

Metropolitan Transportation Commission

May 22, 2024

Agenda Item 12a - 24-0569

Draft Metropolitan Transportation Commission FY 2024-25 Operating and Capital Budget

Subject:

Presentation of the Metropolitan Transportation Commission (MTC) draft Fiscal Year (FY) 2024-2025 (2024-25) Operating and Capital Budget. Total operating revenue is budgeted at \$360.4 million, and total operating expenses are \$360.6 million. The draft budget results in a \$154 thousand operating deficit funded by a transfer from operating reserve. The draft budget also includes a \$11.3 million transfer to the Capital Budget for funding of MTC's ERP project.

Background:

While the general economic picture nationally and regionally continues to perform well with meaningful growth in GDP and low unemployment, there are several headwinds that MTC must consider as we prepare for FY 2024-25 and beyond.

These headwinds include:

- inflation, which has continued to run higher than desired for the past 3 ½ years.
- The risk associated with regional banks and their exposure to commercial real estate as regional and national markets continue to experience high vacancy rates and decreasing commercial property values.
- Higher interest rates, partly driven by sustained short-term interest rates by the Federal Reserve, and partly by the market reaction to both inflation generally and the Federal Reserve's actions.
- Potentially weaker economic growth including potential slacking of consumer demand.

Key Budget Development Issues

While today's economic "top-line" numbers look good, the issues discussed above could present challenges for MTC in FY 2024-25 or FY 2025-26. Furthermore, Bay Area Toll Authority (BATA) traffic levels, which support MTC overhead costs through administrative transfers of toll revenue, have not recovered to their pre-pandemic levels, while staffing and other costs associated with MTC operations continues to grow.

The draft FY 2024-25 Operating and Capital Budgets attempt to strike a balance between (1) resourcing staffing needs to address Commission initiatives and MTC's growing portfolio and priorities, and (2) the

need to be fiscally prudent in FY 2024-25 as macroeconomic factors such as inflation, and local economic factors such as “hybrid-work” trends continue to create economic uncertainty for the region.

FY 2024-25 Budget Assumptions

The draft budget incorporates several key assumptions:

- 3% cost of living adjustment
- 3.75% interest yield
- Sales tax revenue projections from TDA increase by 3.8% in comparison to FY 2023-24
- Bridge toll revenue, including RM3, is up 10% over FY 2023-24 year-end estimate of \$803 million but 1% lower than FY 2023-24 budget.
- 8% vacancy rate
- decrease in federal and increase in state grant funding, primarily REAP 2.0
- updated indirect cost rate methodology.

The actual cost of living adjustment, based on figures released by the Bureau of Labor Statistics in May 15, 2024, will be 3.8%. This adjusted figure will be reflected in the final proposed budgets that are presented on June 26, 2024.

New Positions

MTC is responsible for authorizing staffing for MTC, ABAG, and all operating entities. The draft FY 2024-25 budget includes a total of 422 positions, an increase of 18 new positions, spread throughout all the agencies for which MTC is responsible. These positions provide capacity and leadership for expanded operational requirements (many of which are funded by outside sources), support implementation of new grant funding, and allow MTC to adapt and meet the needs of a growing portfolio of work. These positions are funded by a combination of MTC general fund, reimbursed through overhead distribution, or funded by outside sources such as bridge and express lane toll revenue or ABAG grants.

MTC will add positions to fill needs as follows:

- (10) positions to add leadership and capacity to meet MTC’s growing portfolio and expanded operational requirements including executive leadership, support for bridge and express lane maintenance and rehabilitation, information technology, human resources, and administrative support.
- (5) term-limited positions to support implementation of MTC’s new Enterprise Resource Planning program. These positions will both backfill staff that will be dedicating a significant amount of time to the ERP implementation and lead data management and process improvement for the agency. Costs for these positions are included in the ERP project budget.
- (3) term-limited project-based positions to implement recently awarded grants for the San Francisco Estuary Partnership and the Bay Area Regional Energy Network (BayREN).

FY 2024-25 Revenue and Expense

Total revenue estimated for FY 2024-25 is \$360.4 million, down \$12.8 million from the amended FY 2023-24 budget. Summaries of revenue and expenses are shown below. The decrease in federal funding is largely due to a change in presentation whereby grants initially planned as passthrough are being received by the local implementing agency directly. The decreases are offset by increases in state funding for Regional Early Action Plan 2.0 (REAP 2.0) and SB1 Road Maintenance and Rehabilitation Act grants. Staff is monitoring discussions on California’s state budget as this will affect funding availability for REAP 2.0 and SB 125. As with other programmed but unallocated grants, contract awards and expenditures only proceed when funds become available.

	Total	% Change	\$ Change
Federal Grants	\$172.3M	(9%)	(\$16.7 M)
State Grants	112.9M	22%	20.7M
Local Funding	19.3M	(50%)	(19.3M)
General Fund	17.2M	4%	0.3M
Transfer from Other Entities/Funds	5.6M	(17%)	(1.1M)
Administrative Overhead Reimbursement	30.0M	8%	2.2M
Other	3.2M	52%	1.1M
Total	\$360.4M	(3%)	(\$12.8M)

Total expenses for FY 2024-25 are estimated at \$360.6 million, down \$11.6 million from the amended FY 2023-24 budget. The largest part of this decrease is for contractual services, which is largely driven by REAP 2.0 funding being transferred to the Bay Area Housing Finance Authority. A summary of expense changes is shown below:

	Total	% Change	\$ Change
Salaries and Benefits	\$57.1M	6%	\$3.2M
Computer Services	8.1M	31%	1.9M
General Operations	5.1M	(2%)	(0.1M)
Consultants	288.3M	(6%)	(16.9M)
Other	2.0M	19%	0.3M
Total	\$360.6M	(3%)	(\$11.6M)

Total salaries and benefit cost increase are due to additional positions and incorporation of the Cost-of-Living Adjustment (COLA). Computer Service increases are primarily driven by increased software license costs and computer hardware upgrades.

