



DATE: March 15, 2021

TO: Transportation Authority of Marin Citizens' Oversight Committee

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

SUBJECT: Review the Measure A/AA 1/2-Cent Transportation Sales Tax and the Measure B \$10 Vehicle Registration Fee Revenue Projections and the FY2021-22 Annual Budget and Strategic Plan Development Schedule (Discussion), Agenda Item No. 7

RECOMMENDATION

Discussion Item. The Citizens' Oversight Committee discusses and provides input.

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 Transportation Sales Tax and the Measure B \$10 Vehicle Registration Fee revenue levels in March of every year. The approval of the expected upcoming year revenue levels in March allows fund recipients time to build these local funds from TAM into their FY2021-22 budget processes which are taking place now. 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 FY2021-22 programming and allocation process, and the establishment of contract levels for all projects and programs under both measures.

The Measure A/AA Strategic Plans, required by the two 1/2-Cent Transportation Sales Tax Expenditure Plans, provides the overall roadmap for the programming of Measure A/AA funds. The Strategic Plans have been developed in close coordination with project and program sponsors to assure that sales tax revenues are not overstated and are consistent with TAM forecasts and commitments. The Strategic Plans are updated every other year, with the Revenue and Expenditure Component of the plans being updated annually to ensure that funds are readily available for the years needed to accommodate project and program delivery. The annual updates of the Revenue and Expenditure Component also allows TAM to review the cash flow needs of each project and program and work out a reimbursement schedule with the sponsors to eliminate the need for debt financing whenever possible. The annual strategic plan updates usually are presented to the TAM Board for approval at its June meeting.

Updates to the Measure B Strategic Plan are presented to the TAM Board as needed. Given that annual vehicle registrations vary only nominally, Measure B revenues remain relatively constant annually and updates to the Measure B Strategic Plan are not required regularly. It should be noted a review of the Measure B Expenditure Plan is scheduled for 2022 and the Measure B Strategic Plan will be reflected with any changes to the Measure B Expenditure Plan in 2022.

DISCUSSION/ANALYSIS

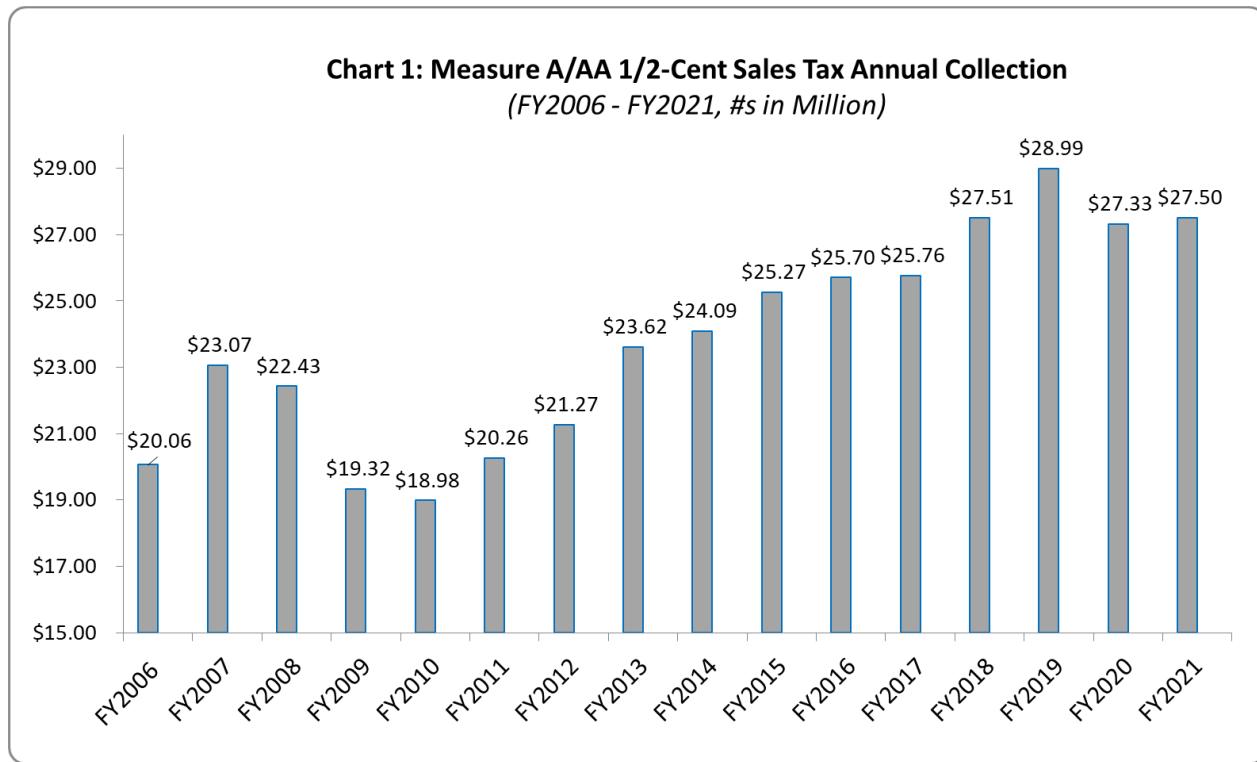
Measure A/AA Revenue Estimates/Projection:

