SFMTA

San Francisco Municipal Transportation Agency

Financial Update for the Muni Funding Working Group

Bree Mawhorter, Chief Financial Officer

September 16, 2024

Muni Funding Working Group

The Muni Funding Working Group will provide recommendations to the SFMTA and SFMTA Board of Directors to solve the SFMTA's near-term and long-term funding gap.

This presentation will provide a framework for the scale of the funding gap and guiding financial principles for the Working Group Members.

Planning for Multiple Scenarios

In the next 5 fiscal years, SFMTA needs to increase revenue or decrease costs each year.

	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29
Best Case Change Needed		$25M	$143M	$87M	$13M
Worst Case Change Needed		$65M	$138M	$127M	$13M

- At minimum, we must solve for a best-case scenario
- At best, we should solve for the worst-case scenario

Early Action Preferred

The longer we wait, the harder the choices in FY26-27 and FY27-28

Description	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29
Revenue	$1,442M	$1,474M	$1,359M	$1,254M	$1291M
Expenditure	$1,442M	$1,474M	$1,532M	$1,413M	$1,303M
Delayed Action Change Needed	0	0	$173M	$159M	$12M
Early Action Change Needed	0	$65M	$138M	$127M	$13M

Multiple Options Are Needed

Solutions like reducing capital maintenance and generating revenue through parking are insufficient to solve the problem.

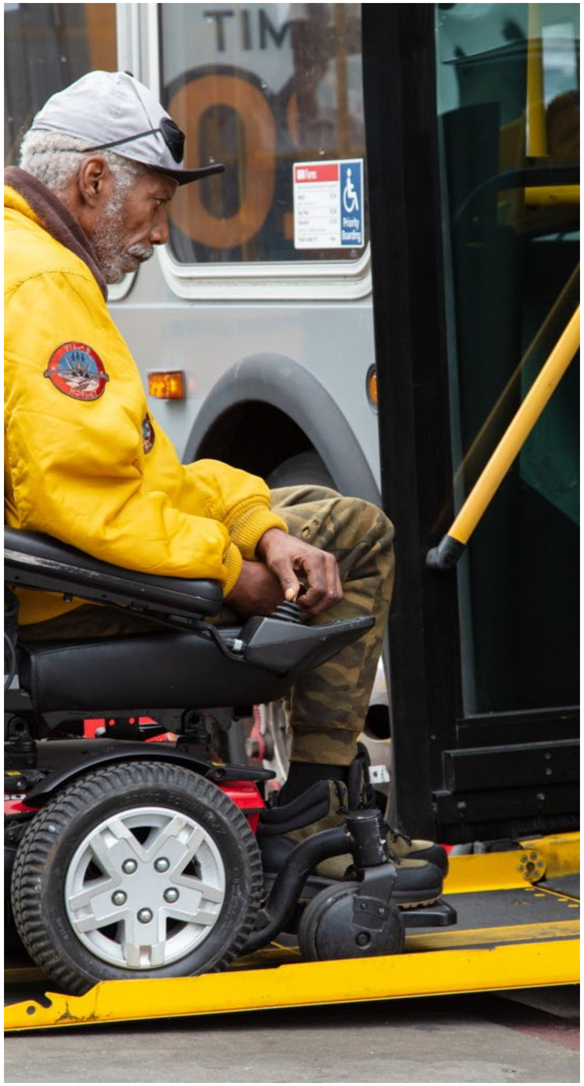
Description	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29
Revenue	$1,442M	$1,474M	$1,352M	$1,278M	$1315M
Capital Revenue Flexed to Operating	0	0	$21M	$23M	$27M
Parking Revenue	0	0	$24M	$35M	$65M
Expenditure	$1,442M	$1539M	$1,490M	$1,452M	$1,407M
Change Needed	0	$65M	$93M	$116M	0

Agenda

1. Financial Trends
2. FY23-24 Year-End Close
3. FY24-25 and FY25-26 Final Budget
4. Five-Year Deficit Projections
5. Closing the Deficit

