

STAFF REPORT

SUBJECT: FY2026 Budget Outlook

FROM: Christy Wegener, Executive Director
Tamara Edwards, Director of Finance

DATE: March 24, 2025

Action Requested

Information only

Background

LAVTA staff will be bringing the Fiscal Year (FY) 2026 Budget to the Finance and Administration Committee in April and to the Board of Directors in May. Prior to bringing the budget itself staff wanted to ensure that the Board members were aware of some challenges facing the agency.

Expenses

In addition to expected increases to many budget line items such as utilities, facility repairs, and labor, the Board of Directors approved a new fixed route operations and maintenance contract in March with an anticipated cost increase of 24% over the current fiscal year. As this line item averages between 55% and 65% of LAVTA operating budget this will have a significant impact on the next budget. In the next 2-3 years, as LAVTA begins the transition to hydrogen fuel cell electric buses, there will be additional cost increases once the need to purchase hydrogen fuel is realized as the cost is currently much higher than diesel fuel.

Revenues

LAVTA receives revenues from a number of different sources, the majority of which are taxed based. The largest revenue source for LAVTA is Transportation Development Act (TDA) funds which traditionally makes up between 45% and 55% of LAVTA's operating revenues. LAVTA budgets these revenues based on the forecast provided by the Alameda County Controllers office. Unfortunately, the actual revenues for FY 2025 are coming in lower than anticipated (please see Attachment 1 for more details).

In addition to TDA revenues, LAVTA receives operating funding to operate feeder bus service to BART through AB1107 funds. The funding represents 3.5% of the operating budget. For the last few years, BART has made it clear they intend to

discontinue payment of the feeder bus funds after FY 2026. The potential 2026 regional measure could supplant this funding source.

In Fiscal Year 2024 LAVTA began receiving RM3 funding which for FY 2026 will be \$700,000 while this amount helps to offset the loss of the BART feeder bus money, a formula for the distribution of these funds to the various operators has not yet been established and thus staff does not know how much to expect in the future.

Discussion

At this point, it is looking like there is approximately a \$2.5-2.7M difference between expenditures and revenues for the FY 2026 operating budget. In anticipation of situations such as this, in 2009 the LAVTA Board established a policy of having three to six months' worth of revenues in reserves. LAVTA currently has over a years' worth of revenues in reserves and therefor can weather this sort of situation for a time. To mitigate the situation staff is looking at a number of changes that can be made during the FY 2026 or FY 2027 years. Some of the areas staff are looking at include:

- Decreasing fixed route service
- Increasing fixed route and paratransit fares.
- Modifying or eliminating Go Tri-Valley
- Not filling the new position of Administrative Manager
- Deferring capital projects funded with TDA funds that are not mission critical.
- Delaying the deployment of hydrogen-technology
- Limiting wage increases
- Limiting travel and training for staff
- Paying only the minimum required unfunded accrued liability (UAL) contribution to CalPERS for retirement and not funding the 115 trust this year.

Recommendation

None-Information only

Attachments:

1. MTC Presentation_Fund_Estimate

FY 2025-26 MTC Fund Estimate Overview

MTC Programming & Allocation Committee

February 12, 2025

Agenda

1. Fund Estimate Overview
 - TDA, STA, AB1107 estimates
2. Economic Overview
 - Population, Unemployment, Sales Tax
3. BART-Feeder Bus Agreement
4. Other Considerations
 - Sonoma County TDA formula
 - STA Revenue Based Formula Freeze
 - Sales tax revenue attribution audits

Introduction to the Fund Estimate

- Every year, MTC prepares a Fund Estimate to identify how much funding will be available in the upcoming fiscal year from sources including:
 - Transportation Development Act (TDA) – *statewide sales tax*
 - State Transit Assistance (STA) – *statewide diesel sales tax*
 - Assembly Bill 1107 – *regional sales tax*
- The Fund Estimate is informed by state and county revenue projections and reflects latest macroeconomic and demographic trends
- The Fund Estimate is typically amended twice per year to incorporate the latest revenue information from the state
- Transit agencies, County Transportation Agencies, and MTC use the Fund Estimate for budget development and to request allocation of funds



