



**Subject:** 2020 Metropolitan Transportation Plan/Sustainable Communities Strategy: Preliminary Revenue Assumptions (Est. time: 15 minutes)

**Information**

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**Approved by:** Matt Carpenter

**Attachments:** Yes

**1. Issue:**

SACOG is updating revenue projections for the planning period (2020-2040) covered by the 2020 Metropolitan Transportation Plan/Sustainable Communities Strategy (2020 MTP/SCS).

**2. Recommendation:**

That the committee provide input and questions on the update of revenue projections for the MTP/SCS.

**3. Background/Analysis:**

Federal law requires that the expenditures planned in the MTP/SCS be financially constrained and not exceed the level of revenues that the region can “reasonably expect” to be available during the period covered by the plan. To that end, SACOG develops a set of revenue projections for each MTP/SCS. These projections rely on the latest available data, forecasts, and policy direction from local, state, and federal sources, and guide the transportation investments in the plan. The financial projections generally consider trends in the economy, policy and regulatory frameworks, fuel price and consumption, and other drivers of transportation investment.

Accurately forecasting future revenue is extremely challenging, particularly at a time of rapid technology change and uncertainty in local, state, and federal policy and economies. In the near term – four to six years – projections are specific and frequently based on funding formulas that provide some level of certainty about the level of revenues available. However, as with many of the assumptions in long range planning documents, the uncertainty about funding levels grows as projections move farther into the future.

The Policy Framework for the 2020 MTP/SCS update, adopted by the Board in December 2017, directed staff to:

1. Identify strategies to offset the projected long-term decline in driving costs and loss

of fuel revenues that create challenges for maintaining infrastructure, managing congestion, and meeting greenhouse gas reduction targets.

2. Examine the effect of e-commerce on transportation, land use, and revenues.

#### **4. Discussion/Analysis:**

This month, staff is providing preliminary revenue forecast ranges based on analysis of existing and potential new funding sources. This item is intended to give board members additional information on what risks and opportunities exist that affect the region's ability to capture funding to support the investment needs planned for in the MTP/SCS. Staff is looking to receive input and direction that will lead to a draft set of budget assumptions in December and help guide the development of a draft preferred scenario.

Attachment A provides a side-by-side comparison of 2016 MTP/SCS revenues with our current estimated ranges for existing and new funding sources to support the 2020 MTP/SCS. Below is a brief description and analysis of the factors influencing these revenue estimates:

##### **State and Federal Fuel Taxes**

A large part of the MTP/SCS revenue forecast is dependent on funding sources supported by state and federal transportation fuel taxes. Current projections at the state and federal level foresee a continued decline in these revenue sources resulting from improvements in average fuel economy and decreasing overall consumption. The lower range estimates reflected in Attachment A are consistent with projections for fleet-wide fuel efficiency proposed by the Regional Targets Advisory Committee (RTAC) for the next round of Sustainable Communities Strategies. The potential decrease in these revenue sources could be as much as \$3.7 billion over the life of the plan.

The Road Repair and Accountability Act of 2017, generally known as SB1, added a 12 cent per gallon fuel tax to the existing federal and state taxes. Additionally, SB1 includes a new registration fee on electric vehicles, and an increase on the general vehicle registration fee based on the assessed value of a vehicle. The additional revenues generated by SB1 will offset much of the potential decrease in fuel based funding sources included in the MTP/SCS. New revenues generated by SB1 could be between \$1.5 and \$2.0 billion over the course of the MTP/SCS time frame. Over time, even with SB1's requirement that California's fuel taxes be indexed to increase with inflation, the pace of fuel efficient and electric vehicle technologies will likely diminish the Act's ability to raise sufficient revenue to meet the demand for transportation infrastructure investment.

The long-term impacts if the SB 1 repeal ballot measure, Proposition 6, passes in November are unclear at this time. As a long-range plan, it is possible that State policy actions and local ballot measures could offset some of the near-term reduction in transportation-committed revenues by the 2040 planning horizon. Staff will need to revisit the state revenue forecasts after November if Proposition 6 passes.

##### **State and Local Sales Taxes**

The region has kept pace with, or even slightly exceeded, the forecast in the 2016 plan for both the state sales tax and the local Measure A sales tax in Sacramento County. However, there is risk to sales tax revenues in the longer term due to increased online sales and

declines in the general retail sector statewide. This is particularly important because online retail sales by businesses that exist outside of California, do not have to collect California sales tax. To illustrate how vulnerable sales taxes could be as e-commerce increases, in the City of Sacramento between 1999 and 2017, online sales increased from 0.6% of all retail sales to between 8.5% and 10% of all retail sales.

Another risk to sales tax revenues supporting the plan is the uncertainty of an additional ½-cent sales tax measure or its equivalent in Sacramento and Placer Counties. The most recent attempts in 2017 to pass these measures were unsuccessful, despite coming close to achieving the necessary two-thirds approval by voters.

For the 2016 MTP/SCS, the Board elected to push the assumption for a new measure back by two years, from 2020 to 2022, to be consistent with financial constraint requirements of the Metropolitan Transportation Improvement Program (MTIP). SACOG will continue to coordinate with the Sacramento Transportation Authority and Placer County Transportation Planning Agency on how best to reflect the potential for these measures in the 2020 plan.