Financial Trends

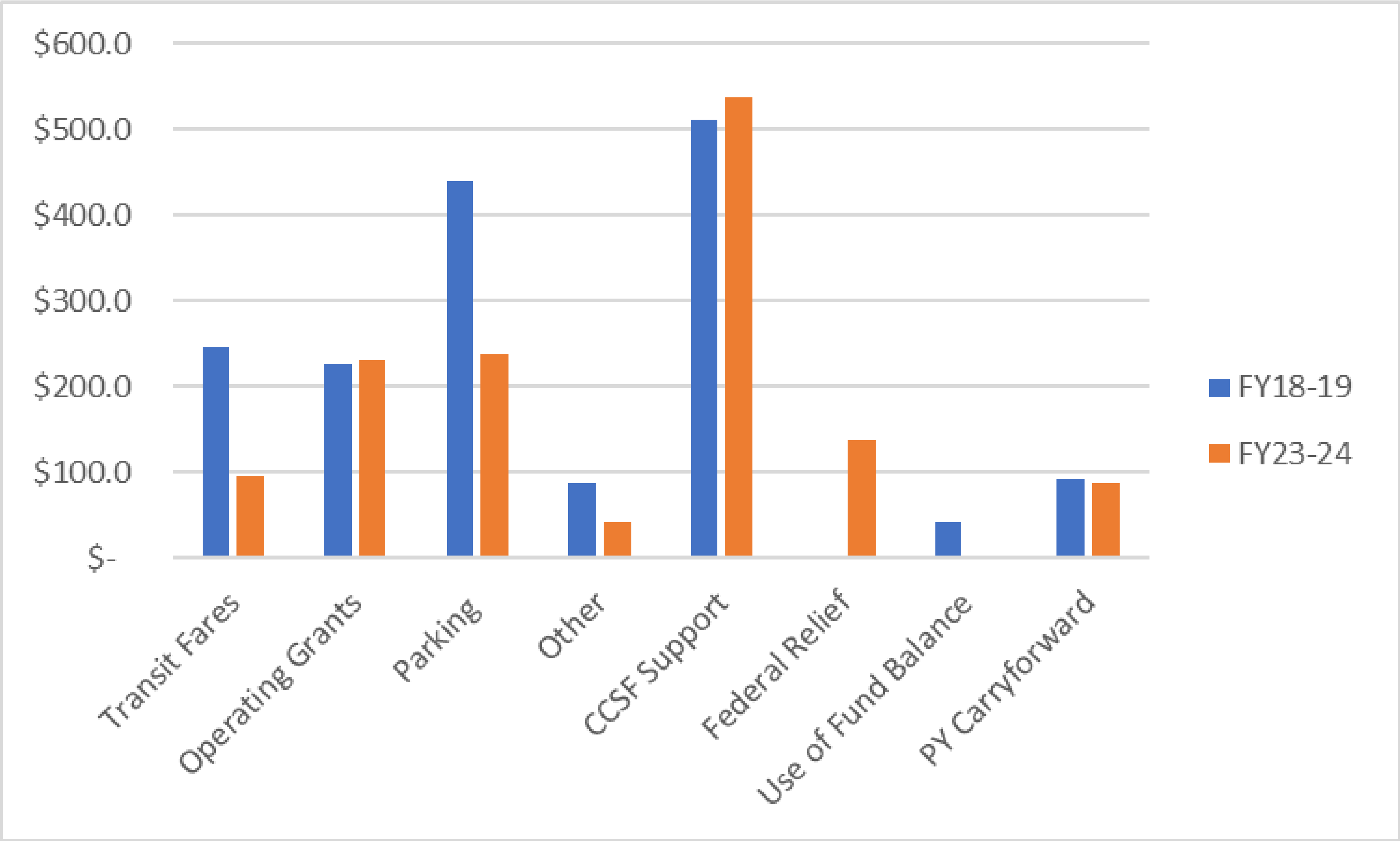
Financial Trends



- Revenues are lower than pre-pandemic across the board:
    - Transit revenue down
    - Parking revenue down
    - General Fund growth slower than prior decade.
- Federal, state, & regional relief will be cut in FY26-27.
- In response, we reduced expenditure in our control
- Revenues grow slower than inflation

Revenue Trends: Lower Revenue

Adjusted for inflation, SFMTA revenues are $275M or 16% less than pre-pandemic.



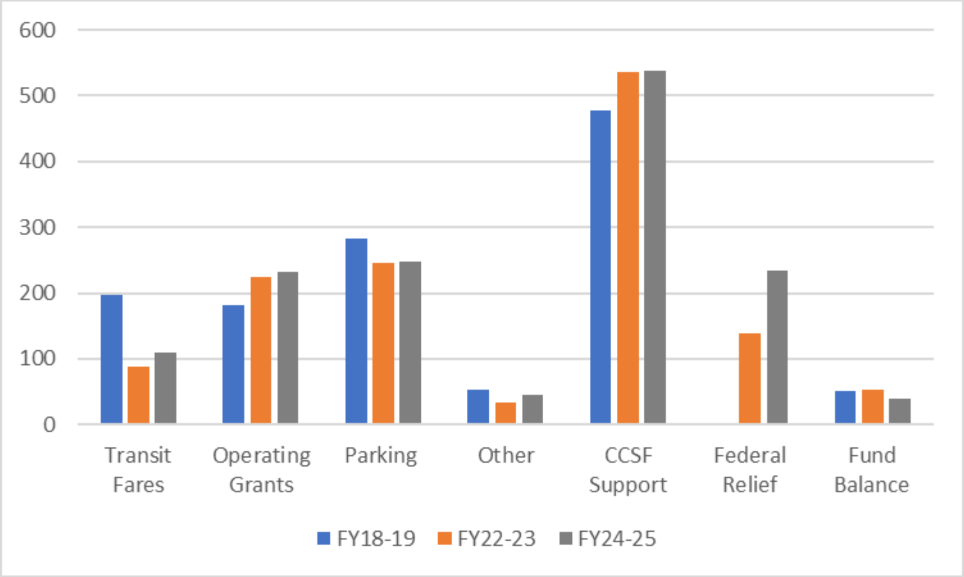
Revenue Trends: Additional Revenue Sources are Being Impacted

Enterprise revenue decreased dramatically during the pandemic due to changing travel patterns:

- Transit fares
- Parking fees and fines

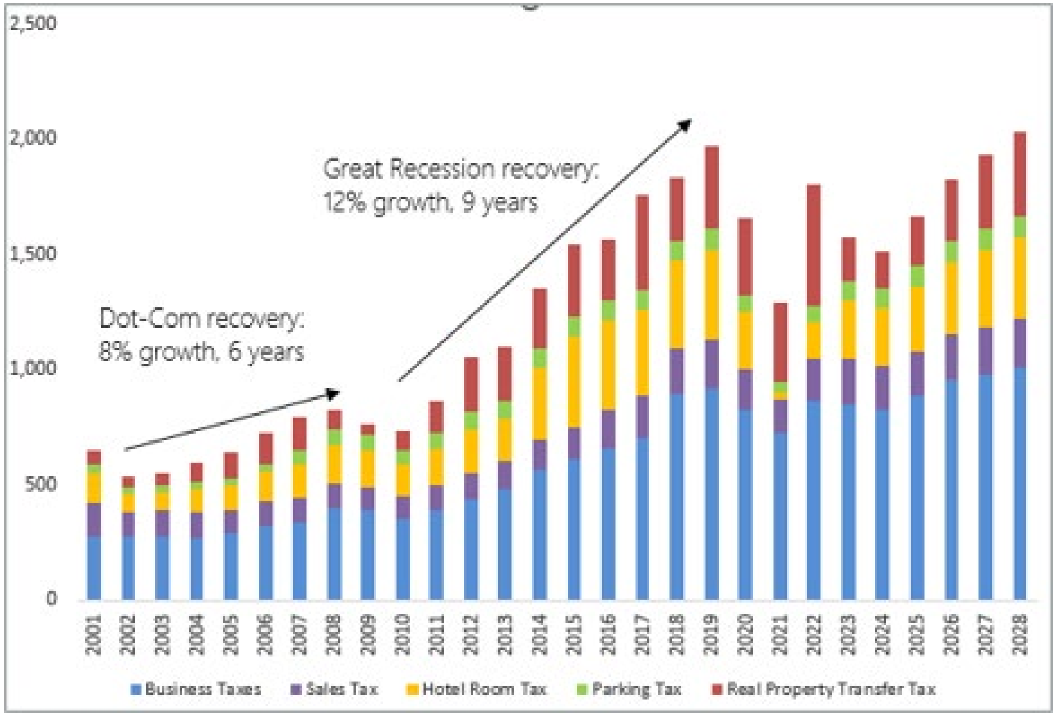
Additional revenue sources are decreasing now due to post-pandemic economic conditions:

- General Fund



Revenue Trends: Slow General Fund Growth

15 years of General Fund revenue growth of 8% to 12% is replaced by projected 3% growth, dramatically decreasing revenue growth built into assumptions about SFMTA's long-term financial health.