Image Credit: Unsplash

TDA Sales Tax Forecast FY 2025-26



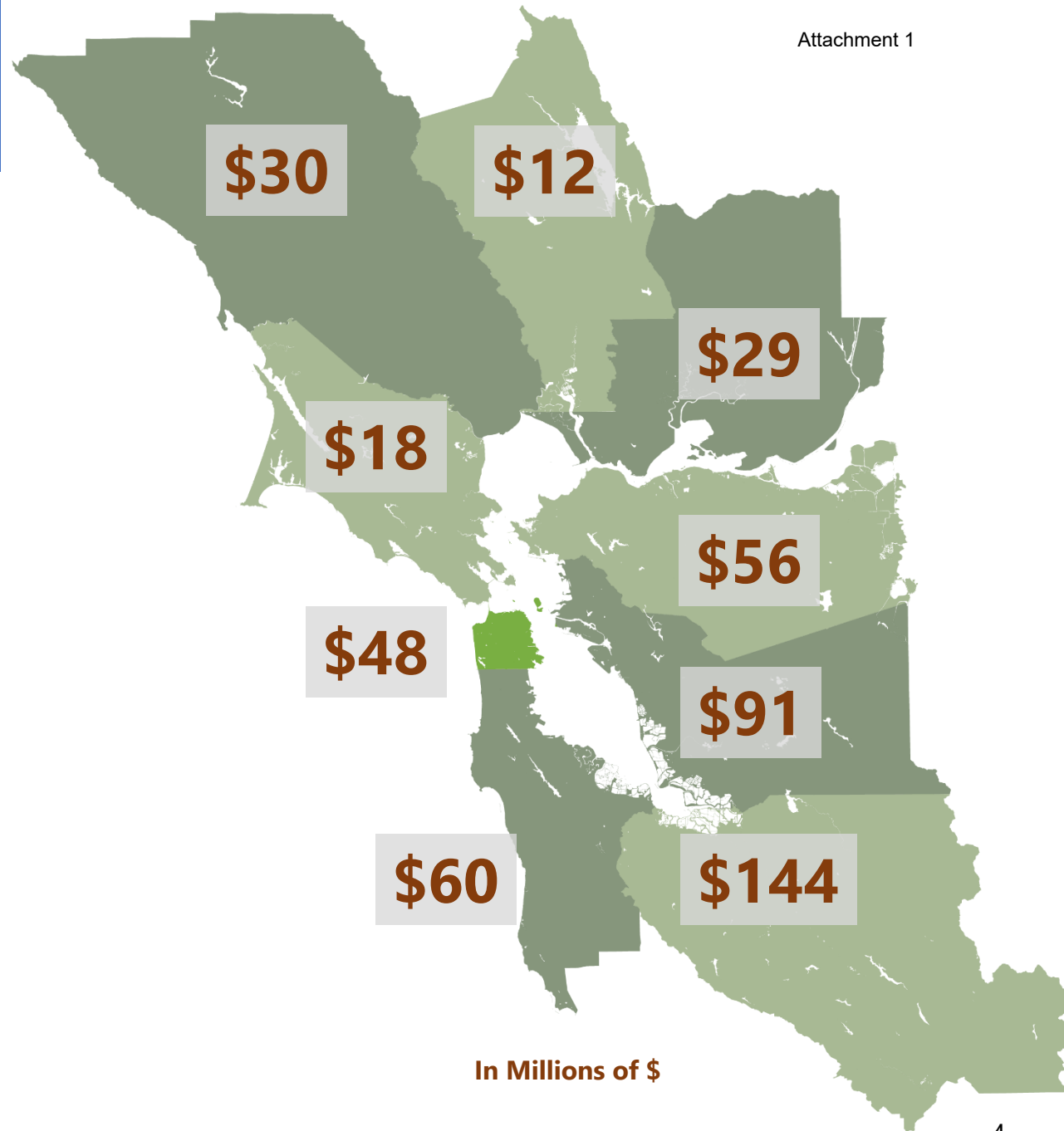
Estimates for each county prepared by individual county Auditor/Controllers. Funds within counties are distributed to operators based on city/service area population, or by county-specific formulas

TDA receipts in the first half of FY25 are tracking below original estimates

FY25 (Current Year) estimates revised to **\$472M**

- Down 7% from original \$509M FY25 estimate
- Down 3% from FY24 Actuals (\$486M)