Recommended Revised FY2020-21 Budget Level:

The COVID-19 pandemic has brought unprecedented public health and economic disruptions to the US and globally. The uncertainties caused by the pandemic added extra uncertainties and challenges to TAM's FY2020-21 budgeted process. Staff initially recommended the \$27.5 million Measure A/AA budget level for the FY2020-21 budget year in March 2020, and the TAM Board adopted it in April 2020. However, since the impact of the Shelter in Place (SIP) order was still unclear and with the growing worry that the pandemic might last much longer than originally anticipated, the TAM Board revised the Measure A/AA budget level adopted for FY2020-21 to \$24.75 million at its June 2020 meeting, during the adoption of the final budget. The Board also authorized the usage of up to \$2.75 million in reserve funds to maintain the \$27.5 million funding level promised early in the year for fund recipients.

However, current economic indicators and actual taxable sale data suggest that FY2020-21 sales tax collection in Marin is not as negatively impacted as previously expected. The SIP has brought more taxable spending home with many who used to commute to other counties of the Bay Area now working and shopping from home. With most residents unable to travel and spend on planned vacation trips, spending that helps Marin's taxable sales, such as home improvement and landscaping projects, has increased very noticeably during the SIP period. Based on the disbursement received as of February 2021, the relatively stable taxable sales base in Marin, and the extra buying power created by the existing and various upcoming economic stimulus measures, staff believes that Measure A/AA revenue level for FY2020-21 will exceed the actual collection of FY2019-20, which was \$27.33 million. Avenu Insights & Analytics, TAM's sales tax monitoring consultant team, has confirmed this trend based on its analyses of the most recent sales tax collection data. Based on the updated information, staff recommends that the FY2020-21 Measure A/AA budget level be reinstated to the originally adopted \$27.5 million, which will eliminate the need to access the agency's reserve funds in the current year as well.

Chart 1 below illustrates the actual annual collection between FY2005-06 and FY2020-21, with the FY2020-21 revenue at the revised \$27.5 million level based on the collections of the first 8-months of the year, from July 2020 to February 2021.



Recommended FY2021-22 Budget Level & Future Projection for the Update of the Strategic Plans:

With the recent slowdown of COVID-19 new cases, availability of the vaccine, and the gradual easing of the SIP order, it is becoming more accepted among economists that the economy will start to recover later this year and be fully recovered over the next 2–3-year period. Many believe that the fundamentals of the US economy are still relatively strong and the recovery from the coronavirus-induced recession may take less time than many predicted a few months ago, when the fear of the health and economic damage caused by the pandemic peaked.

Table 1: Marin FY2022-FY2027 Measure A/AA Revenue Projection Scenarios illustrates the projection scenarios staff reviewed and recommended for the upcoming fiscal year and the following 5-year period.

Table 1: FY2022-FY2027 Measure A/AA Revenue Projection Scenarios

| Year | FY2021-22 | FY2022-23 | FY2023-24 | FY2024-25 | FY2025-26 | FY2026-27 |
|---|------------|------------|------------|------------|------------|------------|
| Scenario 1: Avenu Insights & Analytics February 2021 | | | | | | |
| Annual Revenue | 28,314,000 | 29,357,000 | 30,277,000 | 31,144,000 | 31,964,000 | 32,739,000 |
| % Growth | 2.96% | 3.68% | 3.13% | 2.86% | 2.63% | 2.42% |
| Scenario 2: CDTFA FY2021-22 Statewide as Base Year | | | | | | |
| Annual Revenue | 26,986,538 | 27,796,134 | 28,630,019 | 29,488,919 | 30,373,587 | 31,284,794 |
| % Growth | -1.25% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Scenario 3: Staff Recommendation | | | | | | |
| Annual Revenue | 27,500,000 | 28,050,000 | 28,611,000 | 29,183,220 | 29,766,884 | 30,362,222 |
| % Growth | 0.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |

Scenario 1 is the 5-year projection prepared by Avenu Insights & Analytics. While it is encouraging to see the anticipated positive revenue growth, especially the 2.96% projected for FY2021-22 (from the \$27.5 million

revised budgeted level for the current fiscal year), to continue TAM's prudent and conservative approach and better prepare the agency for a possible slower and more shaky economic recovery, staff recommends setting the FY2021-22 Measure A/AA budget level at \$27.5 million, the same as the revised revenue level for the current year. The team from Avenu Insights & Analytics also assume an average 2.95% growth rate for the next 6-year period. On the other hand, TAM's actual average annual revenue growth rate, from FY2005-06 to FY2019-20, is only at 2.45%.

Scenario 2 applied the estimated statewide sales tax growth rate for FY2021-22 (-1.25%), released by California Department of Tax and Fee Administration (CDTFA) in February 2021, and assumed a 3% growth rate moving forward. Again, to continue TAM's prudent and conservative approach and better prepare the agency for a slower and more shaky recovery over the next few years, staff recommends (Scenario 3) holding the FY2021-22 revenue at the same level as the revised FY2020-21 level (\$27.5 million) and apply a 2% revenue growth rate for all future years for the update of the Measure A/AA Strategic Plans.

