Transportation Authority of Marin

DATE: April 23, 2020

TO: Transportation Authority of Marin Board of Commissioners

FROM: Anne Richman, Executive Director
Li Zhang, Deputy Executive Director/Chief Financial Officer

SUBJECT: Review and Approve the FY2020-21 Measure A/AA 1/2-Cent Transportation Sales Tax and the Measure B $10 Vehicle Registration Fee Revenue Estimates and Budget Development Schedule (Action), Agenda Item No. 10

RECOMMENDATION

The TAM Board reviews and approves the FY2020-21 Measure A/AA 1/2-Cent Transportation Sales Tax and the Measure B $10 Vehicle Registration Fee Revenue Estimates and Budget Development Schedule.

At its March 9, 2020 meeting, the Administration, Projects & Planning (APP) Executive Committee reviewed the recommended FY2020-21 Measure A/AA 1/2-Cent Transportation Sales Tax and the Measure B $10 Vehicle Registration Fee Revenue Estimates and Budget Development Schedule and voted unanimously to refer them to the TAM Board for review and approval.

While staff recommends the TAM Board approves the $27.5 million revenue level for the Measure A/AA 1/2-Cent Transportation Sales Tax at this time, staff also want to point out that the revenue level was developed based on available economic data and conditions as of February this year, when the impact of the COVID-19 pandemic in the US was just starting and many of us were still hopeful the situation would be under control soon. While the recommended $27.5 million does reflect a mild recession with close to 5% revenue drop in FY2020-21, it has been very evident that the COVID-19 situation has been worsening quickly and has been causing unmeasured health, social and economic damage in the US as well as globally. The speed and magnitude of the COVID-19 induced economic damage is simply unprecedented. TAM staff, along with staff of all other public agencies and various financial/economic analyses support teams, are working diligently to try to have a better understanding of the revenue situation. However, a reasonable assessment of the final revenue impact is simply not possible while the containment timeline of the COVID-19 situation is still not clear. On the other hand, with TAM's ongoing prudent fiscal and funding practice and the current reserve level under Measure A/AA 1/2-Cent Transportation Sales Tax program, staff is comfortable moving forward with the $27.5 million revenue level for the development of the FY2020-21 TAM Annual Budget. With the hope that the COVID-19 situation will be more certain by the middle of May, staff will bring updated economic and sales tax projections to the May 28 Board meeting, and if needed, request the TAM Board to approve a revised revenue level for FY2020-21 and adjust the draft budget accordingly.

BACKGROUND

Pursuant to Article VI, Section 106.1 of the TAM Administrative Code, no later than its June meeting of each year, the TAM Board shall adopt the annual budget for the following fiscal year. For the annual budget development of TAM and its member agencies, staff develops and the TAM Board adopts the Measure A/AA 1/2-Cent Transportation Sales Tax and the Measure B $10 Vehicle Registration Fee revenue levels in March of

every year. The approval of the expected revenue levels in March allows fund recipients time to build these local funding dollars into their budget processes for FY2020-21. These revenue estimates will also be used to update the revenue and expenditure elements in the Measure A/AA 1/2-Cent Transportation Sales Tax and Measure B $10 Vehicle Registration Fee Strategic Plans, which will guide the FY2020-21 programming and allocation process, and the establishment of contract levels for all projects and programs under both measures.