FY26 estimates projected to be 2.6% higher at **\$485M**



In Millions of \$

STA Formula Programs

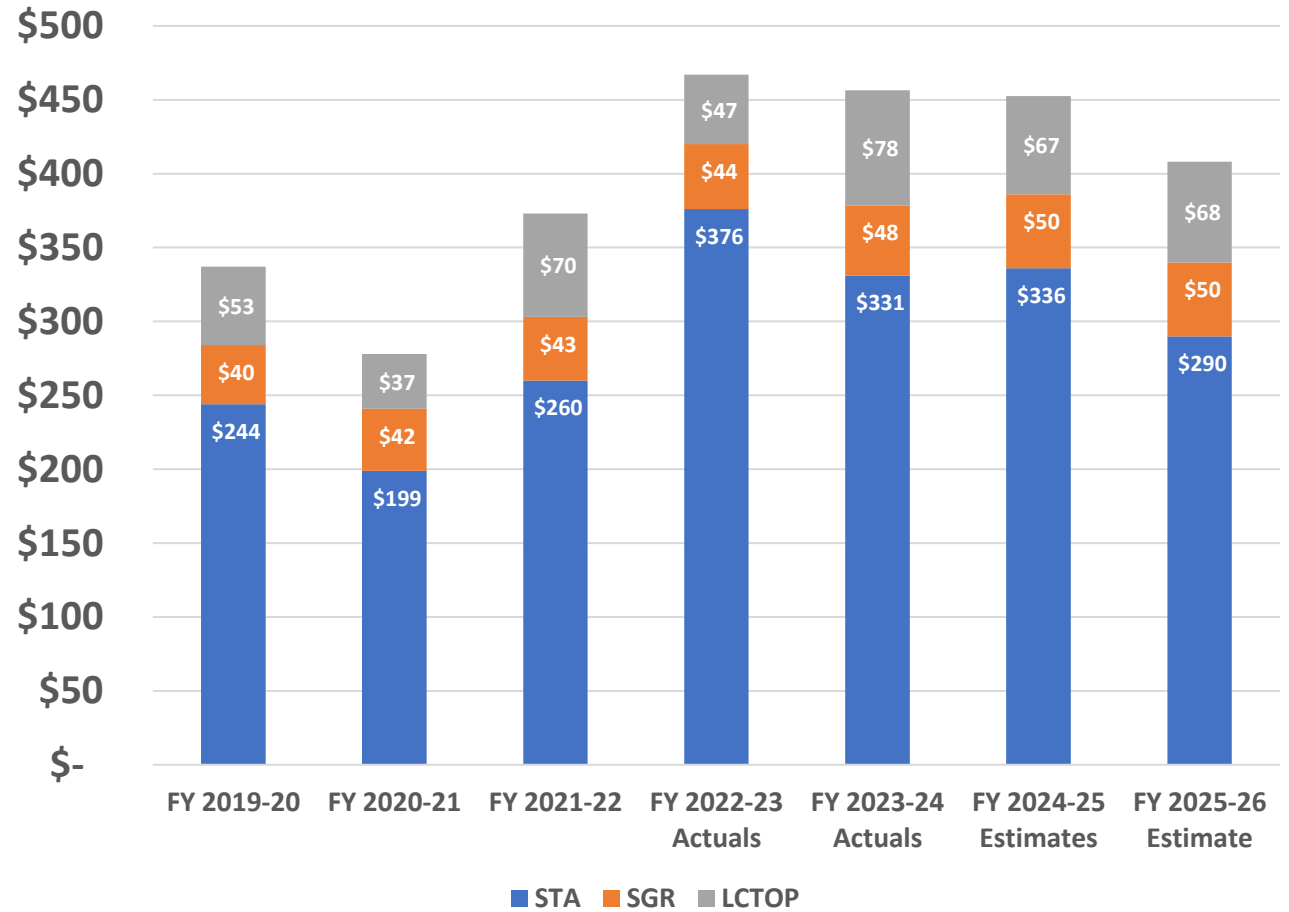
FY 2025-26

State Transit Assistance (STA) formula splits statewide revenue 50/50 between a Revenue-Based program and a Population-Based program.

Revenue-Based funds flow to transit operators via MTC based on their qualifying local revenue. **A hold harmless provision has frozen the revenue-based formula until 6/30/26**