Measure B Revenue Estimates/Projection:

Recommended Revised FY2020-21 Budget Level:

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. As noted in Chart 2: Measure B VRF Actual Revenue Trend, there is a significant revenue drop from FY2018-19 to FY2019-20, from \$2.43 million to \$2.33 million. The FY2020-21 budgeted Measure B VRF revenue level is at \$2.42 million, which was reviewed and adopted by the TAM Board in March 2020, based on the actual revenue collection of FY2018-19. However, recent information shows that the estimated Marin County fees paid did suffer a more than 2% drop from 2019 to 2020, as shown in Table 2: Estimated Annual Marin County Vehicles Registered and Measure B Revenue. Analysis of the monthly disbursement of the Measure B revenue reveals that revenue collected in March and April of 2020 dropped more than 15% compared to the same period of 2019, which contributed to most of the revenue decrease for FY2019-20. The first 6-months of FY2020-21 revenue collection (July – December 2020) has stabilized compared to the same period of FY2019-20. Based on the most up to date registered vehicle data for the County, the possible continuing negative impact on vehicle purchases, and the revenue collection trend, staff recommends that the budget level for FY2020-21 be revised to \$2.32 million.

Recommended FY2021-22 Budget Level & Future Projection for the Update of the Strategic Plan:

There are still many uncertainties with the continuation of remote work arrangements, travel habits, and future commute patterns. All these uncertainties have potential impacts on personal vehicle replacement and purchase decisions. To be conservative, staff recommends setting the budget level for FY2021-22 at \$2.3 million. The recommended revenue level is close to the collection for FY2012-13 and FY2013-14, when the annual registered vehicle numbers in Marin was around 243,000, which is close to the estimated number for 2020. For the update of the Measure B Strategic Plan, staff also proposes to set all future year revenue at the reduced \$2.3 million level until the next revenue update.

**Chart 2: Measure B VRF Acutal Revenue Trend
(FY2012-FY2020)**

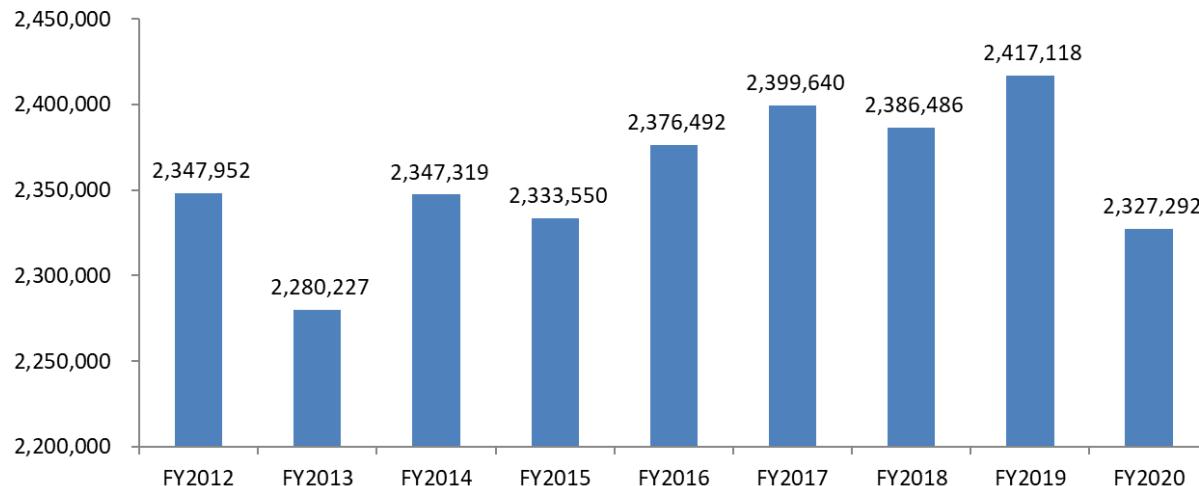


Table 2: Estimated Annual Marin County Vehicles Registered and Measure B Revenue

| Year | Registered Vehicle | Annual # Change | Annual % Change | Measure B Revenue | % Difference * |
|------|--------------------|-----------------|-----------------|-------------------|----------------|
| 2012 | 235,535 | -356 | -0.15% | 2,244,970 | N/A |
| 2013 | 240,921 | 5,386 | 2.29% | 2,325,355 | 3.58% |
| 2014 | 243,069 | 2,148 | 0.89% | 2,337,994 | 0.54% |
| 2015 | 245,849 | 2,780 | 1.14% | 2,360,350 | 0.96% |
| 2016 | 249,314 | 3,465 | 1.41% | 2,404,311 | 1.86% |
| 2017 | 247,424 | -1,890 | -0.78% | 2,389,790 | -0.60% |
| 2018 | 247,820 | 396 | 0.16% | 2,393,875 | 0.17% |
| 2019 | 249,524 | 1,704 | 0.68% | 2,414,091 | 0.84% |
| 2020 | 243,986 | -5,538 | -2.24% | 2,361,893 | -2.16% |

Data Source: DMV Forecasting Unit

* DMV Charges 0.05% of the Measure B revenue for collection and processing cost.