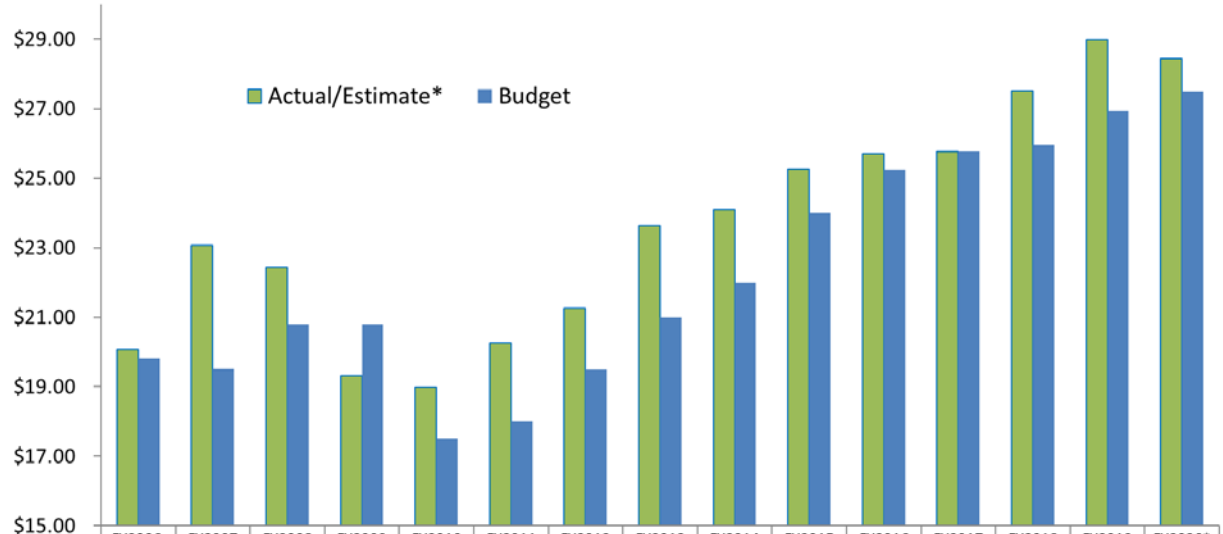
DISCUSSION/ANALYSIS

Recommended FY2020-21 Measure A/AA Revenue Estimate:

Sales tax revenue collection is one of the main indicators of economic strength and consumer confidence. TAM's Measure A/AA 1/2-Cent Transportation Sales Tax revenue bottomed at $18.8 million in FY2009-10 and has been seeing positive growth since then, at an average annual growth rate of 4.9%, as of the end of FY2018-19. Measure A/AA revenue collection reached a new record high in FY2018-19, at $28.98 million, which is $2.08 million higher than the $26.9 million originally budgeted for the year. The TAM Board adopted the most conservative estimate out of the three scenarios presented by staff during the FY2018-19 budget cycle and directed any excess revenue over the budgeted level to be made available as part of the following year's funding allocation process.

Chart 1 below illustrates budgeted Measure A/AA 1/2-Cent Transportation Sales Tax revenues versus actual annual collection between FY2005-06 and FY2019-20, with the FY2019-20 number estimated based on the collection of the first 6-month of the year, from July to December 2019.

Chart 1: Measure A/AA Annual Collection Actual/Estimate Vs Budget Comparison
(Numbers in Million)



	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020*
Actual/Estimate*	$20.06	$23.07	$22.43	$19.32	$18.98	$20.26	$21.27	$23.62	$24.09	$25.27	$25.70	$25.76	$27.51	$28.98	$28.45
Budget	$19.82	$19.50	$20.80	$20.80	$17.50	$18.00	$19.50	$21.00	$22.00	$24.00	$25.25	$25.77	$25.96	$26.94	$27.50

Attachment 1 is the Five-Year Measure A/AA 1/2-Cent Sales Tax Projection provided by Avenu Insights & Analytics based on its analyses and modeling of TAM's taxable sales data, with four scenarios presented: Conservative, Most-Likely, Optimistic and Recession, ranging from $27.4 million to $29.7 million. On the other

hand, the statewide sales tax growth rate prepared by the California Department of Finance and released by the California Department of Tax and Fee Administration in January 2020 for FY2020-21, for the period of July 2020 to June 2021, is 3.3%, as shown in Attachment 2.

Based on the analyses from various sources, staff developed the following revenue projection options for the FY2020-21 Measure A/AA 1/2-Cent Transportation Sales Tax.