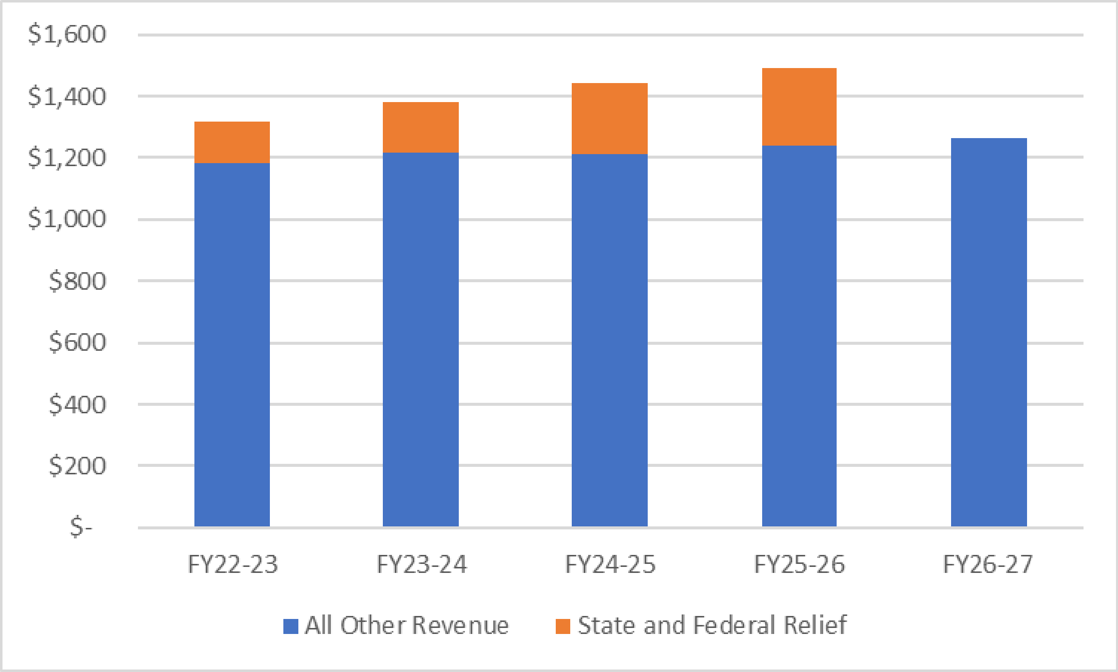
As General Fund is 39% of SFMTA revenue, performance of the General Fund is the most significant driver of lower SFMTA revenue.

Revenue Trends: Weak Economic Drivers

- Tourism down
- Conventions down
- Population down
- Economic recovery slower than expected
- More work from home = fewer trips on Muni, less downtown parking

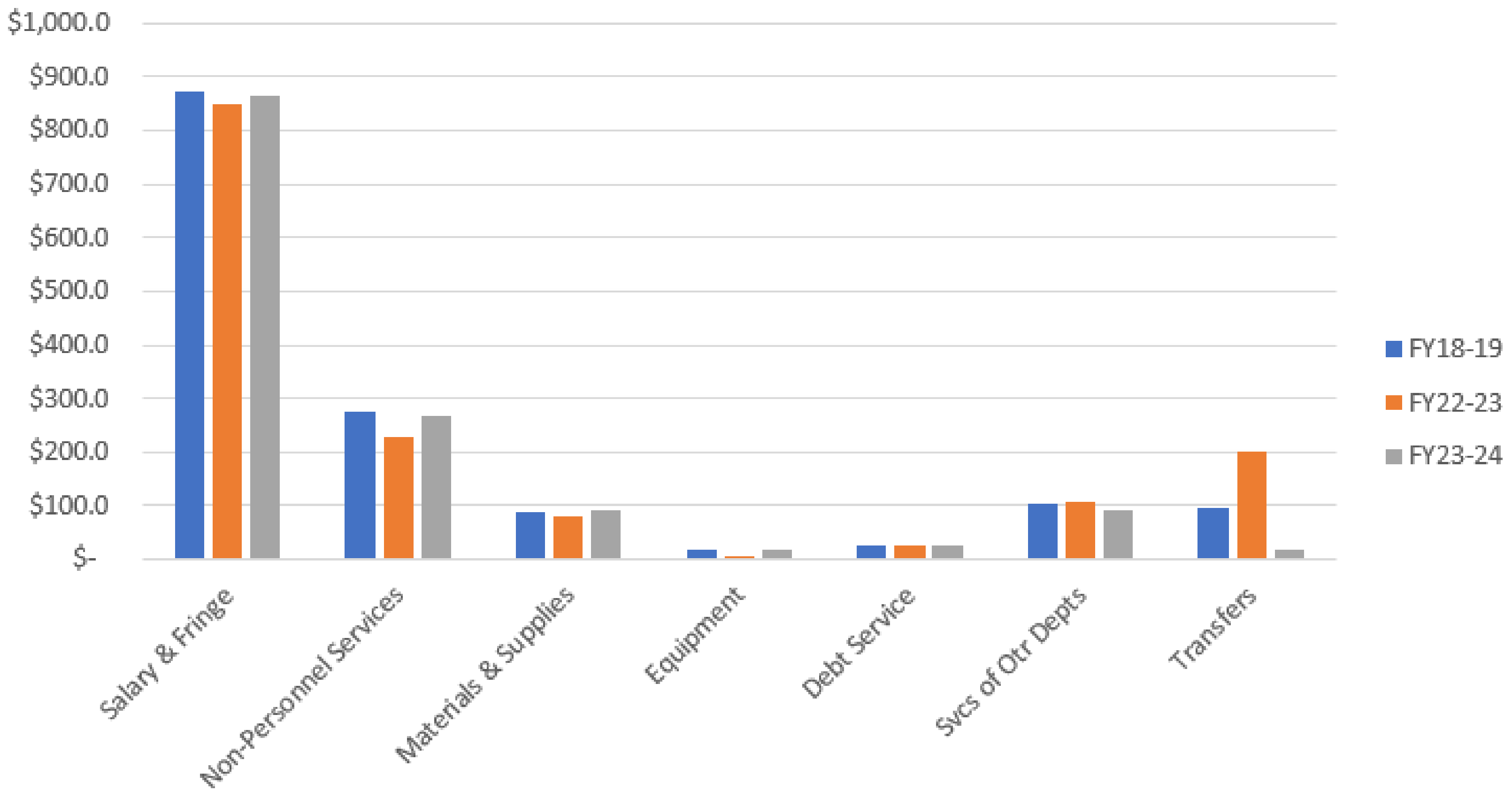
Revenue Trends: State and Federal Relief Cut

Balancing the budget since the pandemic has only been possible due to one-time regional, state and federal relief, is being cut in FY26-27.



