Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: London Breed, Mayor
President Shamann Walton and Member of the Board of Supervisors
Jeffrey Tumlin, Director, Municipal Transportation Agency

FROM: Ben Rosenfield, Controller

DATE: December 16, 2021

SUBJECT: **Controller's Office Review of MTA Financial Forecasts**

Overview

- The Municipal Transportation Agency (MTA) faces a challenging and dynamic period as the City and agency recover from the economic and financial damage stemming from the public health emergency.
- MTA leadership, the Mayor, and members of the Board of Supervisors have requested a Controller's Office review of the MTA's forecast methodology and assumptions.
- This requested review includes our suggestions to inform the MTA's approach to financial and service planning during the coming several years.

Summary Findings

- Overall, MTA's forecast methodology is reasonable and their assumptions regarding major cost and revenue streams are generally in line with those used by our office. We have suggested alternate approaches and assumptions to project certain revenues and expenditures. These include aligning projections of future labor and benefit costs to the forecast in the City's five-year financial plan projections, updated projections of General Fund baseline allocations, and modestly higher forecasts of the pace at which telecommuting practices wane for office workers. Appendix A to this memorandum provides details on the figures in Table 1 below, and Appendix B provides details of forecast assumptions.
- Our updated forecast of the MTA's financial condition – prepared jointly with MTA staff – is significantly improved, given recently available financial information and, to a lesser degree, these methodological changes. The cumulative $167 million projected shortfall over the coming

two fiscal years has been eliminated, and over the coming five fiscal years from $646 million to $123 million.

Table 1. Change in Fiscal Forecast, August vs December 2021 ($ millions)

	FY22	FY23	FY24	FY25	FY26	FY27	All Years
Initial Forecast							
Sources	1,289	1,294	1,259	1,265	1,324	1,342	7,772
Uses	1,289	1,342	1,378	1,424	1,469	1,517	8,419
Surplus/(Shortfall)	-	(48)	(119)	(159)	(145)	(175)	(646)
Current Forecast							
Sources	1,289	1,324	1,348	1,351	1,364	1,395	8,071
Uses	1,289	1,324	1,348	1,375	1,409	1,448	8,194
Surplus/(Shortfall)	-	-	-	(24)	(45)	(53)	(123)
Variance							
Sources	-	30	89	86	39	53	298
Uses	-	(18)	(29)	(48)	(60)	(69)	(225)
Surplus/(Shortfall)	-	48	119	135	100	122	523

- The most significant drivers of this improvement include recent improvements in projected pension costs, the award of additional federal transit relief funds to the MTA, and updated projections of General Fund revenues that flow to the MTA.

- We project a structural budget gap beginning in future years, as federal stimulus funds and other adopted one-time strategies are depleted. But this structural gap is expected to occur later and at a more manageable level than previously projected. This joint projection assumes projected shortfalls begin in FY 2024-25 and continue at approximately $25 million to $55 million annually, reduced from $120 million to $175 million in the prior forecast.

- Our forecasts of MTA ridership trends and revenues vary widely, driven largely by uncertainty regarding future telecommuting trends for office work in the City's post-pandemic economy. Two factors - the pace and extent to which office workers are required to return to downtown offices and the recovery of the tourist and convention industries – are key drivers of both the MTA's revenues and the demand for transit service. Other significant uncertainties include the outcome of collective bargaining of new labor contracts for all MTA employees in the coming months and the MTA's success in competing for additional federal stimulus and infrastructure funds. These uncertainties could lead to results that are significantly better or worse than our base forecast. We believe the MTA's contingency projections to be reasonable for planning purposes, as summarized below.

- The projections do not assume changes to existing policy or future budget decisions. For revenue, this means transit fare revenue assumes the MTA's fare indexing policy remains in place. For expenditures this does not reflect FY 2022-23 and FY 2023-24 two-year budget proposals currently under development.

- Forecasts include one expenditure scenario and three revenue scenarios. The three revenue scenarios vary in their projections of transit fares and parking and traffic fees and fines to reflect a most likely scenario in which commute ridership recovers to 75% pre-pandemic levels by FY 2025-26, as well as an optimistic scenario assuming commute ridership recovers to 85% of pre-pandemic levels by FY 2022-23 and a pessimistic scenario assuming no fare indexing and a permanent 35% reduction in commute ridership. The total amount of federal pandemic relief across the scenarios is the same, however, it is assumed drawn down in later years in the optimistic scenario and earlier in the pessimistic scenario, in order to balance transit and parking revenues.