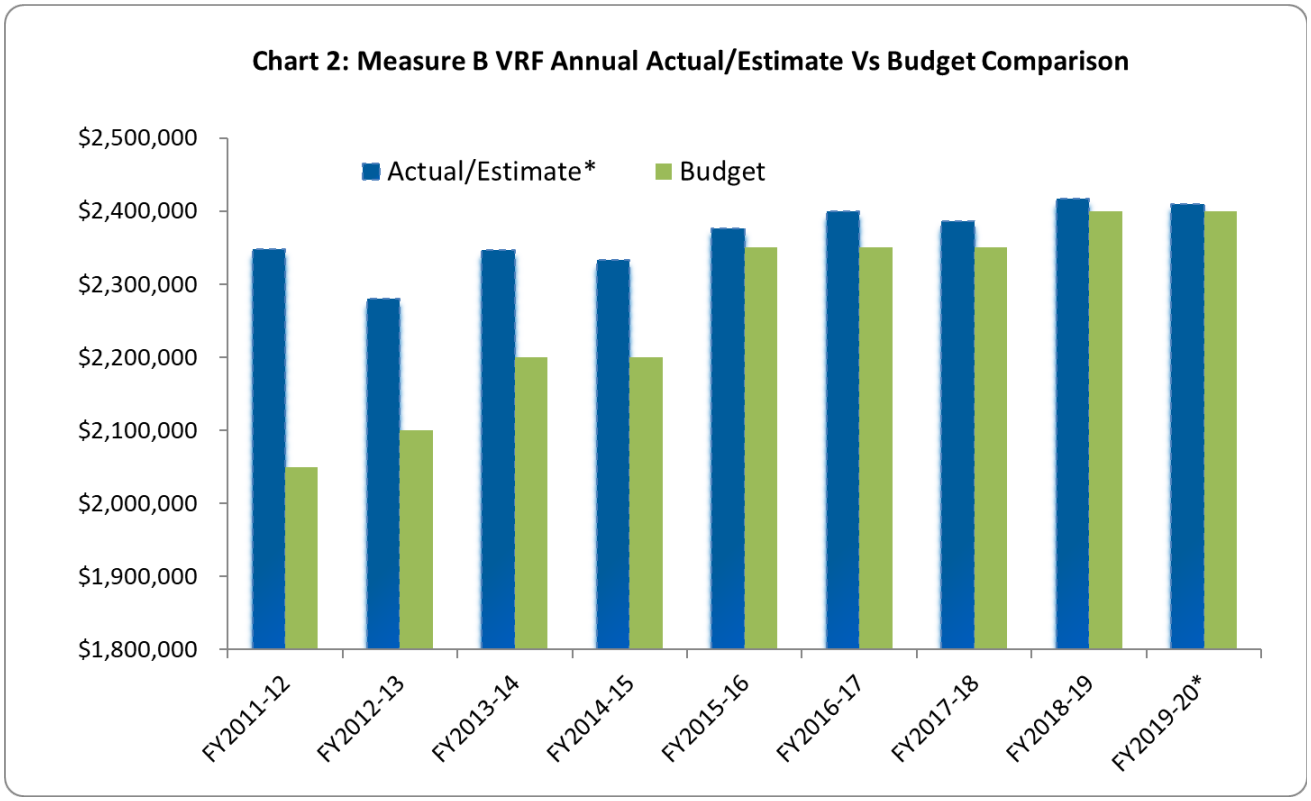
Budget Option	Assumption	In Millions
Option 1: Conservative	Assuming recession late 2020/early 2021	$27.5 million
Option 2: Moderate	Assuming similar level revenue as FY2019-20	$28.5 million
Option 3: Aggressive	Apply DOF's Statewide 3.3% Growth rate to the expected FY2019-20 revenue level	$29.6 million

While the fundamentals of the economy were thought to be strong heading into March, the corona virus-related shutdown that started since then makes the fear of a longer global recession more plausible. Though both the State of California and the Federal government are seeking possible remedies to calm the public and defend the economy, the potential economic damage from the outbreak is uncertain and could be significant.

To continue TAM's prudent and conservative approach and better prepare the agency for a potential recession, staff recommends Option 1, the conservative level at $27.5 million, to be approved for the development of the FY2020-21 TAM Annual Budget. As part of TAM's ongoing funding management practice, any excess revenue from the prior year will be made available to the funding recipients in the following year. Staff will also actively monitor the sales tax revenue trend and will update the Board if any negative adjustments are necessary during the year.

Recommended FY2020-21 Measure B Revenue Estimate:

Measure B, the $10 Vehicle Registration Fee revenue dedicated to transportation projects and programs, was passed by Marin voters in November 2010. Collection of this local revenue source started in May 2011. Chart 2 illustrates the actual revenue collections of Measure B from FY2011-12 to FY2019-20, with the FY2019-20 number estimated based on prior year's collection level.