Expenditure Trends

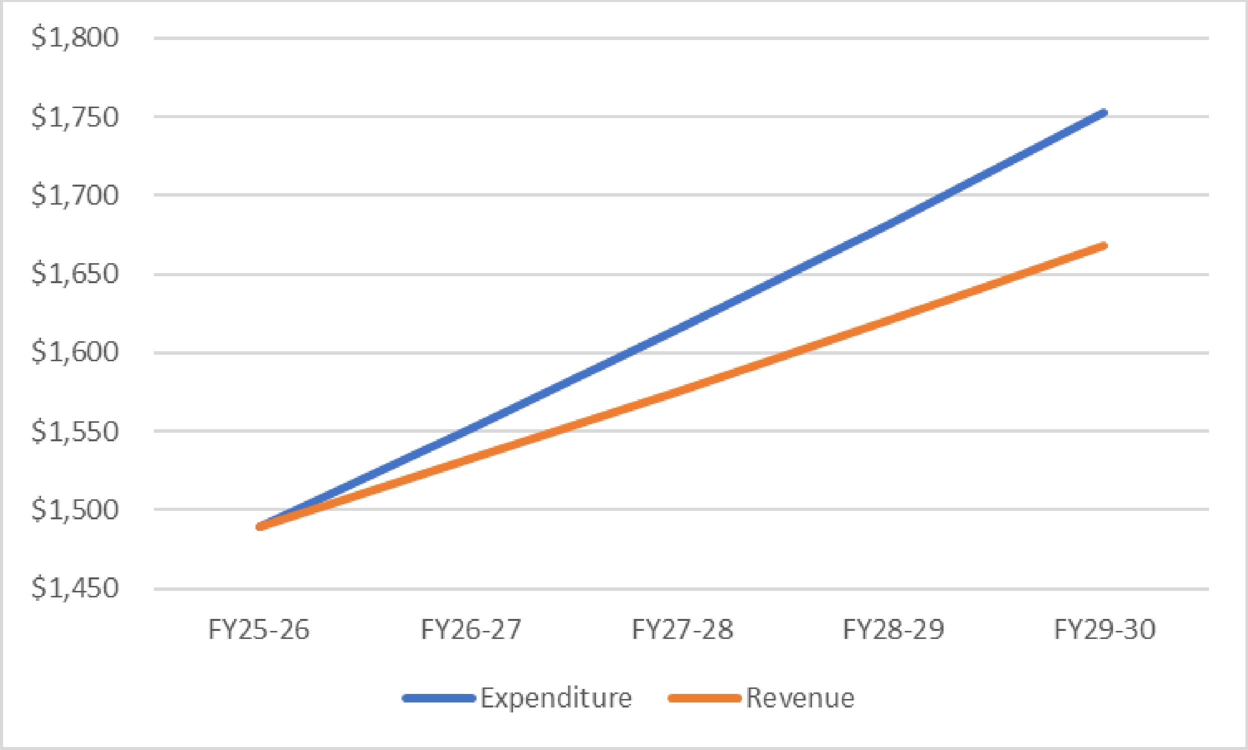
When adjusted for inflation, SFMTA spent $95M or 6% less than pre-pandemic.



Expenditure on capital, multi-year projects and transfers to reserve make-up $76M of difference, indicating a decrease in long-term investment and financial planning.

Expenditure Trends: Projected expenditure growth exceeds projected revenue growth

Projected expenditure growth of 4% due to inflation and COLA exceeds projected revenue growth of 3%.



Mismatch between expenditure and revenue growth rates turns a balanced budget into a growing deficit, even when the number of FTE and other expenditure types is unchanged.

Revenue growth is slower than inflation and a federal, state, and regional relief is cut in FY26-27

FY23-24 Year-End Close

FY23-24 Year-End Close

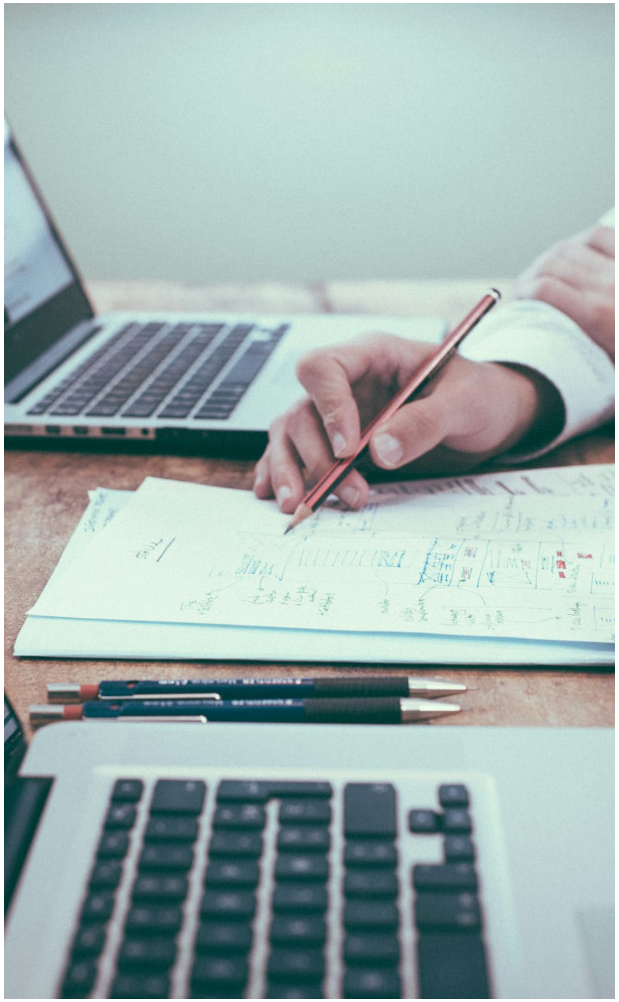
FY23-24 revenues were lower, and expenditures were higher than projected. Total negative impact: $46M.

Description	Amount ($M)
General Fund transfers less due to local economy	-5
State operating grants less due to low state sales tax	-3
Interest earnings less due to negative interest charge	-4
Non-labor expenditure higher than projected (legal settlements, insurance, equipment, and equipment maintenance)	-27
Work order expenditure higher than expected (Legal, Reproduction, Central Shops, Power)	-7
Total Impact	**-46**

Source: General Fund transfers, March 2024 Joint Report. FM13 BvA August 6, 2024.