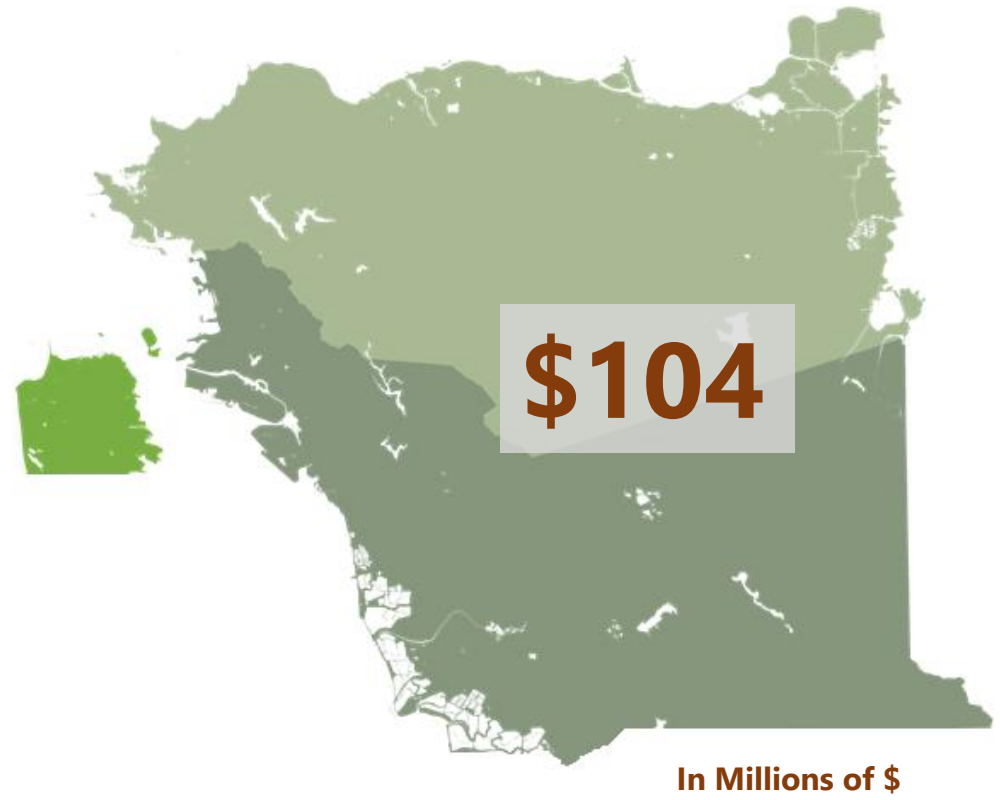
Population-Based funds flow to the Bay Area based on our ~19% share of the state's population and are programmed by MTC

FY 2025-26 forecast of \$408 million for the Bay Area in STA, State of Good Repair (SGR) Program and Low Carbon Transit Operations Program (LCTOP) revenue



AB 1107 Sales Tax Forecast FY 2025-26

- 25% of total revenue from BART's sales tax in Alameda, Contra Costa, and San Francisco counties
 - MTC estimates revenue and establishes funding policy
 - Only AC Transit, BART, and SFMTA eligible to receive AB 1107 funds per state statute
 - Historically, Commission policy is to distribute 50% of funds to AC Transit and 50% to SFMTA (or 12.5% of the total revenues to each)
 - **FY 2025-26 forecast of \$104 million is an estimate based on sales tax trends in Alameda, Contra Costa, and San Francisco counties**
- FY 2024-25 forecast remains at the original estimate of \$104 million.*