The table below illustrates the history of the number of registered fee-paid vehicles in Marin County. As you can see from Table 1, the number of registered vehicles in Marin County was decreasing from 2008 to 2012 but has been increasing since 2013 with the exception of a slight 0.78% decrease from 2016 to 2017. Total registered vehicles in the County was 249,524 as of December 31, 2019. Most of the increase from 2018 to 2019 was from the increase of electric vehicle sales in the County. As observed from prior years, revenue collected was less than what was suggested by the number of registered vehicles in the County, due to delinquent payments and other reasons. Budgeted Measure B revenue for the current year is $2.4 million and actual collection for FY2018-19 is $2.42 million. Staff believes that actual revenue for the current year will be around $2.42 million, the same revenue level as the actual collection for FY2018-19, and staff recommends setting the budget level for FY2020-21 at $2.42 million as well.

Table 1: DMV Estimated Marin County Fee Paid Vehicle Registration

Year 2000 -2019

Year	Registered Vehicle	Annual # Change	Annual % Change
2000	232,450	N/A	N/A
2001	235,679	3,229	1.39%
2002	239,689	4,010	1.70%
2003	232,712	-6,977	-2.91%
2004	243,499	10,787	4.64%
2005	238,045	-5,454	-2.24%
2006	242,478	4,433	1.86%
2007	242,953	475	0.20%
2008	241,308	-1,645	-0.68%
2009	240,466	-842	-0.35%
2010	240,345	-121	-0.05%
2011	235,891	-4,454	-1.85%
2012	235,535	-356	-0.15%
2013	240,921	5,386	2.29%
2014	243,069	2,148	0.89%
2015	245,849	2,780	1.14%
2016	249,314	3,465	1.41%
2017	247,424	-1,890	-0.78%
2018	247,820	396	0.16%
2019	249,524	1,704	0.68%

Data Source: DMV Forecasting Unit

FY2020-21 Budget Development Schedule:

Below is the budget development schedule for the FY2020-21 budget development process:

February 11, 2020	Budget Development Kick-off Meeting
February-June 2020	Budget and Work Plan Development/Review Work Process
March/April 2020	Review and Acceptance of Measure A/AA & B Revenue Levels
May 2020	Review and Release of Draft Budget for Comments
June 25, 2020	Public Hearing and Adoption of Final Budget

FISCAL CONSIDERATION

The recommended revenue estimates will be used to determine the FY2020-21 programming/allocation and contract levels for various projects and programs under both the Measure A/AA 1/2-Cent Transportation Sales Tax and Measure B $10 Vehicle Registration Fee revenue measures.

NEXT STEPS

After the review and approval of the FY2020-21 Measure A/AA 1/2-Cent Transportation Sales Tax and Measure B $10 Vehicle Registration Fee revenue estimates by the TAM Board, staff will develop the draft FY2020-21 Annual Budget, present it for review at the May COC and Administration, Projects & Planning Executive Committee meetings, as well as for the review of the Marin Managers' Association; release the draft for the 30-day public review and comment period at the May TAM Board meeting, including any updates to the revenue estimates; and request the TAM Board to adopt the final draft at the June Board meeting.

ATTACHMENTS

Attachment 1: TAM Measure A/AA ½-Cent Transportation Sales Tax Projection (FY2019-20 to FY2025-26) *– Avenu Insights & Analytics*
Attachment 2: California Department of Finance Estimated Statewide Taxable Sales Growth *– Released by California Department of Tax and Fee Administration January 2020*