Table 2. Revenue Recovery Scenarios ($ millions)

	FY22	FY23	FY24	FY25	FY26	FY27	All Years
Optimistic							
Sources	1,289	1,324	1,348	1,375	1,409	1,420	8,166
Uses	1,289	1,324	1,348	1,375	1,409	1,448	8,194
Surplus/(Shortfall)	-	-	-	-	-	(28)	(28)
Mostly Likely							
Sources	1,289	1,324	1,348	1,351	1,364	1,395	8,071
Uses	1,289	1,324	1,348	1,375	1,409	1,448	8,194
Surplus/(Shortfall)	-	-	-	(24)	(45)	(53)	(123)
Pessimistic							
Sources	1,289	1,324	1,297	1,263	1,328	1,358	7,859
Uses	1,289	1,324	1,348	1,375	1,409	1,448	8,194
Surplus/(Shortfall)	(0)	-	(51)	(113)	(81)	(90)	(335)

Recommendations

We recommend the following planning principles to the MTA as it navigates this improved but uncertain period:

- Develop a multiple-year financial and service plan built around this base projection, but with clear, adopted contingency plans if projections improve or worsen. A typical government budget cycle will not be sufficiently adaptive to manage the MTA's services or finances during this period. These contingency plans should clearly outline financial and operational strategies that would be needed if conditions improve or worsen versus the base forecast. These contingency plans should include clear milestones during the two-year budget period where course corrections will be implemented if updated economic, financial, or service conditions warrant.
- The improved base forecast indicates that the primary constraint to transit service restoration over the coming two years will likely be availability of staff as opposed to shorter-term financial constraints. The MTA reports 10 percent or higher vacancy rate in transit positions (including operators, planners, and maintenance staff) compared to 2019 pre-pandemic, a rate which has exceeded 20 percent in recent months. Currently, the agency would face a staffing shortage of approximately 300 operators if overall service hours were to be restored to 2019 levels.

- The base financial and service plan should accordingly accelerate hiring processes for operators and other critical support positions to the extent possible. Service plans should be tied to these hiring plans to avoid commitments to service restoration dates that cannot be delivered.

- As the MTA restores service levels, detailed analysis will be needed to meet changing travel patterns driven by the public health pandemic, new ways of working, and other factors. Demand for traditional "rush hour" commuter travel to and from downtown has been greatly reduced. At the same time, demand for transit in historically busy corridors, including crosstown corridors connecting neighborhoods outside the core, has had a stronger recovery. The net result is that while systemwide ridership has recovered by approximately 50 percent, subway station exit data reveal morning peak exits are averaging approximately 26% of pre-pandemic levels, or half the systemwide average. Additionally, where the morning peak carried a third of all daily riders before the pandemic, today it carries only a quarter, indicating the shift away from peaks and toward more consistent demand spread throughout the day. How these ridership demand levels change over the coming several years is uncertain but should be accounted for in service planning to ensure equitable and rational alignment of demand and supply of transit service.

- The MTA contingency plan should conditions worsen should retain a host of strategies to manage their finances and services, and these strategies should not be used unless this contingency plan is needed. Should conditions worsen, these strategies will be required to moderate the impact of revenue volatility on service levels. Accordingly, our projections assume that contingency reserves currently totaling $147.7 million are not drawn in the base case scenario and are used only if conditions worsen. We similarly recommend that other one-time strategies, including deferral of maintenance costs, capital expenditures, or use of debt be employed only in contingency plans. Conversely, adopted contingency plans if conditions improve should establish clear milestones at which service restorations and other maintenance and operating programs will be accelerated.

- While forecasts have improved, we note that a structural gap remains to be addressed in later years of our forecast, unless economic and financial conditions improve significantly from even our more optimistic scenarios. This structural deficit develops later in our joint forecast and at a lower level, providing additional time for the MTA Board, the Mayor, and the Board of Supervisors to consider and pursue strategies to align the MTA's resources and service levels. We believe such strategies will likely be required to meet this gap and remaining significant gaps in maintenance and capital funding, which are not included in these projections but are well-established in prior reports by our office and others.