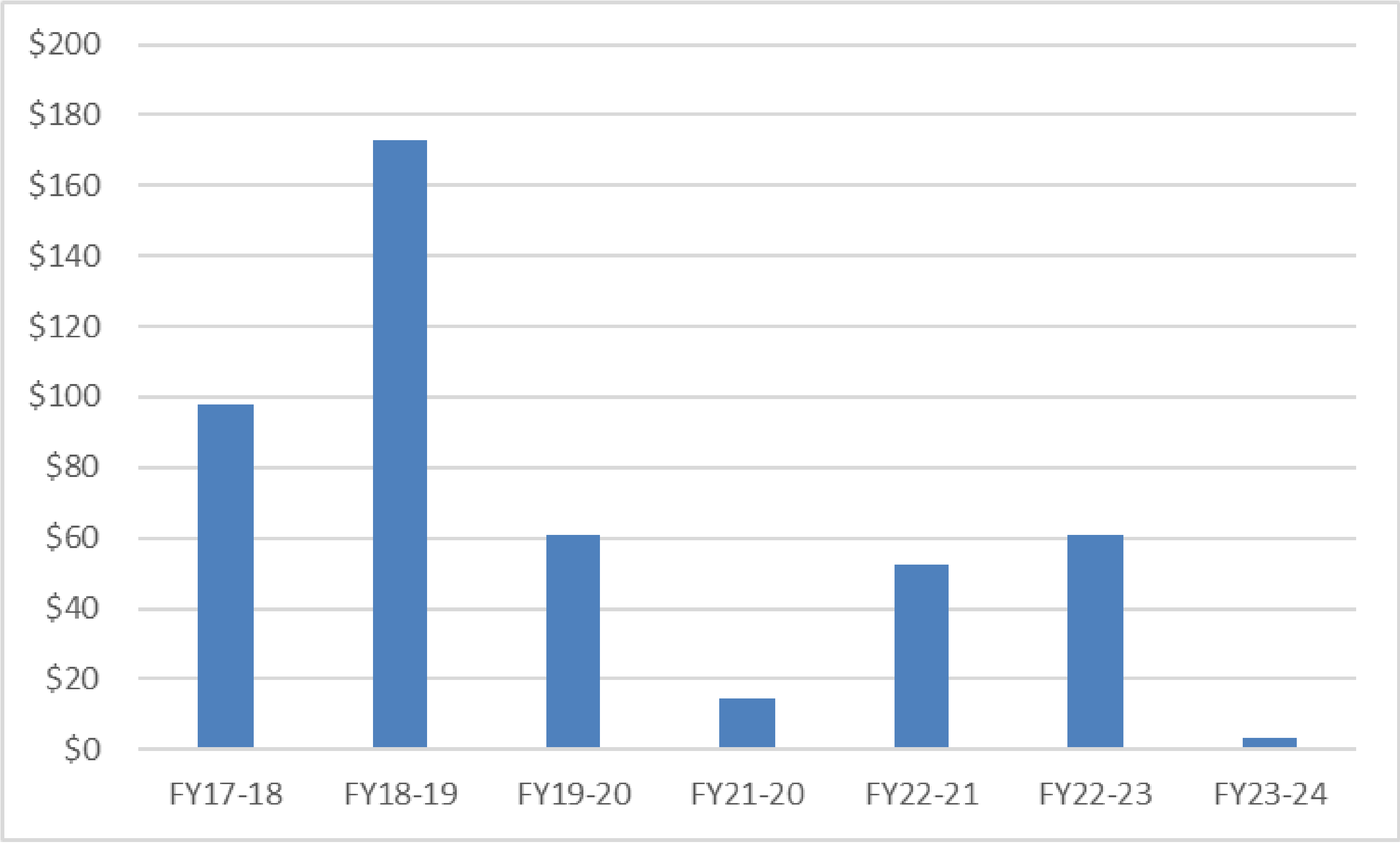
Impact: Limit Expenditure

- Previously, unexpected expenditures in SFMTA budgets were paid for with salary savings. Now that we've made our hiring process more efficient, there is little to no salary savings.
- To prevent unexpected expenditures in future years, we are implementing monthly budget monitoring with each SFMTA division.

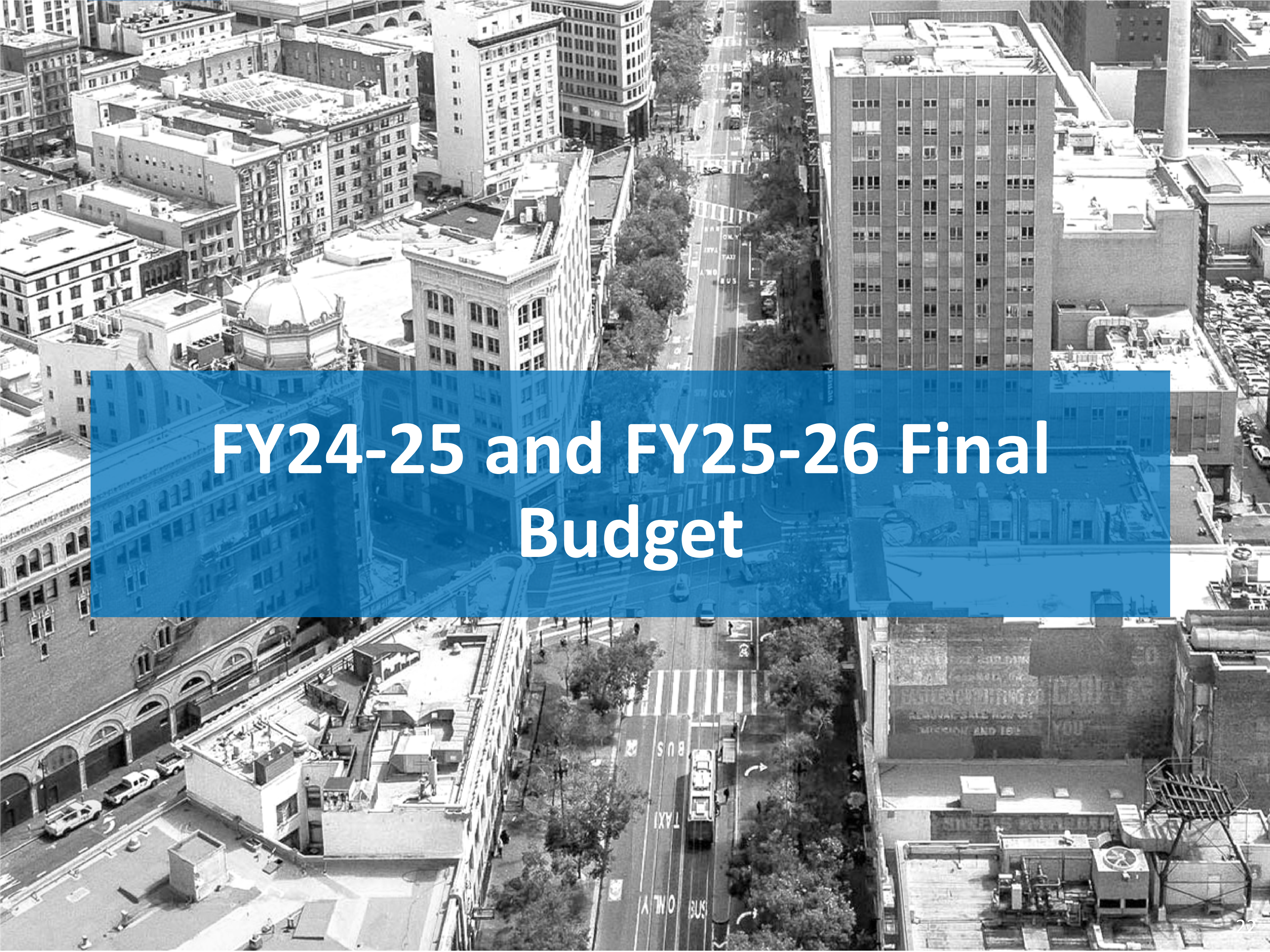


Impact: Low Fund Balance

SFMTA will end the year with a significantly lower fund balance than it started, making SFMTA less financially secure.