Fund Estimate Summary

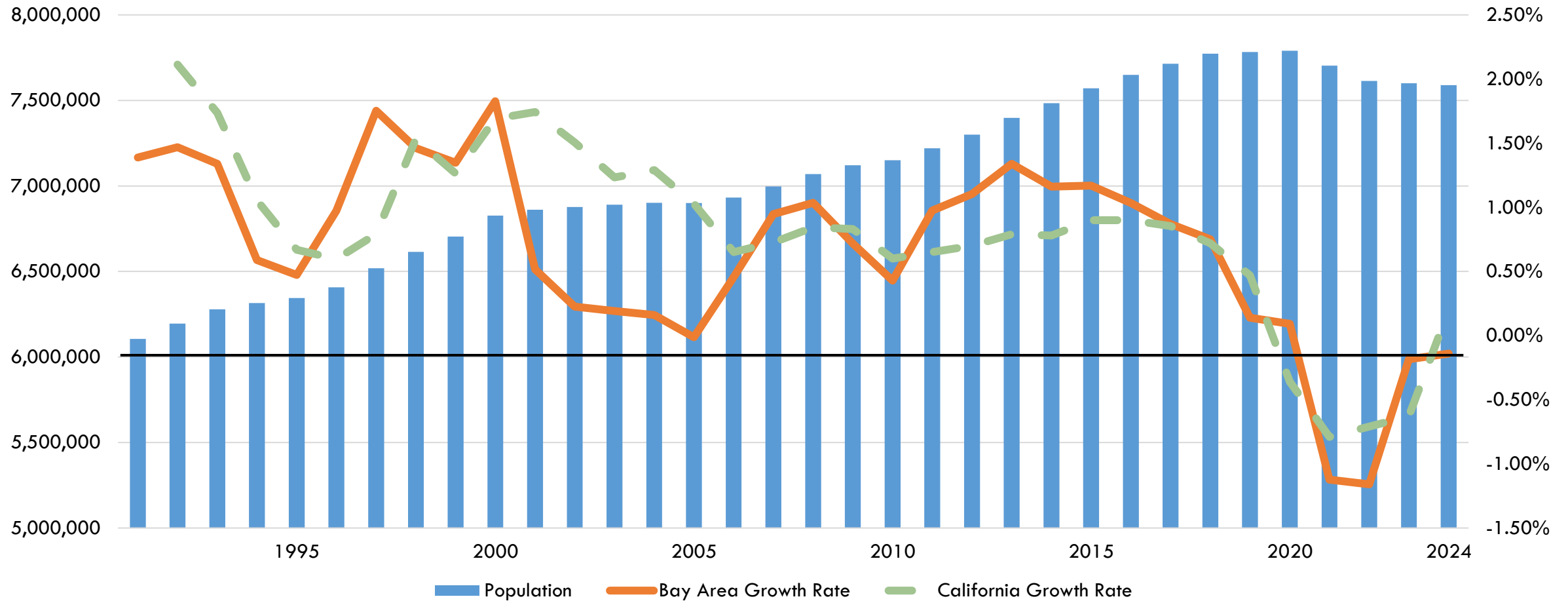
| | Program | Description | FY 2023-24 Actuals | FY 2024-25 Revised Estimates | FY 2025-26 Estimates |
|---------------------|--|---|--------------------|------------------------------|----------------------|
| Sales Taxes & Tolls | Transportation Development Act (TDA) ¼ ¢ Sales Tax | ¼ ¢ sales tax in each county | \$486M | \$472M | \$484M |
| | AB 1107 ½ ¢ Sales Tax | MTC administers 25% of the revenue from the ½ ¢ sales tax in the three BART district counties | \$107M | \$104M | \$104M |
| | Bridge Tolls | MTC 2% Toll Revenues and 5% State General Fund Revenues | \$5M | \$5M | \$5M |
| STA Formula | State Transit Assistance (STA) | Sales tax on diesel fuel in CA. | \$331M | \$336M* | \$290M |
| | State of Good Repair (SGR) Program | Transportation Improvement Fee (vehicle registration fee) | \$48M | \$50M | \$50M |
| | Low Carbon Transit Operations Program (LCTOP) | 5% of Cap-and-Trade auction revenues | \$78M | \$67M | \$68M |

*FY25 STA forecasts are revised down to \$294M based on the Governor's Proposed FY26 budget

Note: Estimated revenue amounts are rounded to nearest million.