FY2021-22 Annual Budget and Measure A/AA Strategic Plan Development Schedule:

Over the past years, while staff usually brought the final approval of both the annual budget and strategic plans to the Board in June for final approval, these two important financial and funding planning documents, one short-term and one long-term, were not necessarily presented to the Board and the public holistically. Due to the uncertainties caused by the pandemic, many of the questions and concerns raised during the FY2020-21 Annual Budget development process made it clear that the concurrent development and review of the two documents could help the Board and the public to better understand the agency's short-term financial condition as well as its long-term funding priorities. Moving forward, staff proposes to develop and present both documents holistically, on the same development and review timeline.

Additionally, TAM currently has two separate strategic plans for the original Measure A and the renewed Measure AA ½-Cent Transportation Sales Tax, with the policy elements of both plans identical. To reduce potential confusion and improve work efficiency, staff also recommends merging the two strategic plans into

one, thereby developing a new combined Measure A/AA Strategic Plan during the FY2021-22 development cycle.

Below is the development schedule for the FY2021-22 Annual Budget and Combined Measure A/AA Strategic Plan:

| | |
|-----------------------|---|
| <i>March 2021</i> | <i>Review and Acceptance of Measure A/AA & Measure B Revenue Budget Levels/Revenue Projections</i> |
| <i>March-May 2021</i> | <i>Development of FY2021-22 Budget Line Items and Work Plans</i> <i>Development of Combined Measure A/AA Strategic Plan</i> <i>Evaluate Projects/Programs and Set Programming and Allocation Priorities</i> |
| <i>May 2021</i> | <i>Review and Release of Draft Budget and Strategic Plan for Comments</i> |
| <i>June 2021</i> | <i>Public Hearing and Adoption of Final Budget & Strategic Plan</i> |

FISCAL CONSIDERATION

The recommended revenue estimates/projections will be used to determine the FY2021-22 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, as well as to update the revenue elements in the respective strategic plans.

NEXT STEPS

After the review and approval of the FY2021-22 Measure A/AA 1/2-Cent Transportation Sales Tax and Measure B \$10 Vehicle Registration Fee revenue estimates/projections by the COC, the Administration, Projects and Planning Executive Committee, and the TAM Board, staff will develop the draft FY2021-22 Annual Budget and the combined Measure A/AA Strategic Plan; present both documents for review by the TAM Citizens' Oversight Committee and the Administration, Projects & Planning Executive Committee, the Marin Managers' Association, and staff of various local jurisdictions; release the drafts for the 30-day public review and comment period at the May TAM Board meeting; and request the TAM Board to adopt the two final reports at the June 2021 TAM Board meeting.

ATTACHMENTS

Attachment: Staff PowerPoint Presentation



FY2021-22 Annual Budget & Strategic Plan Development Schedule and Measure A/AA and B Revenue Update