Appendix A: Revenue and Expenditure Forecast Detail

($ millions)	FY22	FY23	FY24	FY25	FY26	FY27
Revenues						
Most Likely Scenario						
City Population-based Baseline - Operating Support	30.0	30.0	30.0	30.0	30.0	30.0
Federal Relief	261.7	165.6	103.3	47.0	-	-
General Fund Transfers	380.5	417.7	448.2	473.4	493.8	506.4
General Fund Transfers (MBTIF)	6.6	7.6	7.8	10.9	11.1	11.4
Operating Grants	168.7	186.1	189.8	193.5	197.3	201.2
Other (advertising, Interest, misc fees, recovery)	32.6	50.0	51.6	53.3	55.0	56.9
Parking & Traffic Fees & Fines	247.3	262.5	278.2	284.3	292.7	299.0
Parking Tax In-Lieu	53.5	64.2	66.0	68.0	69.9	71.7
Proposition D Traffic Congest Mitigation Tax	5.7	8.2	10.3	12.5	14.6	14.9
Taxi Services	0.2	0.2	0.2	0.2	0.2	0.2
Transit Development Fees - Operating Support	45.1	10.0	10.0	10.0	10.0	10.0
Transit Fares	56.9	122.0	152.9	168.1	189.3	193.1
Total	1,288.7	1,324.0	1,348.3	1,351.2	1,363.9	1,394.7
Optimistic Scenario						
City Population-based Baseline - Operating Support	30.0	30.0	30.0	30.0	30.0	30.0
Federal Relief	261.7	135.7	82.9	50.5	33.7	13.2
General Fund Transfers	380.5	417.7	448.2	473.4	493.8	506.4
General Fund Transfers (MBTIF)	6.6	7.6	7.8	10.9	11.1	11.4
Operating Grants	168.7	186.1	189.8	193.5	197.3	201.2
Other (advertising, Interest, misc fees, recovery)	32.6	50.0	51.6	53.3	55.0	56.9
Parking & Traffic Fees & Fines	247.3	262.5	278.2	284.3	292.7	299.0
Parking Tax In-Lieu	53.5	64.2	66.0	68.0	69.9	71.7
Proposition D Traffic Congest Mitigation Tax	5.7	8.2	10.3	12.5	14.6	14.9
Taxi Services	0.2	0.2	0.2	0.2	0.2	0.2
Transit Development Fees - Operating Support	45.1	10.0	10.0	10.0	10.0	10.0
Transit Fares	56.9	151.9	173.3	188.9	201.1	205.1
Total	1,288.7	1,324.0	1,348.3	1,375.5	1,409.4	1,419.9
Pessimistic Scenario						
City Population-based Baseline - Operating Support	30.0	30.0	30.0	30.0	30.0	30.0
Federal Relief	261.7	209.0	106.9	-	-	-
General Fund Transfers	380.5	417.7	448.2	473.4	493.8	506.4
General Fund Transfers (MBTIF)	6.6	7.6	7.8	10.9	11.1	11.4
Operating Grants	168.7	186.1	189.8	193.5	197.3	201.2
Other (advertising, Interest, misc fees, recovery)	32.6	50.0	51.6	53.3	55.0	56.9
Parking & Traffic Fees & Fines	247.3	256.5	265.7	274.8	284.0	289.7
Parking Tax In-Lieu	53.5	64.2	66.0	68.0	69.9	71.7
Proposition D Traffic Congest Mitigation Tax	5.7	8.2	10.3	12.5	14.6	14.9
Taxi Services	0.2	0.2	0.2	0.2	0.2	0.2
Transit Development Fees - Operating Support	45.1	10.0	10.0	10.0	10.0	10.0
Transit Fares	56.9	84.5	110.4	136.2	162.3	165.5
Total	1,288.7	1,324.0	1,296.9	1,262.8	1,328.2	1,357.9
	FY22	FY23	FY24	FY25	FY26	FY27