Closing FY 23-24 required use of resources set aside for FY 24-25 and FY 25-26.



FY24-25 and FY25-26 Final Budget

FY24-25 and FY25-26 Final Budget

Balancing FY24-25 and FY25-26 budgets included hard choices

- Limited hiring by putting $52.8M in vacant positions on budget hold
- Limited non-labor spending by increasing only by inflation, no new spending
- $12.7 million in fare, fee and fine increases, impacting 100% of sources exclusively under SFMTA control
- No additional Muni service, despite growing ridership; only cost-neutral service changes.
- New investments included only revenue generating positions: 36 transit fare inspectors

FY24-25 and FY25-26 Final Budget

We became more efficient

- When adjusted for inflation, **SFMTA spent $95M or 6% less than pre-pandemic.**
- Years of **efficiency improvements** include:
  - Reinvest Muni travel time savings into additional service
  - Improvements to project delivery
  - Consolidation of agency functions

FY24-25 and FY25-26 Final Budget

After SFMTA Board passed budget, revenue went down* and expenditure went up.

- Revenue was lower due to revenue trends.
- Expenditure was higher due to labor negotiations.

*NOTE: SFMTA submits balanced budget by May 1, before CCSF closes out its fiscal year.

Impact

To balance the FY24-25 budget, we:

- **Will reduce hiring**
- **Defunded one-time investments:**
  - Non-revenue vehicles
  - Capital projects
  - Misc. professional services, and materials and supplies

We still have a budget gap in FY 25-26 and need to take action.

Even with the hard choices and efficiency improvements, our 5-year financial outlook included large deficits starting in FY26-27 and growing over time.

Five-Year Deficit Projections

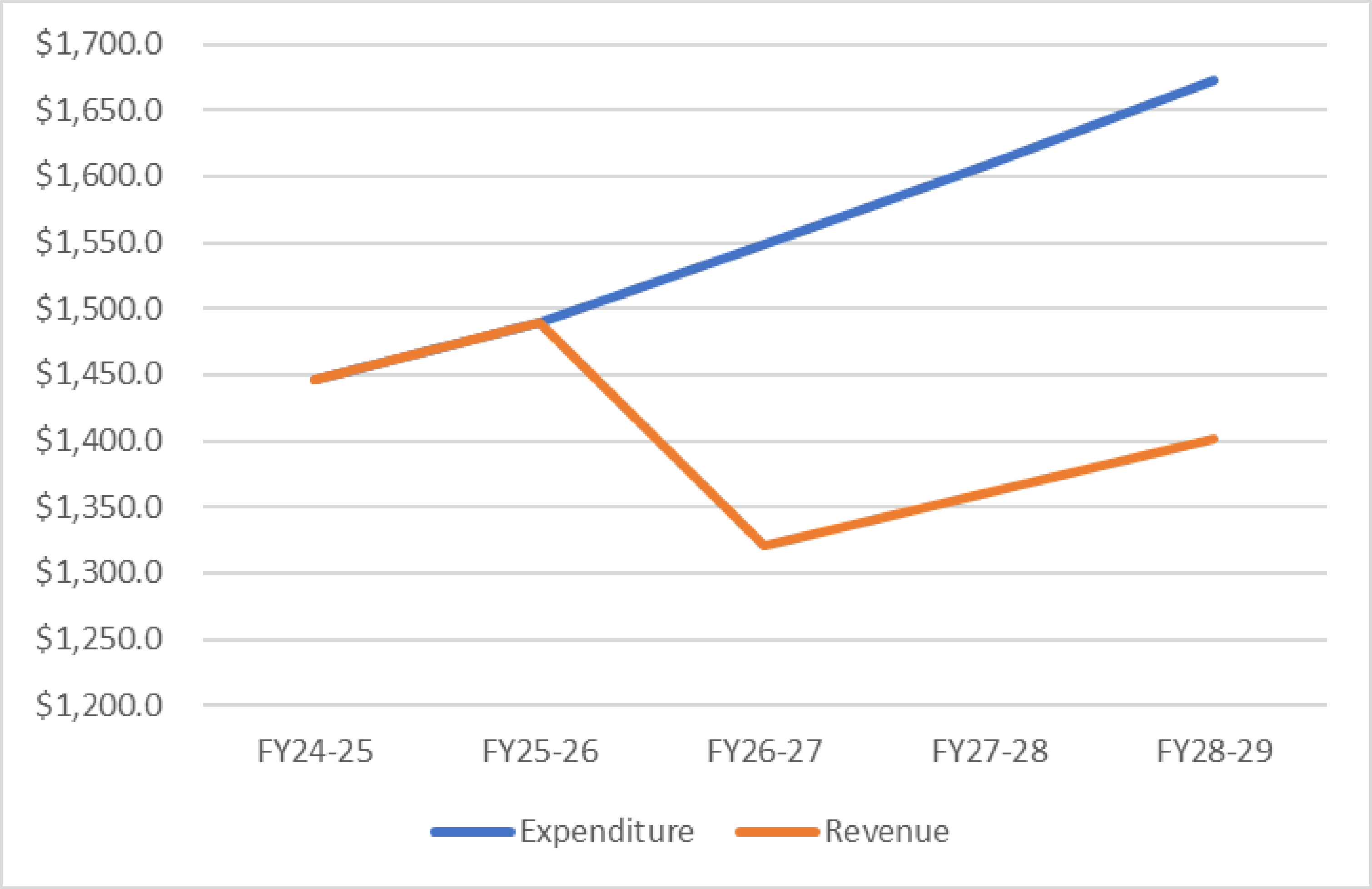
Five-Year Deficit Projections

Projected FY26-27 deficit ranges from $239M to $322M, depending on assumptions:

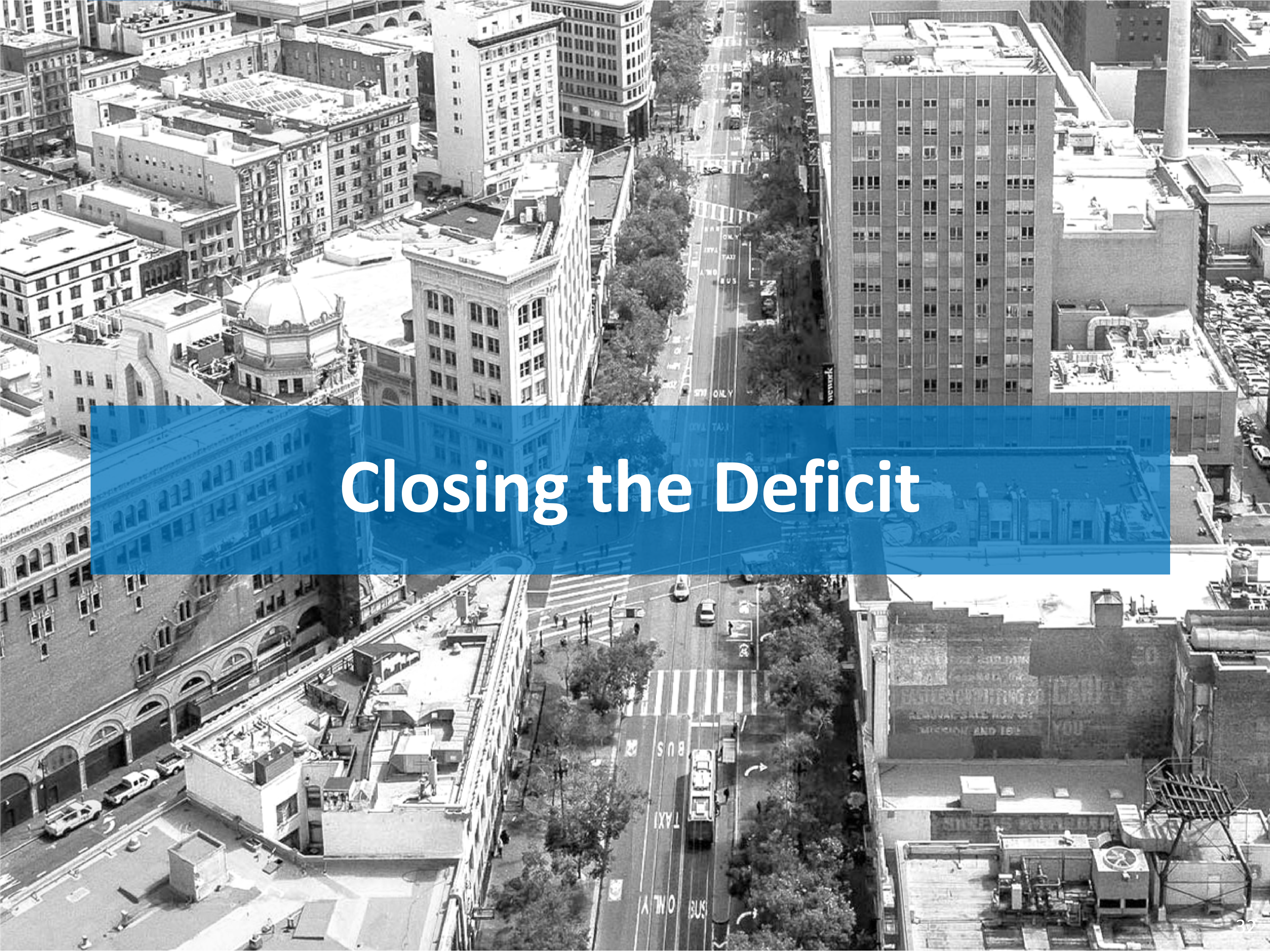
- Economic health of San Francisco and State of California
- Use of flexible funds that can be used for operating or capital
- Development of additional revenue sources
- Policy choices about how much service to provide
- Policy choices about implementing efficiency measures, like transit only lanes, that could make service less expensive
- Generation of fund balance by collecting more revenue or expending less than projected

Five-Year Deficit Projections

Deficits begin in FY26-27 when federal, state and regional transit relief is cut and will range from $239M to $322M.



Uncertainty suggests we should think about deficit as a range of possible outcomes based on economic conditions and policy choices.



Closing the Deficit

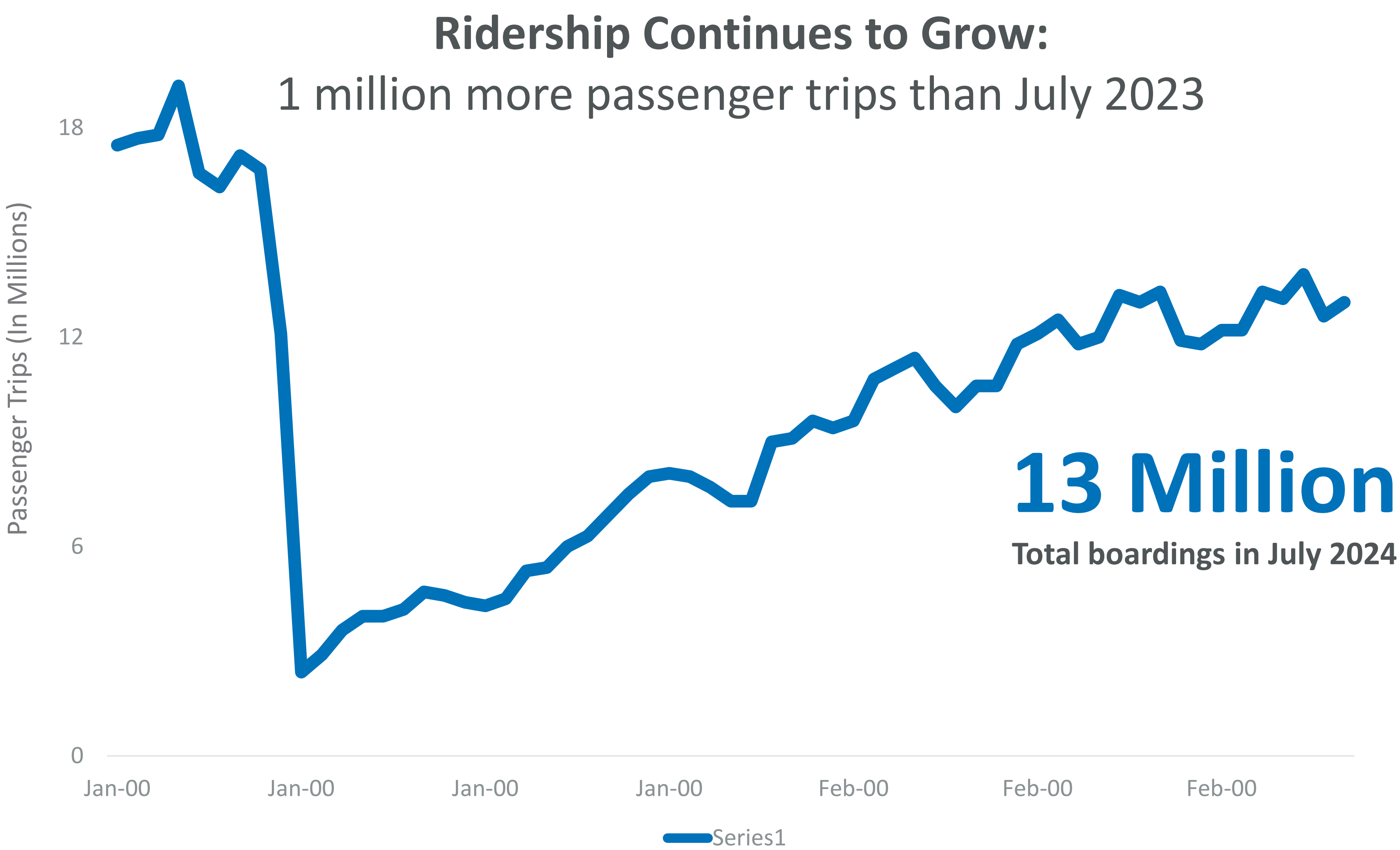
Existing Strategies to Close Deficit

- Increase **ridership** by making Muni fast, frequent, reliable, clean, and safe
- Increase **fare compliance** by adding Transit Fare Inspectors
- Raise revenue through a **regional revenue measure**