Citizens' Oversight Committee
March 15, 2021

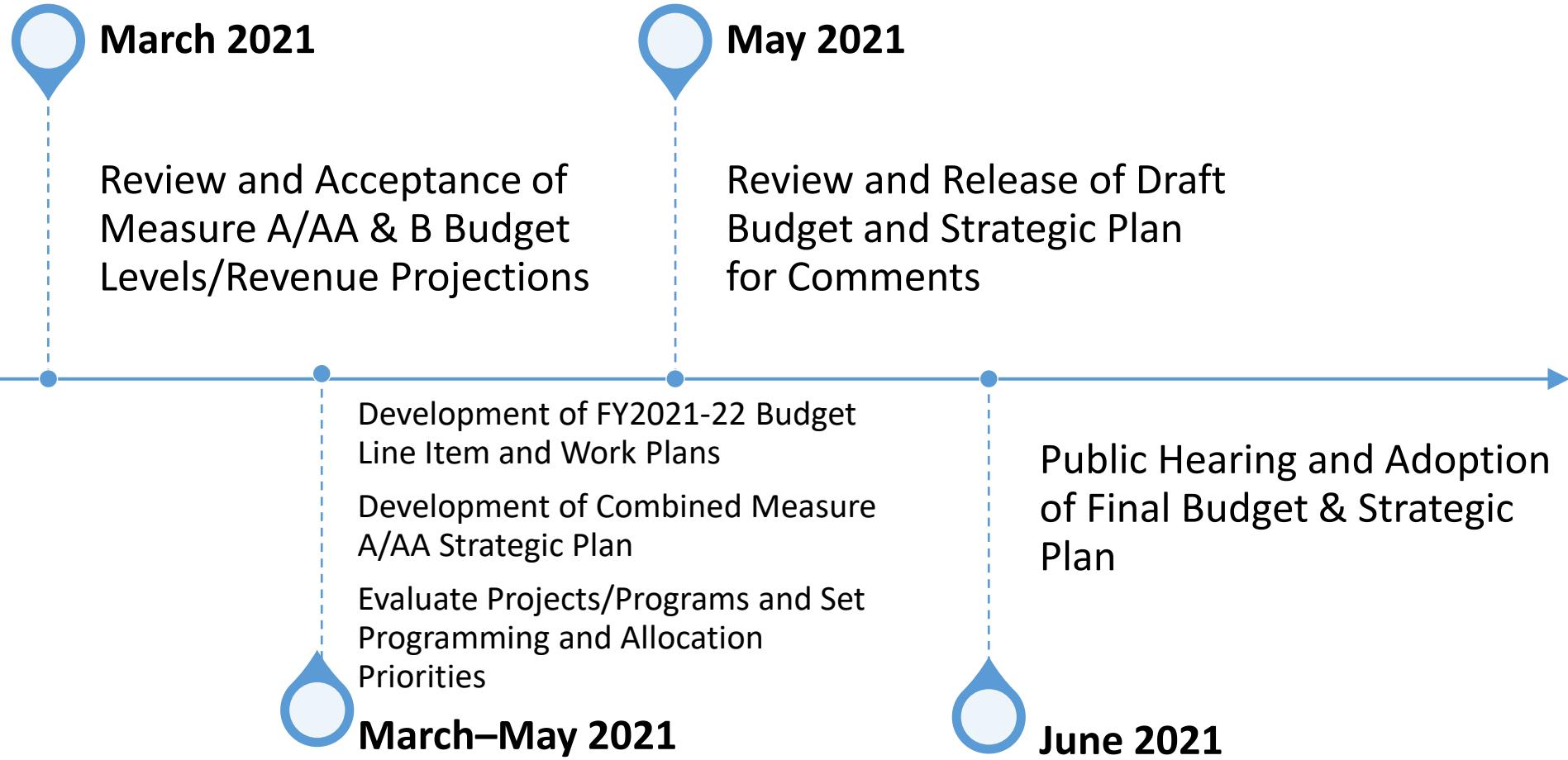


Recommended Changes for Budget/SP Process

- ✓ In the Past, the Annual Budget and Strategic Plan development/update processes were on similar timeline but not totally synchronized
- ✓ Moving forward, concurrent Annual Budget development and Strategic Plan update process
- ✓ Present the two most important financial and funding planning documents of the agency, one short-term and one long-term, to the Board and the public holistically.
- ✓ Merge the two separate Measure A and AA Strategic Plans into one



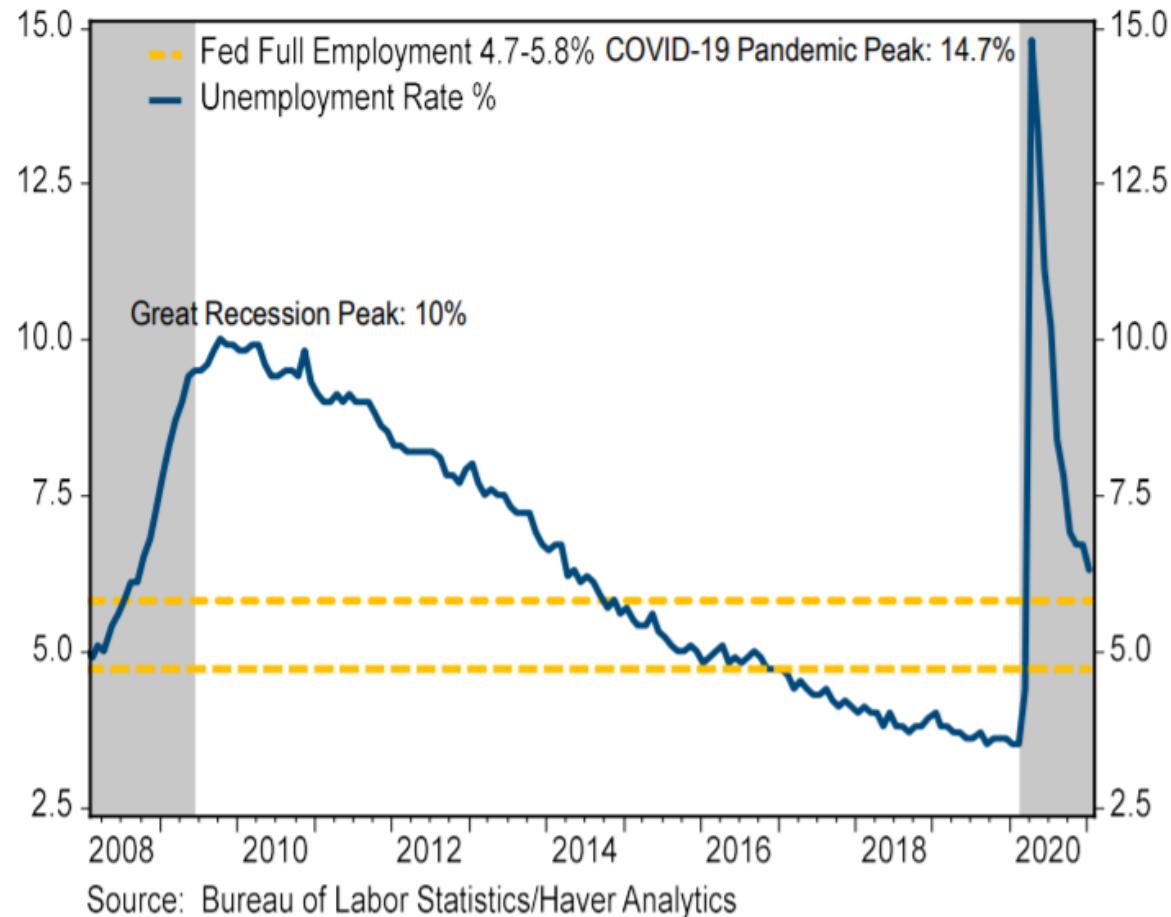
FY2021-22 Budget/SP Development Timeline