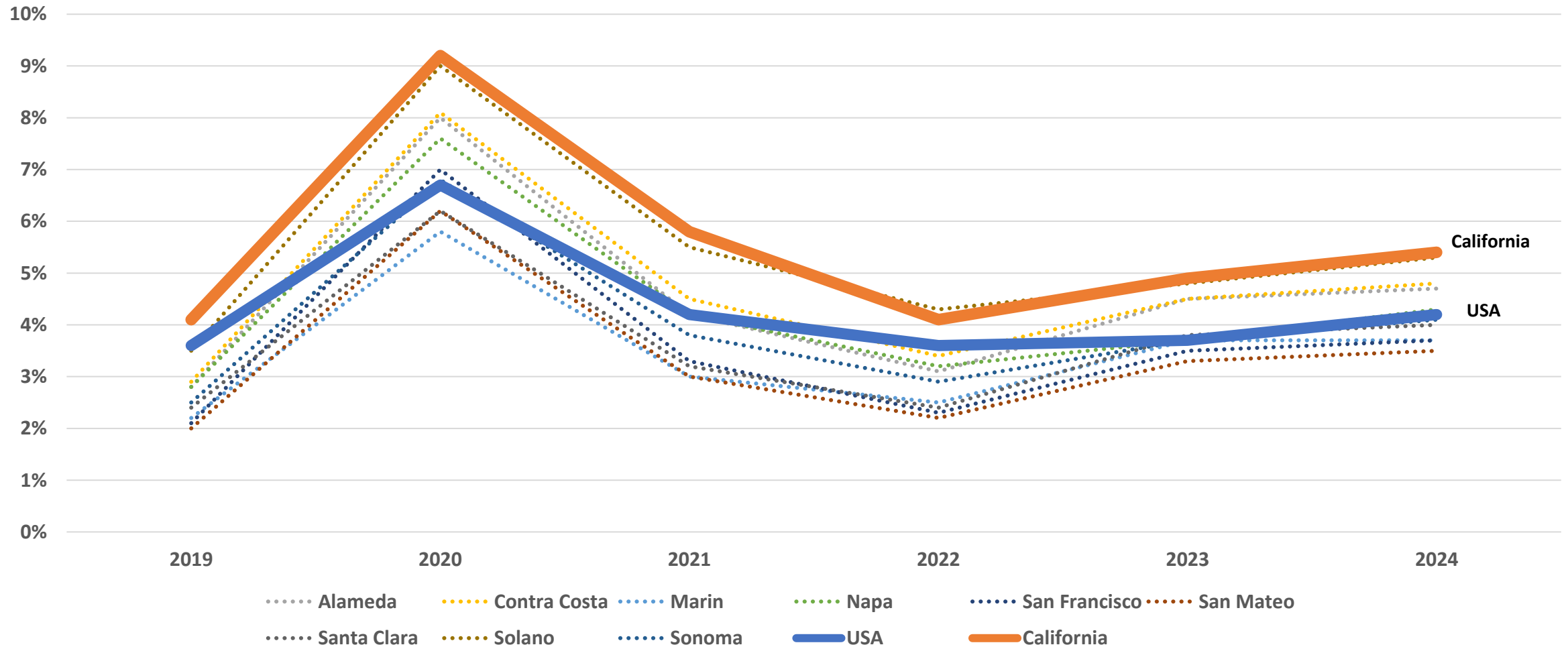
Bay Area Population

- Bay Area Population has declined for 4 consecutive years
- The regional population change continues to track behind the state population, which grew marginally in 2024



Bay Area Unemployment Rate

- Unemployment rates have worsened in the last year, mostly lagging behind the national average

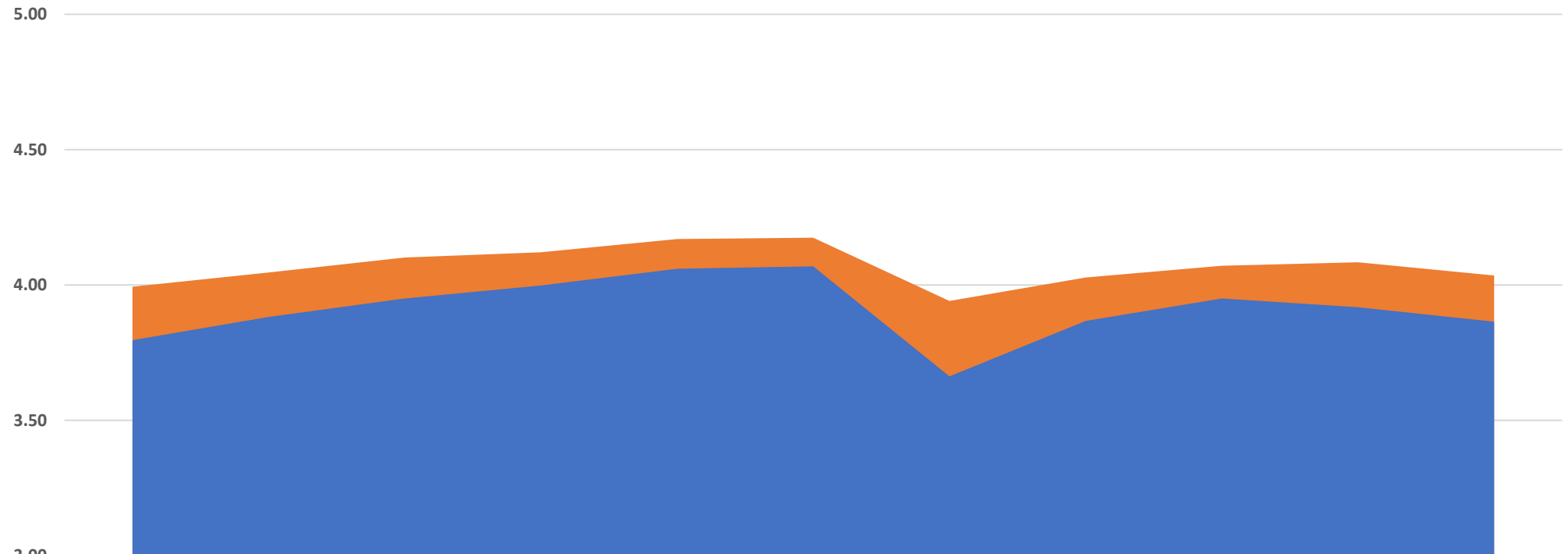


Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics
Graph reflects November unemployment rates of each year

Bay Area Labor Force

Neither the regional labor force, nor employment levels have recovered to pre-pandemic levels