	FY22	FY23	FY24	FY25	FY26	FY27
Expenditures						
Salary	596.0	615.4	632.8	650.0	666.6	683.7
Fringe	295.6	290.8	281.7	280.7	287.3	297.9
Overhead & Allocations	(34.7)	(35.8)	(36.8)	(37.8)	(38.8)	(39.8)
Professional Services	248.5	256.5	263.8	271.0	277.9	285.0
Materials & Supplies	74.0	76.4	78.6	80.7	82.8	84.9
Capital Outlay	4.0	4.1	4.2	4.4	4.5	4.6
Debt Service	14.8	23.0	27.9	27.9	27.9	27.9
Workorders	90.5	93.4	96.0	98.6	101.2	103.8
Total	1,288.7	1,324.0	1,348.3	1,375.5	1,409.4	1,448.0

Appendix B: Detail of Revenue and Expenditure Assumptions

Summary

This appendix contains detailed assumptions supporting the FY 2021-22 through FY2026-27 revenue and expenditure projections presented in the attached memorandum. Projections are based on the most recent available information, including General Fund tax revenue and inflation forecasts prepared for December 2021 budget instructions.

Revenue Assumptions

- Transit Federal Relief
  Since FY 2019-20, federal relief has balanced SFMTA's operating budget. In FY 2021-22 the Agency is projected to use $261.7 million in federal funds for operating purposes, which will be the second largest source following City General Fund transfers. The use of available federal relief is planned to be tapered in FY 2022-23 and FY 2023-24 to preserve operational stability as the local economy recovers.

- Enterprise Revenues: Parking, Fees and Fines, Transit Fares
  The SFMTA's enterprise revenues continue to be severely impacted by the pandemic and the pace of economic recovery in San Francisco, manifested in a decline in daytime population and significant decline in the number of daily commuters to the downtown core who were once reliable transit riders, parking customers, consumers of advertising, and patrons of concessionaires.

  In FY 2018-19, the last full fiscal year prior to the pandemic, the SFMTA collected $197.1 million in transit fare revenues and $283.4 million in parking and traffic fees and fines. The SFMTA is projecting that the Agency will not exceed FY 2018-19 nominal revenue levels for parking until FY 2024-25. Nominal transit fare revenues, with the assumption of fare indexing in FY 2022-23, are not expected to reach prior levels within the forecast period, reaching $193.1 million in FY 2026-27. Total enterprise revenues are projected to decline in their relative shares of the SFMTA's operating budget. For example, in FY 2018-19 parking and transit revenues respectively represented 24% and 17% of the Agency's budget. In FY 2026-27, they are projected to represent 21% and 14% of revenues.

- General Fund Transfers
  Projections of the following General Fund transfers are consistent with the December 2021 Joint Report Update forecast of General Fund revenues: General Fund Aggregate Discretionary Revenue (ADR)-based operating baselines (Prop A, November 2007); Proposition B Population Adjustment baseline; Mission Bay Transportation Improvement Fund (MBTIF). Baselines have been adjusted for the addition of new service in the Central Subway. The MTA is assumed to receive the same proportion of total MBTIF revenues (86%) as it did in FY 2020-21. By FY 2026-27, these are projected to be the Agency's largest operating revenue source, representing approximately 39% of revenues, compared with 35% in FY 2018-19.

  All three revenue projection scenarios (most likely, optimistic, and pessimistic) assume continued use of $30.0 million per year of Proposition B Population baseline for operations. In prior years, all Prop B funds have used to support capital expenditures. Allocation of Prop B funds between capital and operational needs is a policy choice. Total projected Prop B allocations are shown in

Table B1 below and represent a combination of general recovery in General Fund discretionary revenues adjusted for projected increases in daytime population using California Department of Finance and Moody's population forecasts. The $34.3 million increase in Prop B revenue in FY 2023-24 is due to the true up in that year of calendar year 2022 daytime population growth of 7.17%. Daytime population growth is estimated at 2.86% in 2023, 1.03% in 2024, 0.67% in 2025, and 0.61% in 2026.

Table B1. Total Projected Prop B Population Baseline Uses ($ millions)

	FY22	FY23	FY24	FY25	FY26	FY27
Operating	30.0	30.0	30.0	30.0	30.0	30.0
Capital	28.0	29.9	64.2	79.7	85.6	85.6
Total	**58.0**	**59.9**	**94.2**	**109.7**	**115.6**	**115.6**

- Other Tax Revenue Allocations
  The transfer of an amount equivalent to 80% of parking taxes and 50% of transportation network company (TNC) taxes are consistent with the December 2021 Joint Report Update forecast and assume continued gradual recovery in local economic activity.