Ridership: Reliability

- Muni is more reliable than ever
- Muni achieved **historic levels of service reliability** through new and improved strategies.
- We've cut moderate subway delays to just a quarter of 2019 levels this year, and long delays are down over 65%.

Ridership: July Total Passenger Trips



Note: Excludes cable car and streetcar.

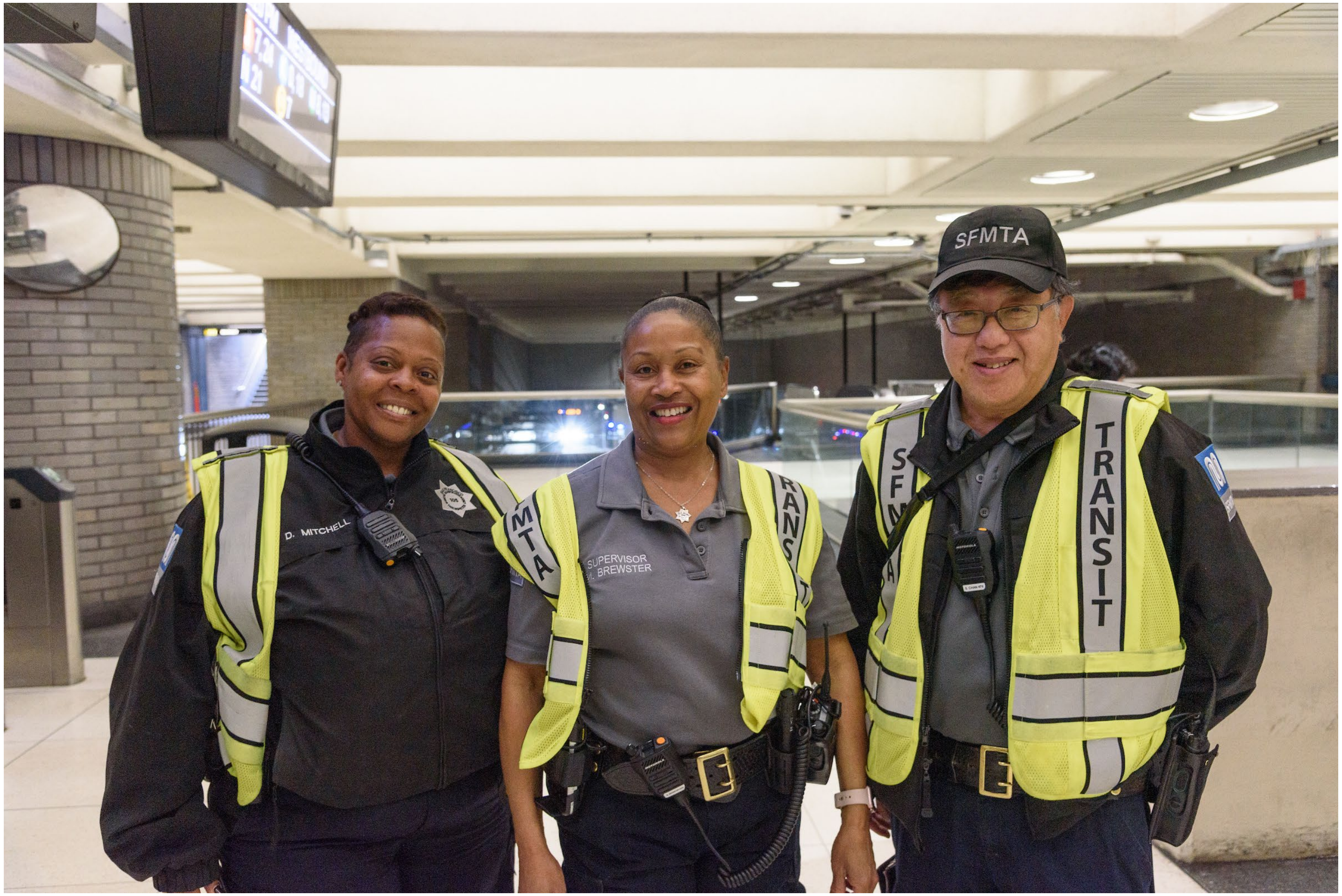
Fare Compliance

Plans to increase fare compliance

- **Education campaign** launches in September
  - Earned media, paid media, social media, podcast, car cards, meetings with CBOs, other
- **Marketing campaign** in development
  - Research-based messaging to drive fare compliance
  - Comprehensive multi-channel marketing campaign
- **Ease of payment** work ongoing
  - Clipper 2.0 (delayed)
  - Including Muni ride in pricing of tickets to sports events, music festivals
- **Discount fare promotion**
  - Staff work with City Departments and CBOs is ongoing

Fare Compliance

Hiring 36 additional Transit Fare Inspectors



Regional Revenue Measure

- SF economic recovery depends on strong regional transit network
- This includes Muni, BART, Caltrain and others
- 75% of all transit trips in the Bay Area start or end in San Francisco
- Bay Area was unable to come to consensus on SB 1031
- Continuing to work collaboratively with MTC and other counties on new regional revenue measure for Nov. 2026 ballot

Financial Summary

- Our financial situation has been made worse by economic forces that are out of our control.
- We've been forced to spend some of our fund balance sooner than we'd anticipated.
- We've used pandemic relief funds wisely, but regional, state and federal funds are being cut.
- We need to develop solutions now, while there's still time to act
- Projected FY26-27 deficit ranges from $239M-$322M, depending on economic outcomes and policy choices.
- We need local sources of funding.
- We're fighting for our workforce and we're fighting for the services San Franciscans depend on.

What are the options under consideration for the Muni Funding Working Group?

The Muni Funding Working Group will review detailed options in the following categories and will recommend a suite of options designed to reduce the funding gap.

- **Efficiency Improvements:** streamline systems and processes to decrease operating costs.
- **Service Cuts:** reduce service to decrease operating costs.
- **Revenue Enhancements**: increase fees, revenue, or taxes to increase overall revenue.
- **Service Enhancements:** enhance services to win voter support for new revenue.