Employment and Labor Force

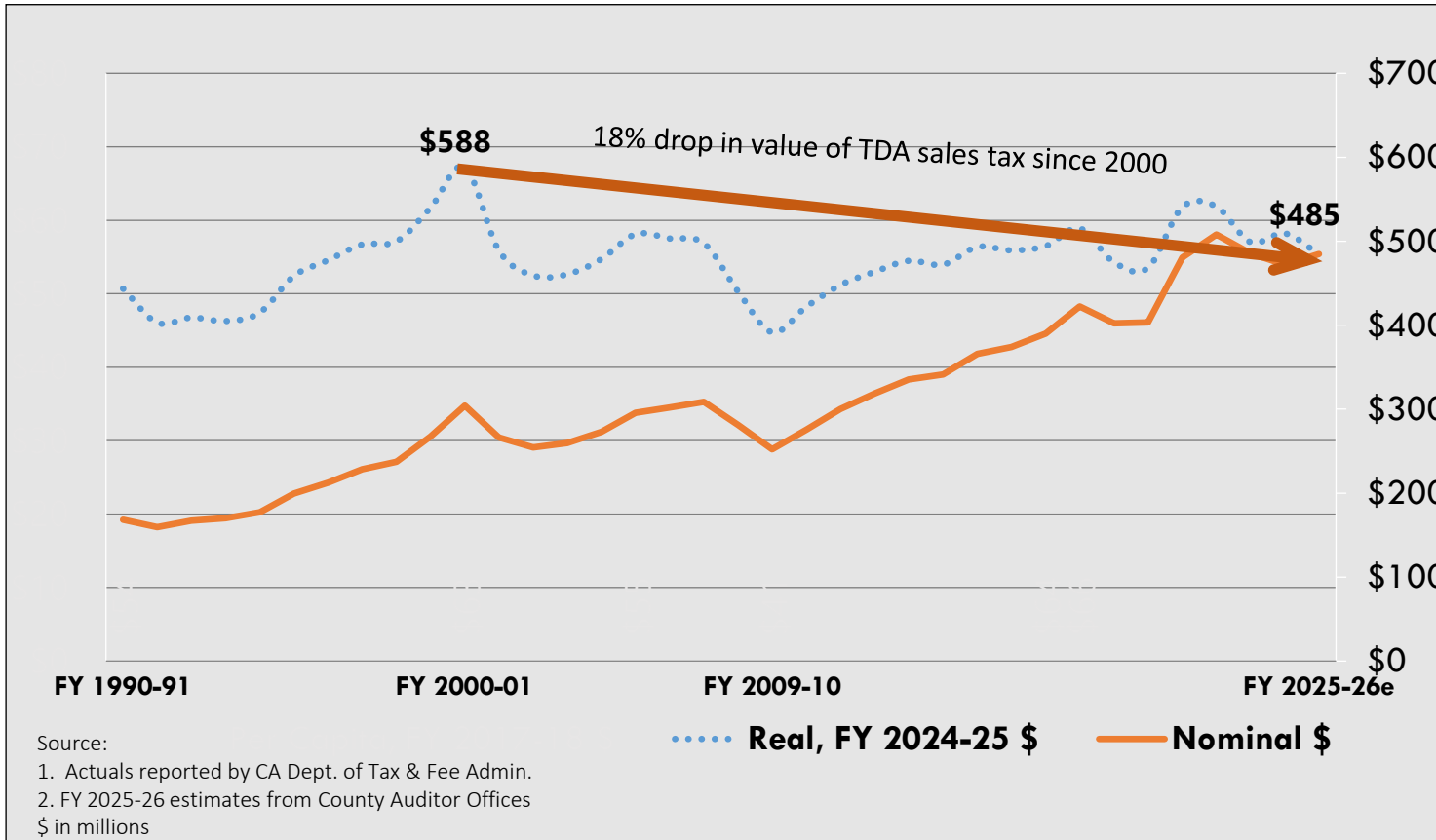


| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| ■ Labor Force | 3.99 | 4.05 | 4.10 | 4.12 | 4.17 | 4.17 | 3.94 | 4.03 | 4.07 | 4.08 | 4.04 |
| ■ Employment | 3.80 | 3.88 | 3.95 | 4.00 | 4.06 | 4.07 | 3.66 | 3.87 | 3.95 | 3.92 | 3.86 |
| ■ Regional Unemployment Rate | 4.9% | 4.1% | 3.7% | 3.0% | 2.6% | 2.5% | 7.1% | 4.0% | 3.0% | 4.1% | 4.2% |

