33
Solano	$	8
Sonoma	$	10
Total	**$**	**153**

As you know, the Lifeline program funding is currently subvened to the county Congestion Management Agencies (CMAs) and must address the priorities that have been established in the locally-developed Community Based Transportation Plans (CBTPs). Since the funding available for Lifeline through this investment is limited to transit, we expect that the funding will be directed to the transit operators in each county to provide either service enhancements, contract with other providers, or make capital improvements according to the results of the CBTP process. Note that Proposition 1B Transit funding, which is roughly $100 million of the proposed Lifeline augmentation, is limited to capital transit projects. Under our proposal, each county would also receive its pro rata share of Lifeline operating funds. Based upon our review of the first cycle of completed CBTPs, there appear to be ample Lifeline needs to justify these capital and operating funding levels.

2. Urban Core Transit Improvements

In April 2006, the Commission updated Resolution 3434, the Regional Transit Expansion Program. Currently, the $13.5 billion program has identified shortfalls approaching $3 billion. Reflecting the Commission's commitment to Resolution 3434, the staff proposal includes $169 million to address funding shortfalls on projects that will explicitly add transit capacity in the urban core of the region. It should be noted that these projects cover areas in the inner part of the region that have recently accepted much higher 'smart growth' housing projections and are now seeking additional transit capacity to accommodate significant increases in population. Staff is recommending the following projects under this category:

Project	Proposed Funding (in millions)	
BART to Warm Springs	$	24
San Francisco Muni Central Subway	$	100
Santa Clara VTA Line 22 Bus Rapid Transit	$	45
Total	**$**	**169**

The BART to Warm Springs commitment already has been secured in the context of the BART-SamTrans settlement agreement approved by the Commission last month. The Warm Springs project is the first step in the extension of BART service to San Jose, Northern California's largest city. The Muni Central Subway project is one of the region's two federal New Starts candidates, and is proposed to serve San Francisco's dense and disadvantaged Chinatown neighborhood. VTA's bus rapid transit proposal for its Line 22 service would upgrade the busiest bus line in Silicon Valley.

Funding of the above projects is subject to three conditions: 1) partner agency provides 1:1 match from the revenue-based bond proceeds; 2) project demonstrates a viable full funding plan; and 3) SF Muni and VTA must resolve outstanding Caltrain right-of-way acquisition financing issues with SamTrans.

3. Small Operators – Operating Enhancements
The proposal includes $41 million to address operating or capital needs of small operators as a result of the unprogrammed surpluses in the STA Proposition 42 program over the next 10 years. These operating funds would be allocated among the small operators in the same proportions as the current STA Base program formula.

4. Small Operators – Capital Improvements
The proposal includes $25 million for small operator capital projects. Eligible small operators would be those North County/Small Operators currently eligible for population-based funds in the STA Base program. This is proposed to be a future MTC competitive program and will require a 1:1 match.

5. Zero Emission Buses
In light of recent California Air Resources Board directives and MTC's own efforts to improve air quality, the proposal includes $20 million for the purchase of Zero Emission Buses (ZEB) for the regional ZEB program led by AC Transit and Santa Clara VTA.

6. Base Policy and Proposition 42 Reserves
The Proposition 1B bond funds are relatively certain. As noted earlier, however, the State has not yet determined whether the formula allocation of these bond funds will be adjusted annually or "fixed" at a certain point in time.

The STA uncommitted funds are MTC staff estimates, which we believe to be conservative, based on future revenue projections, population trends and economic conditions. The actual revenue generations could change based on these factors. In addition, Proposition 42 funds can be suspended, although Proposition 1A placed stringent conditions on Proposition 42 suspensions and requires an accelerated payback.

As a result of the potential volatility of the STA revenue stream, staff proposes to develop a policy to consolidate the existing and proposed Base and Proposition 42 program categories into a single set of percentage-based allocations. In years when the STA revenue stream exceeds our projections, all program recipients would benefit. In years when the revenue source contracts, program recipients would likewise share the impact of the downturn. To guard against a string of "bad years", the proposal includes an $11million reserve that could be distributed based on MTC's existing STA Base and Proposition 42 formulas if conditions warrant.

D. Next Steps

This item is for information only. The following schedule outlines next steps for the Proposition 1B Transit Population-based program.

DATE	ACTION
March/April 2007	Transit Finance Working Group, Partnership Technical Advisory Committee, Advisory Council, Elderly and Disabled Advisory Committee, and Minority Citizens Advisory Council review and comment.
April 2007	Partnership Board Reviews and Comments on Staff Proposal
May 9, 2007	Programming and Allocations Committee considers recommending proposal for adoption
May 30, 2007	Commission considers adoption of Proposition 1B Transit Population-based Program

Steve Heminger