- Operating Grants
  Operating grants include revenue from sources such as AB 1107 sales tax subventions, State Transit Assistance (STA), Transportation Development Act (TDA), and Restricted Proposition K Sales Tax Grants. Revenues are assumed to increase at rates slightly below CPI, or 3.0% in FY 2022-23 and 2.0% thereafter.

- Parking Revenues
  While parking revenues will continue to grow, opportunities for increasing the rate of collection will be capped by natural factors such as capacity and demand. The recovery in current year parking revenue is largely driven by residents. Projected growth in revenue is dependent on visitors to the City. Visitors can be defined as tourists, regional commuters, or those within the region who do occasional business in San Francisco.

- Transit Fares
  Transit fare revenue assumes the MTA's current policy of fare indexing policy. In the most likely scenario, recovery of commute ridership is capped at 75% of FY 2018-19 levels through FY 2025-26 on the assumption of permanent telecommuting for 25% of pre-pandemic San Francisco employees. The Controller's estimates of business tax revenue assume 85% of commuters return and 15% do not. Lost riders may include those with concerns about public health or safety resulting in different mode-choice. A portion of lost riders will be those who will continue to work hybrid or permanently telecommute. These people are likely full-fare paying riders who have the financial ability to make other choices or work from home and have a disproportionately large effect on fare revenue. Specifically:

  - Monthly pass purchases recover to 80% of FY 2018-19 levels by FY 2025-26 and increase by 2% in FY 2026-27.

  - Single ride cash fares recover to FY 2018-19 levels in FY 2025-26. The rebound in cash fares is driven by an assumed shift from monthly passes to single rides. The single ride fare becomes more economical when occasionally commuting.
  - Cable car fare revenue returns to FY 2018-19 levels in FY 2025-26, aligned with the Controller's Office assumption about hotel revenue, which serves as a proxy for the return of visitors/tourists.
  - Paratransit assumed to increase slightly below CPI at 2.2% in FY 2022-23 and 2% thereafter.
  - Class Pass and Lifeline passes recover to FY 2018-19 levels in FY 2023-24, driven by a return to higher education and sustained demand among transit dependent riders.

- Other
  Assumes Minimum Annual Guarantee (MAG) amounts from agreements with advertising partners Clear Channel and Intersection. Fine, forfeiture, and penalty revenues are assumed to increase slightly below CPI.

- Federal Relief
  Projections assume a total of $577.6 million of federal pandemic relief spent during the forecast period, given available information supplied by the Metropolitan Transportation Commission (MTC), and subject change pending further MTC action. SFMTA has received the following federal relief amounts:

  - $374 million Coronavirus Aid, Relief, and Economic Security Act (CARES) funding, drawn down in FY 20219-20 and FY 2020-21. Link to MTC CARES Distribution: https://mtc.legistar.com/LegislationDetail.aspx?ID=4583423&GUID=93769056-48D2-4977-940C-34761265DB3D&Options=&Search=
  - $341 million Coronavirus Aid, Relief, and Economic Security Act (CRRSAA) projected to be fully drawn down by FY 2021-22. Link to MTC CRRSAA Distribution: https://mtc.legistar.com/LegislationDetail.aspx?ID=4815484&GUID=460FAF0F-4500-43B9-B1CB-06186338DED6&Options=&Search=
  - $510 million American Relief Plan (ARP), $288 million in first tranche distribution, expected second tranche distribution of $221 million. Link to MTC ARP Tranche 1 Distribution: https://mtc.legistar.com/LegislationDetail.aspx?ID=5025379&GUID=78A01B03-EC85-4760-AA9A-16F3CCB849AF&Options=&Search=
  - SFMTA has submitted a competitive grant application seeking additional ARP funding for estimated transit operating needs of $46 million in FY 2022-23 and $250 million in FY 2023-24.