■ Labor Force ■ Regional Unemployment Rate ■ Employment

Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics

Real Sales Tax Revenue: 18% drop since 2000

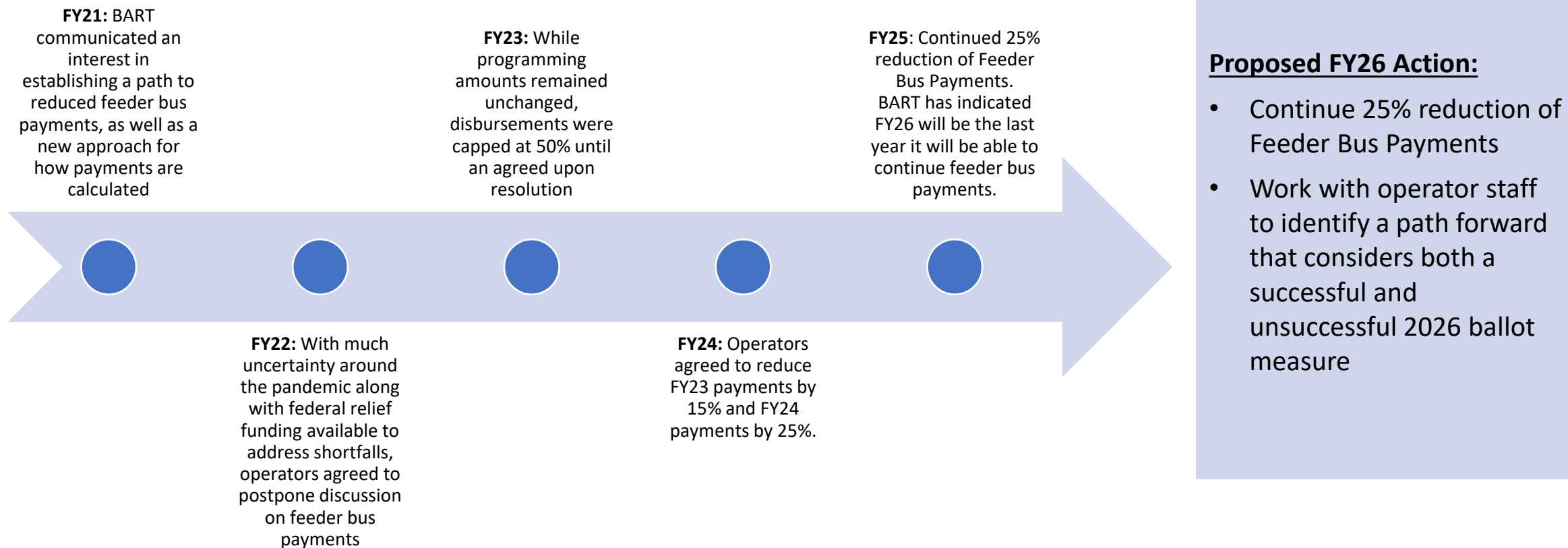


- In addition to the recent plateau in sales tax revenues in nominal terms, revenues have also not kept up with inflation, further diminishing its purchasing power
- Since an all-time high in 2000, real sales tax revenues have declined 18%
- FY 2025-26 Estimates of \$485M are about even with the 20-year inflation-adjusted average of \$481M

BART-Feeder Bus Agreement

Background

- Established in 1997 to transfer feeder bus operations from BART to East Bay bus operators
- Initial payment amounts were established by transition agreements, with subsequent payments adjusted based on changes to AB1107 sales tax revenues
- Payments are made using BART's STA Revenue-Based and TDA Sales Tax Funds



Other Considerations

Proposed Adjustments to TDA Distribution Formula in Sonoma County

- Marin-Sonoma Coordinated Transit Service Plan (MASCOTS) recommended change to formula in Sonoma
- Goal to mirror the formula in Marin, where funds are allocated using a performance-based model
- Revised formula would shift approximately \$2M in funding from Golden Gate to SMART and bus operators in FY26

STA Revenue-Based Formula Freeze Expiration

- Half of statewide STA revenues are distributed based on each operator's share of "qualifying revenues" - i.e., fares and local taxes
- Formulas have been frozen at pre-pandemic levels, with the freeze set to expire at the end of FY2025-26
- There will be opportunities to advocate for the continuation of this freeze
- However, there is a risk of significant changes to STA revenues if the provision were to expire

Sales Tax Attribution for County TDA Revenues

- Resolution of CDTFA audits related to attribution of sales taxes have resulted in negative corrections of revenue
- Ongoing volatility due to these audits is likely for the near future

Staff Recommendation

Staff Recommendation is to refer MTC Resolution No. 4688 to the MTC Commission for approval.