### **Locally Derived Streets and Roads Funding**

These revenues are supported by local developer fees, general funds, special assessments, and other local funding programs. These programs are expected to stay fairly stable over the planning period, but are ultimately dependent on future housing and employment growth. In December 2017, the board adopted a growth forecast that reduces the amount of total housing and employment growth from the 2016 MTP/SCS for this plan update. The effect of this slightly lower growth forecast will be a decline in available local revenues of up to \$700 million.

### **Transit Fares**

SACOG bases the forecast of transit fares on ridership and average fares paid by riders. The total fare revenue captured by the plan will be dependent on the productivity of transit services included in the plan. The fairly wide range in potential transit fares is due to uncertainty about how a draft preferred scenario will perform. The current plan achieves a very productive transit system that by 2036 covers nearly 38 percent of the operating costs of transit with fare revenue. Today, the region is capturing roughly 23 percent of the total costs of operating the transit system region-wide through fares.

Without sufficient funding support from state and federal revenue sources, and in particular without additional local revenues from a Measure B in Sacramento County, achieving this same level of productivity will be very difficult for the 2020 plan update. Assuming that a preferred scenario can perform at least as well as the current MTP/SCS, there would be little change in fare revenues.

### **Potential New Revenue Source (System Pricing)**

In addition to the new fuel tax and vehicle registration fees generated by SB1, this plan could consider including assumptions for system pricing. These funding sources carry an additional level of uncertainty and risk, beyond forecasts of the more traditional funding sources included in the current plan. However, additional funding could be an important part of making up any gap left by a more conservative estimate of existing resources.

The Board could consider including revenues coming from state and/or federal mileage-based user fees, or equivalent adjustments that would replace or modify existing taxes on

transportation fuels. Two national reports commissioned by the previous federal transportation bill (SAFETEA-LU) suggested that mileage-based fees should be considered as a long-term solution to the shortfalls plaguing the Highway Trust Fund. California also conducted a pilot program to look at the feasibility of such programs in the state. These types of programs, if assumed in the later years of the MTP/SCS, could generate between \$2.0 and \$5.0 billion for the region, based on SACOG's forecasts of regional vehicle miles traveled. In addition, using pricing as a management strategy, beyond the ability to raise revenue, could help the region meet performance objectives including achieving greenhouse gas targets, managing congestion, and improving air quality. Staff will bring a more detailed item on system pricing strategies along with a board workshop in November.

Staff is seeking the committee's reactions, questions, and input on the information provided in this staff report and Attachment A. Staff will continue to work with local, state and federal partner agencies to refine a set of revenue assumptions for the board to take action on in December, along with a Preferred Scenario Framework.

### **5. Fiscal Impact/Grant Information:**

This item does not have an impact on the agency budget. Staff time is already included in the Overall Work Program.

### **6. This staff report aligns with the following SACOG Work Plan Goals:**

1. Advance Economic Prosperity, 3. Assist Economic Development Strategies, 6. Help the Region Advance a Vision for "Next Generation Transit", 7. Deliver Key High-Profile Transportation Projects

### **ATTACHMENTS:**

Description

Attachment A- Preliminary Revenue Assumptions

## Attachment A: Preliminary Budget Analysis and Ranges for the 2020 MTP/SCS

The tables and descriptions below provide a range of potential future revenues for existing and new sources of funding and discuss what variables could affect the amount of revenues generated from these various sources.

### Existing Revenue Sources Supporting the MTP/SCS

	2016 MTP/SCS Adopted Budget	2020 MTP/SCS Budget Framework	
	<i>Amount (in billions of 2016 dollars)</i>	<i>Revised Range (in billions of 2016 dollars)</i>	<i>Reason for Change</i>
Federal Highway Administration funds including formula funds that pay for SACOG's regional funding programs (CMAQ & RSTP) and other federal discretionary programs funded through the Highway Trust Fund	<b>\$2.0</b>	<b>\$1.5 - \$1.8</b>	-Federal Highway and Transit Trust Funds are dependent on federal taxes on fuel. Improvements to average fuel economy of passenger and freight vehicles have eroded the purchasing power of these funding source over time and required transfers from the general fund to maintain the accounts' solvency.
Federal transit programs that come to the region and/or directly to transit operators including formula funds and federal discretionary programs such as New Starts	<b>\$1.5</b>	<b>\$1.0 - \$1.4</b>	-Federal and state forecasts predict that fuel economy will continue to improve faster than growth in vehicle miles traveled, further reducing the ability of current fuel taxes to support transportation needs.
Caltrans funding for state system expansion and preservation including SHOPP funding, highway maintenance, the Highway Bridge Program, and the Interregional Improvement Program	<b>\$5.6</b>	<b>\$4.6 - \$5.3</b>	-State transportation funding programs are dependent on transfers from the Federal Trust Fund and statewide diesel and gasoline taxes that feed the State Highway and Public Transportation Accounts.
State discretionary grant programs	<b>\$0.7</b>	<b>\$0.5 - \$0.7</b>	
State formula (STIP) funds that contribute to SACOG's regional funding programs	<b>\$1.1</b>	<b>\$0.6 - \$0.8</b>	
State transit programs that flow directly to transit operators including State Transit Assistance and Intercity Rail *LTF funds included under sales taxes below	<b>\$1.3</b>	<b>\$1.0 - \$1.2</b>	-As described above, improvements in fuel economy resulting in overall lower fuel consumption impact state resources in the same way federal resources have the potential to decline