Current Economic Conditions

The US unemployment rate fell to 6.3% in January, the lowest level since March 2020

While still elevated from the 3.5% jobless rate at the start of 2020, January unemployment rate still stands in stark contrast to a near 15% peak in April 2020



Current Economic Conditions



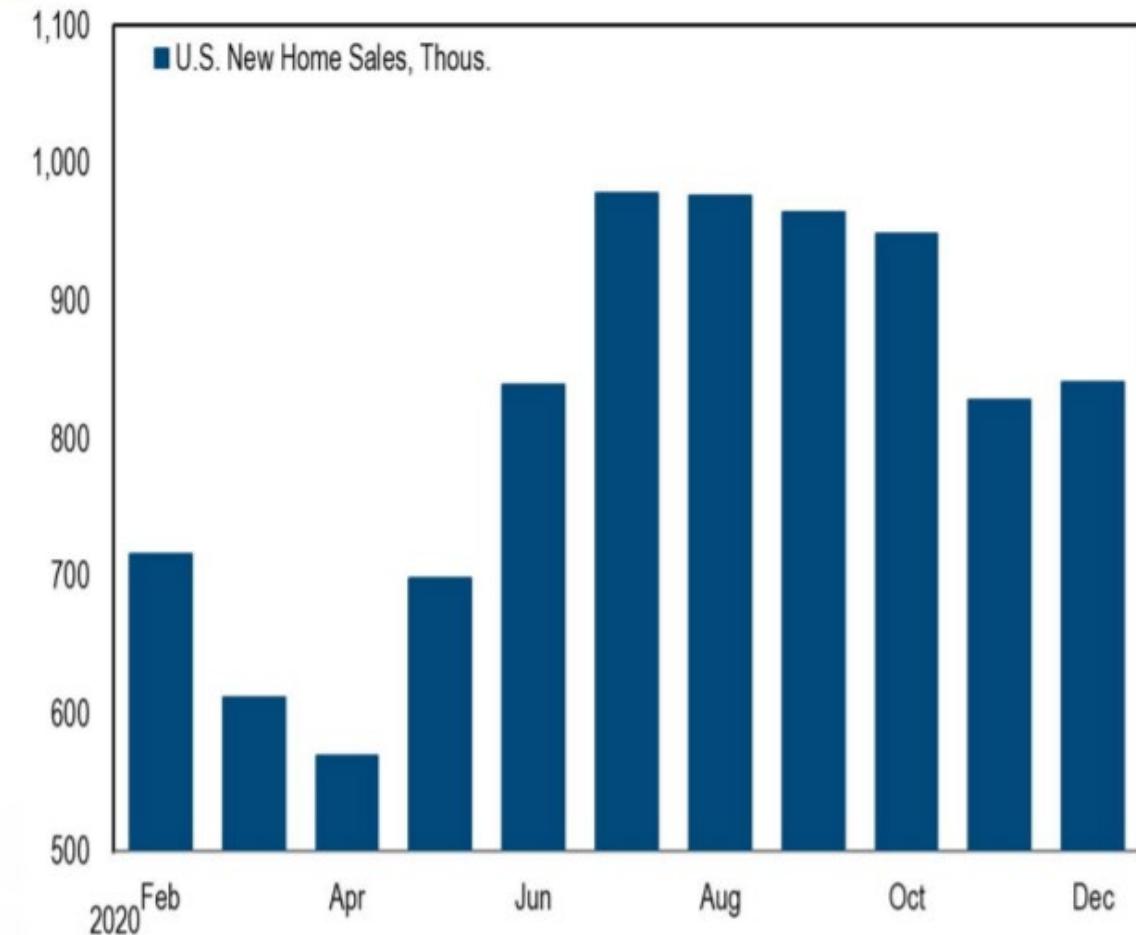
UCLA's Most Recent Employment Rate Projection for the State



Current Economic Conditions

Existing home sales rose 0.7% in December to a 6.8M unit pace, a two-month high, while inventory of existing homes declined from 2.3 to 1.9 months, an all-time low.