Post Retirement Costs

The combined MTC post-retirement obligation is nearly \$16.6 million: \$12.3 million and \$4.3 million for PERS and OPEB obligations, respectively. The scheduled amortizations are built into the benefits rate. Staff will continue to monitor Calpers' investment results and required annual contributions.

Contract Services Funding

The draft contract services budget for FY 2024-25, including all contract services funded by new grants, is \$288 million. The Commission's adoption of the FY 2024-25 budget will provide the authority to draw down committed grant funding for projects consistent with Commission approval and direction. A detailed schedule of these contract services is included in the attachment.

MTC Grants and Other Sources of Project Funding

MTC currently has a total of over 76 active grants and other sources of funding totaling \$304.5 million. MTC proposes to add new federal grants totaling roughly \$82 million of funding. Some of the projects the grant funds include:

- Plan Bay Area 2050+

- Priority Development Area (PDA) and Priority Production Area (PPA) Growth Framework Implementation
- Active Transportation Planning Implementation
- Local Fleet Electrification Planning
- Regional Mapping and Wayfinding

MTC Capital Budget

The draft MTC Capital budget increases both revenue and expenses by \$17.8 million. This includes \$17.3 million for implementation of a new Enterprise Resource Planning (ERP) system as presented to the Administration Committee March 13, 2024. The cost of implementing this system will eventually be distributed among the various entities and projects benefiting from the new software and is currently anticipated to be funded by capital transfers from BATA and BAIFA, as well as from a \$11.3 million draw from MTC reserves.

Clipper Operating

The draft Clipper operating budget for FY 2024-25 is \$63.0 million, down from the amended FY 2023-24 budget of \$67.9 million. Draft Clipper operating expenses decrease as we continue to transition to the new system. The FY 2024-25 budget expects to continue supporting the current Clipper operations until the System Completion milestone for the next generation, or Clipper 2, system.

The Clipper 2 operation continues in limited operation until its expected full revenue service date in FY 2024-25, in which several Clipper 2 contracts will begin to incur full operations and maintenance costs. At full operations, most operating costs incurred will be fixed. Primary funding sources of operating costs are:

- Transit operators (\$29.7 million)
- State Transit Assistance (STA) (\$7.8 million)
- State of Good Repair (\$5.6 million)
- Low Carbon Transit Operations (LCTOP) (\$11.4 million)
- Clipper inactive accounts fund (\$2.5 million)

The operating budget is balanced as proposed.

Clipper Capital

The Clipper capital budget includes Clipper and Clipper 2. Capital costs for Clipper will be closed out in FY 2024-25. Clipper will have a marginal increase to its life-to-date budget by approximately \$1.4 million. Funds will come from card sales and support staff costs and consultant expenses. The life-to-date budget for Clipper will be \$242.5 million through FY 2024-25.

The draft life-to-date Clipper 2 budget for FY 2024-25 will be \$314.4 million, with a proposed increase of \$15.2 million to support expected Clipper 2 development, testing, and deployment needs. Primary new funding will be from SGR of \$8.6 million, STA of \$2.0 million and Clipper Card revenue of \$2.9 million. These sources will fund equipment and capital consultant costs.

Bay Area Forward

The draft FY 2024-25 Bay Area Forward budget decreases the life-to-date total budget by \$39.4 million, from \$163 million in FY 2023-24 to \$123.6 million. In prior years, portions of the capital budgets were incorrectly re-budgeted, resulting in an adopted life-to-date budget higher than both the available funding and project costs. The draft FY 2024-25 budget addresses these prior year budgeting errors. An additional \$14 million for the SR 37 Sears Point to Mare Island Improvement project is the sole new budget authority increase in FY 2024-25. A detailed schedule is included in the attachment.

Exchange Fund

Consistent with Resolution 3989, the MTC Exchange program includes budget for four categories totaling \$11.4M:

- Priority Conservation Area Grant Program - \$0.2M
- Priority Production Area Grant Program - \$2.2M
- Bike Share Investments - \$1.4M
- Active Transportation Technical Assistance Program - \$1M
- Other Multimodal Investments - \$6.6M

MTC Reserves

The maintenance of appropriate financial reserves is an important tool for prudently managed governmental agencies. MTC's operating reserves serve several purposes, including:

- Supporting cash flow to manage grant expenses in advance of reimbursement
- A potential source of contingency funding for unanticipated needs
- A source of financial cushion to withstand economic uncertainties

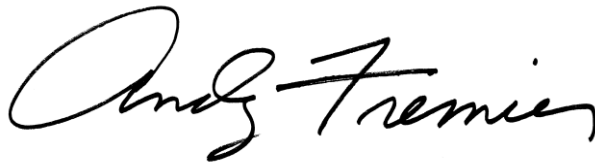
Staff is analyzing projected balances for FY 2024-25 and will include an update at the June Commission meeting.

Recommendation:

This is an information item.

Attachments:

- Draft MTC FY 2024-25 Operating and Capital Budget Schedules
- Draft MTC FY 2024-25 Operating and Capital Budget Presentation



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