Marin Co Transport Auth 1/2% Sales & Use Tax Forecast by Category

Accrual through August Clean-up

Voter Approved	FY 18 - 19	FY 19 - 20	FY 20 - 21	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26
General Retail	9,187,624	9,030,025	9,147,469	9,260,451	9,369,458	9,478,464	9,587,471	9,696,477
% Change	3.8%	-1.7%	1.3%	1.2%	1.2%	1.2%	1.2%	1.1%
Food Products	5,453,246	5,365,416	5,514,809	5,665,430	5,816,051	5,966,671	6,117,292	6,267,913
% Change	7.7%	-1.6%	2.8%	2.7%	2.7%	2.6%	2.5%	2.5%
Transportation	6,373,994	5,715,050	5,876,042	6,046,469	6,215,232	6,383,995	6,552,759	6,721,522
% Change	17.3%	-10.3%	2.8%	2.9%	2.8%	2.7%	2.6%	2.6%
Construction	3,375,749	3,322,293	3,433,668	3,534,880	3,632,882	3,730,884	3,828,887	3,926,889
% Change	5.7%	-1.6%	3.4%	2.9%	2.8%	2.7%	2.6%	2.6%
Business To Business	4,554,442	4,470,966	4,655,537	4,834,919	5,013,265	5,191,610	5,369,956	5,548,302
% Change	13.7%	-1.8%	4.1%	3.9%	3.7%	3.6%	3.4%	3.3%
Miscellaneous	818,039	864,946	902,383	932,890	963,041	993,192	1,023,343	1,053,494
% Change	3.2%	5.7%	4.3%	3.4%	3.2%	3.1%	3.0%	2.9%
Gross	**29,763,094**	**28,768,696**	**29,529,906**	**30,275,038**	**31,009,928**	**31,744,818**	**32,479,708**	**33,214,598**
% Change	**8.9%**	**-3.3%**	**2.6%**	**2.5%**	**2.4%**	**2.4%**	**2.3%**	**2.3%**
CDTFA Administration	(305,090)	(323,338)	(331,893)	(340,268)	(348,527)	(356,787)	(365,046)	(373,306)
Conservative		$28,018,700	$28,730,800	$29,425,900	$30,109,500	$30,791,700	$31,472,400	$32,151,600
Most-Likely	**$29,458,004**	**$28,445,358**	**$29,198,013**	**$29,934,770**	**$30,661,401**	**$31,388,031**	**$32,114,661**	**$32,841,291**
% Change	**8.9%**	**-3.4%**	**2.6%**	**2.5%**	**2.4%**	**2.4%**	**2.3%**	**2.3%**
Optimistic		$28,872,000	$29,665,200	$30,443,700	$31,213,300	$31,984,400	$32,757,000	$33,531,000
Recession Scenario		$28,445,358	$27,352,400	$26,879,466	$27,531,933	$28,184,399	$28,836,865	$29,489,331
% Change from Prior Fiscal Year			-3.8%	-1.7%	2.4%	2.4%	2.3%	2.3%
Fiscal Year to Fiscal Year Change			($1,092,958)	($472,934)	$652,467	$652,466	$652,466	$652,466
Difference between Recession and Most-Likely			($1,845,614)	($3,055,304)	($3,129,468)	($3,203,632)	($3,277,796)	($3,351,960)

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Governor

JULIE LEE
Acting Secretary, Government Operations Agency

NICOLAS MADUROS
Director

January 9, 2020

TO: CITY AND COUNTY FINANCE OFFICIALS

Continuing the practice of past years, we are sending you recently estimated statewide growth rates to assist in your coming budget preparations.

The table below shows preliminary or estimated statewide changes in taxable sales for the first quarter of calendar year 2019 through the second quarter of calendar year 2021:

Sales Period	Year to Year Change In Taxable Sales	Allocations Received by Local Jurisdictions
Jan. - Mar. 2019	1.6% (actual)	Mar. - June 2019
Apr. - June 2019	4.8% (actual)	June - Sept. 2019
July - Sept. 2019	1.9% (preliminary)	Sept. - Dec. 2019
Oct. - Dec. 2019	4.3% (est.)	Dec. 2019 - Mar. 2020
Jan. - Mar. 2020	3.8% (est.)	Mar. - June 2020
Apr. - June 2020	4.2% (est.)	June - Sept. 2020
July - Sept. 2020	5.3% (est.)	Sept. - Dec. 2020
Oct. - Dec. 2020	3.0% (est.)	Dec. 2020 - Mar. 2021
Jan. - Mar. 2021	3.1% (est.)	Mar. - June 2021
Apr. - June 2021	1.8% (est.)	June - Sept. 2021

The California Department of Department of Finance made these growth estimates in conjunction with its preparation of the *2020-21 Governor's Budget*.

For taxable sales data, please visit our open data portal: https://www.cdtfa.ca.gov/dataportal/

If you would like this letter to be sent to you electronically, please provide your email address to us at: research@cdtfa.ca.gov

Sincerely,

Genti Droboniku, Manager
Research and Statistics Section

GD:vs