New home sales rose 1.6% in December to 842K unit pace, a two-month high, while inventory of new homes rose from 4.2 to 4.3 months, a six-month high



Source: National Association of Realtors/Census Bureau

CA January 2021 Home Sales and Price Report

Highest January sales level since 2009

484,730
California
Existing Single-
Family Home Sales



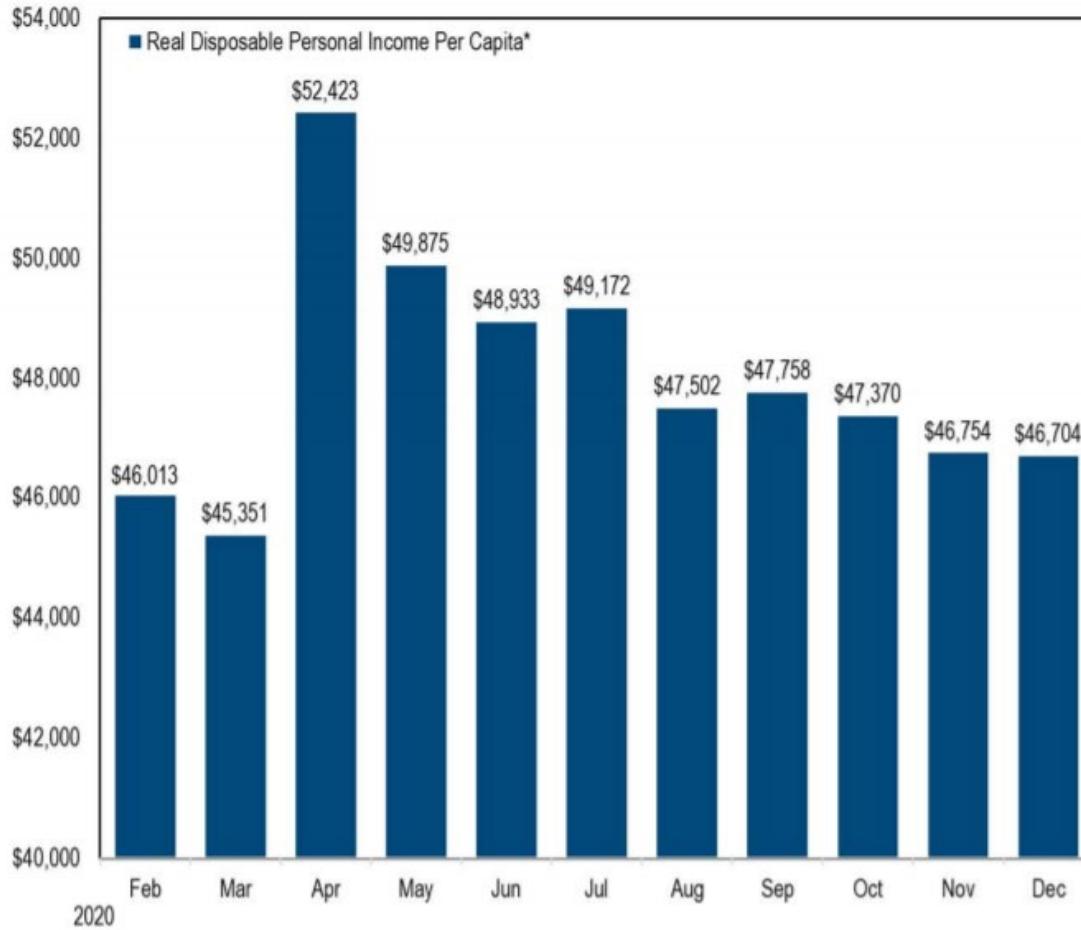
Data Source: CA Association of Realtors

All major regions' median prices continued to increase from last year by double-digits



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Current Economic Conditions



Disposable income per capita rose substantially in April with the passage of the first-round CARES Act aid package in March which included an additional \$600 a week in unemployment benefits and \$1,200 in direct payment (if eligible)