  Not included in these projections are two capital grants received, including:
  - $22 million in FTA Capital Investment Grant Small Starts for the Van Ness Bus Rapid Transit project:
    Link: https://www.transit.dot.gov/about/news/us-transportation-secretary-buttigieg-announces-250-million-american-rescue-plan-funding
  - $23 million in FTA Capital Investment Grant New Starts was for the Central Subway project:
    Link: https://www.transit.dot.gov/sites/fta.dot.gov/files/2021-03/ARP-Apportionment-Table-7-Capital-Investment-Grants-3-30-2021.xlsx

- Preservation of Contingency Reserves

Projections assume preservation of the Agency's contingency reserve of 10% of operating expenditures to allow the agency to manage the impact of revenue risk and volatility on services in the face of substantial revenue risk during the forecast period. The SFMTA Reserve Policy is available at:
https://www.sfmta.com/system/files/finance/MTA%20Contingency%20Reserve%20Policy.pdf

- Status Quo versus Potential Revenues
  Projections do not assume passage of potential revenue measures. Options of potential revenue measures that can be used for operating expenses is provided in the Transportation 2050 Plan: https://www.sfmta.com/projects/transportation-2050, and include:

    - Transportation Special Tax ($50 million annually). Dedicated tax for transportation, providing a predictable stable source for transit service and maintenance. May be bonded against for near-term capital infrastructure investment, reducing long term maintenance.
    - Parking Tax ($20 million annually). Increase the existing parking tax with opportunities to reform or modify for transportation infrastructure, transit service and maintenance.
    - Development Revenue ($5 million annually). Development of SFMTA properties provides long-term opportunities to produce revenues that can go directly toward transportation infrastructure, transit service and maintenance.

Expenditure Assumptions
Expenditures are projected using FY 2021-22 approved budget amounts and assume the same levels of transit expenditures from the FY 2018-19 baseline for the duration of the forecast. There is no assumption regarding increased service; rather, transit operating expenditures assume FY 2018-19 baseline expenditures escalated to FY 2022-23 levels. The Agency is currently updating expenditures for its next two-year budget covering FY 2022-23 and FY 2023-24 and will likely include revised assumptions for transit expenditures.

The SFMTA assumes that overall staffing remains broadly consistent with current levels. The forecast maintains current staffing levels with the addition of 58.64 FTE recommended by the January 2020 Muni Reliability Working Group report, starting in FY 2022-23 at a cost of $9.4M. These positions were previously excluded from the FY 2020-21 and FY 2021-22 budget per page 20 of the SFMTA Board staff report on June 30, 2021.The SFMTA is currently reviewing TX requests and costs for additional staffing through its two-year budget development process for FY 2022-23 and FY 2023-24. Labor costs may be adjusted pending decisions regarding those proposals.

While revenues are projected to grow 6.9% between FY 2021-22 and FY 2026-27, expenditures are expected to rise by 12.4% over the same period. Over 56% of the expenditure increase is due to projected increases to labor and mandatory fringe benefit costs. Projections are aligned with the City's December 2021 Joint Report Update forecast of General Fund expenditures as detailed below:

- CPI
  With the exception of certain fringe benefits and debt service, most expenditures, including salaries, overhead, non-personnel services, materials and supplies, and work orders are assumed to increase by local inflation, which reflect Moody's most recently published projection of Bay Area CPI as follows: 3.25% in FY 2023, 2.83% in FY 2024, 2.71% in FY 2025, and 2.56% in FY 2026 and FY 2027.

- Fringe Benefits
    - Active and retiree health benefit rate increases are assumed at 6% per year for medical and 4% per year for dental.

    - Retirement rates reflect the combined estimated effects of the Retirement System's 34% FY 2020-21 investment earnings and the Retirement Board's November 10, 2021 decision to reduce its assumed discount rate to 7.2%. Year over year rate reductions will result in significant cost savings and are estimated to be: -14.41% in FY 2022-23, -22.35% in FY 2023-24, -17.27% in FY 2024-25, -8.17% in FY 2025-26, and -1.96% in FY 2026-27. Assumptions for FY 2025-26 and FY 2026-27 include a partially offsetting increase in retiree healthcare contributions the City is required to make when the employer normal cost rate falls below 10%.

- Debt Service
  Debt service expenditures will increase modestly and are projected to account for no more than two percent of currently projected total expenditures, well within the City policy requiring no more than five percent of total operating expenditures be used on debt service. The forecast does not assume issuance of additional debt. Not included in the projection are $34 million per year in availability payments for the Potrero Yard Modernization project, the final details of which are being finalized but which will likely begin in FY 2026-27.