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<p>Portion of non-SB1 state excise taxes on transportation fuels (currently \$0.30/gallon) distributed to cities and counties for transportation purposes.</p>	<p><b>\$2.2</b></p>	<p><b>\$1.5 - \$2.0</b></p>	<p>over the MTP/SCS planning period.</p> <p>In addition, a portion of the state fuel tax is currently indexed to the price of fuel which has not kept pace with state and federal forecasts. Lower than estimated fuel prices will also result in capturing less revenue to support transportation infrastructure.</p>
<p>State Cap and Trade Program</p>	<p><b>\$1.0</b></p>	<p><b>No Change</b></p>	<p>In July of 2017, the California legislature voted to extend the state's cap and trade program beyond 2020.</p> <p>There is a lot of uncertainty about the amount of funding likely to be generated by the program. SACOG elected to go with a conservative estimate compared to estimates by the Ca. Legislative Analyst's Office. There is no new information that would require the 2020 plan to modify this forecast.</p>
<p>State and local sales taxes supporting transportation investments</p>	<p><b>\$7.6</b></p>	<p><b>\$6.0 - \$7.0</b></p>	<p>-Annual revenues generated by state and local (Sacramento County's Measure A) sales taxes have kept pace with the forecasts in the current plan. However, there is a lot of risk to sales taxes as a revenue source given the trends toward e-commerce.</p> <p>-Two new sales tax measures were included in the 2016 plan (in Sacramento County &amp; Placer County), but did not receive enough votes to pass in 2017. Both measures are looking at returning to voters in the next several years and would still meet the "reasonably available" criteria for the MTP/SCS financial</p>

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			<p>forecast.</p> <p>-The revenues that would be generated by the new measure in Sacramento County are an important component of funding the level of transit service and road maintenance contained in the current MTP/SCS.</p> <p>-PCTPA is responsible for the planning assumptions for the new measure in Placer County. SACOG will coordinate with PCTPA in determining how to account for a potential Placer County tax in the plan.</p>
Locally derived streets and roads funding (developer fees, general fund contributions, special assessments, etc.)	<b>\$9.7</b>	<b>\$9.0 - \$9.5</b>	<p>-Locally derived revenues will be based on a combination of historic allocations reported to the state controller and growth in new land use developments forecast for the MTP/SCS.</p> <p>-With less growth overall in the 2020 update to the plan, compared to the 2016 plan, there will be less funding generated for transportation purposes from new development activities.</p>
Transit Fares	<b>\$2.2</b>	<b>\$2.0 - \$2.3</b>	-Transit fare revenues will be based on modeled ridership and forecasted average fares.
<b>SUBTOTAL EXISTING REVENUES</b>	<b>\$34.9</b>	<b>\$28.7 - \$33.0</b>	

# Attachment A: Preliminary Budget Analysis and Ranges for the 2020 MTP/SCS

## Potential New Revenue Sources to Support the MTP/SCS

	2016 MTP/SCS Budget Framework	
	<i>Range (in billions of 2016 dollars)</i>	<i>Reason for Change</i>
SB1 Fuel Tax & Registration Fees	<b>\$1.5 - \$2.0</b>	<p>-SB1 adds a 12 cent excise tax to gasoline, a registration fee for electric vehicles, and an increase to existing registration fees based on a vehicles market value.</p> <p>-Proposition 6 before voters in November, 2018 could repeal the revenues generated by SB1. SACOG will coordinate with peers from around the state on how best to handle any future assumptions about fuel taxes following the November action.</p>
<p>State and/or federal mileage-based user fee (2030-2040) to replace existing gas taxes (net over existing revenue sources).</p> <p>*Facility level pricing, such as tolls and paid expressways, could also generate additional funding to help offset the cost of those facilities. The funding generated from this type of system will vary depending on the specific facility and amount charged for its use.</p>	<b>\$2.0 - \$5.0</b>	<p>-Two national reports commissioned under SAFETEA-LU call for the long term replacement of existing fuel taxes with a mileage-based system.</p> <p>-Several states, including California, have further studied the potential of mileage fees and conducted their own pilot programs.</p> <p>-A \$0.05 per mile tax would yield roughly \$0.8 to \$1.1 billion per year to the region based on SACOG's projections of annual VMT.</p> <p>-These fees would replace existing federal and state gas taxes, yielding a net increase of \$200 to \$500 million per year that could be distributed through existing state and federal programs in a manner consistent with current formulas.</p>
<b>TOTAL CORE AND NEW REVENUES</b>	<b>\$32.2 - \$40.0</b>	