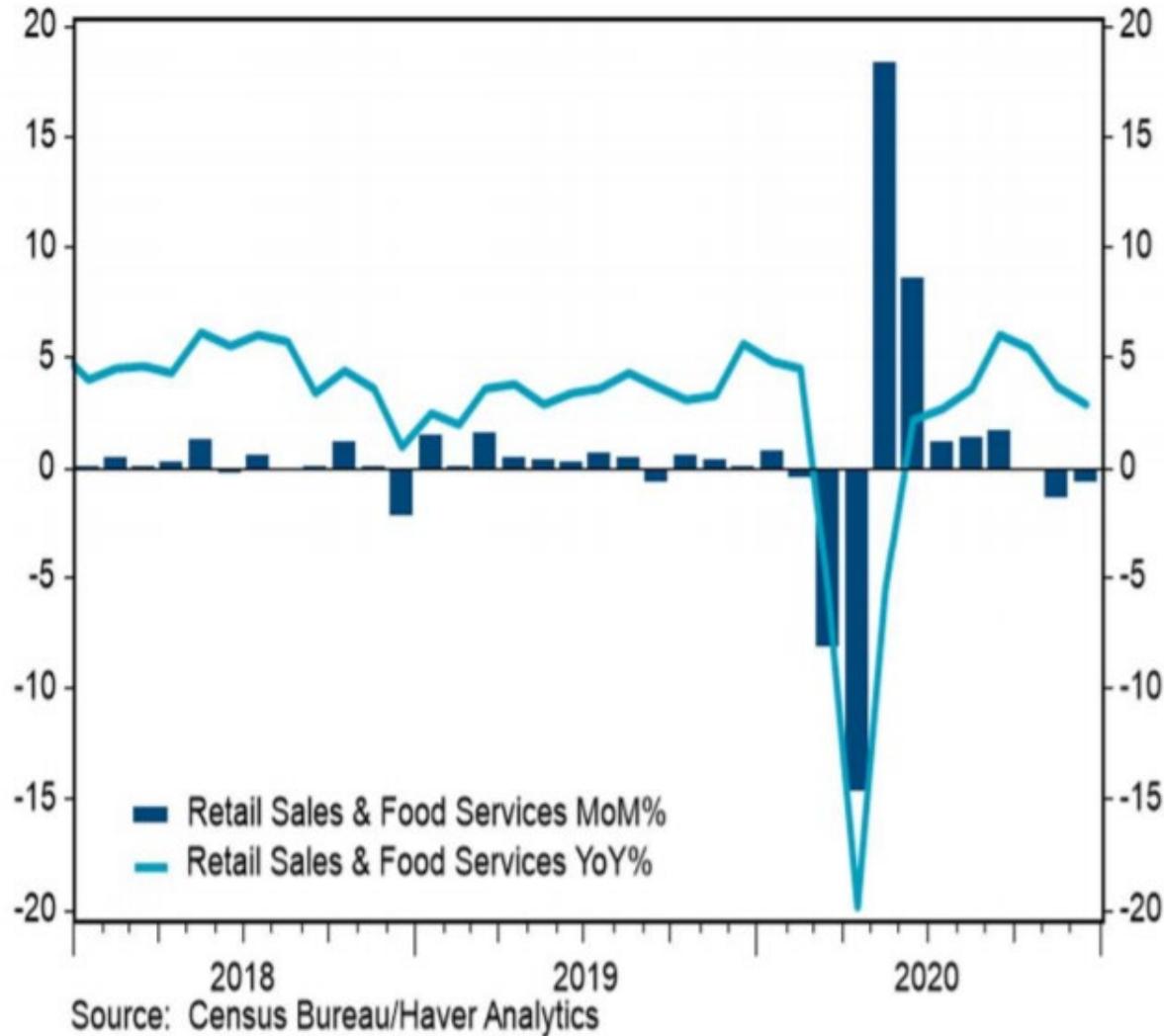
Compared to February levels (\$46k), the average American is still slight better off (\$47k) as of December 2020.

Source: FRED

Current Economic Conditions

Retail sales fell 8.2% and 14.7% respectively in March and April 2020 but reversed the downward trend with rapid pace in May (+18.3%) and June (+8.6%) 2020.

Over the last six months of 2020, sales have averaged 0.3% Year-over-year, 2.9% increase in December, a five-month low, following a 3.7% gain in November 2020.



Current Economic Conditions

California State Sales & Use Tax Revenues (Includes state general fund and realignment rates)

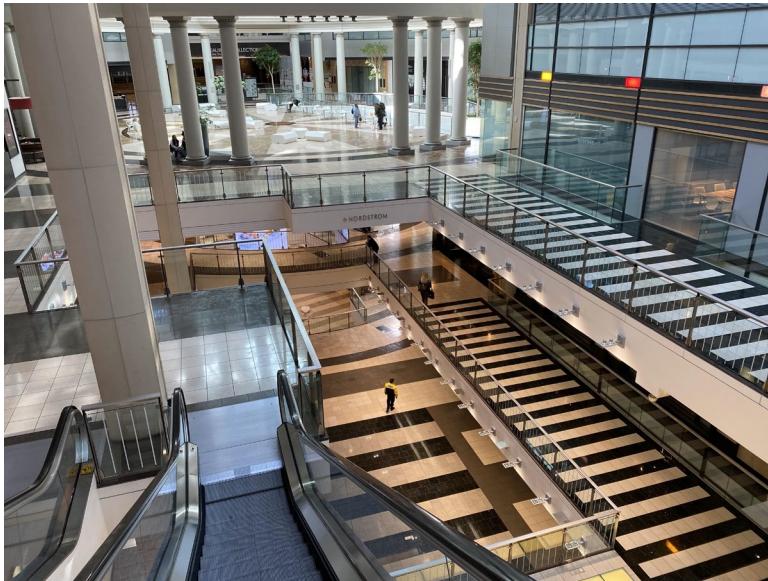


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13

What's Happening In Marin?

Totally Empty Mall = Devastating Sales Tax Collection?



**Are Online Shoppers Saving Us?
– Verified Real Shopper!**



*Pictures shared back in April 2020 with the Board.
Fortunately for Marin, the picture on the right is more the reality and helping the stabilization of TAM's FY2020-21 sales tax revenue.*

What's Happening In Marin?

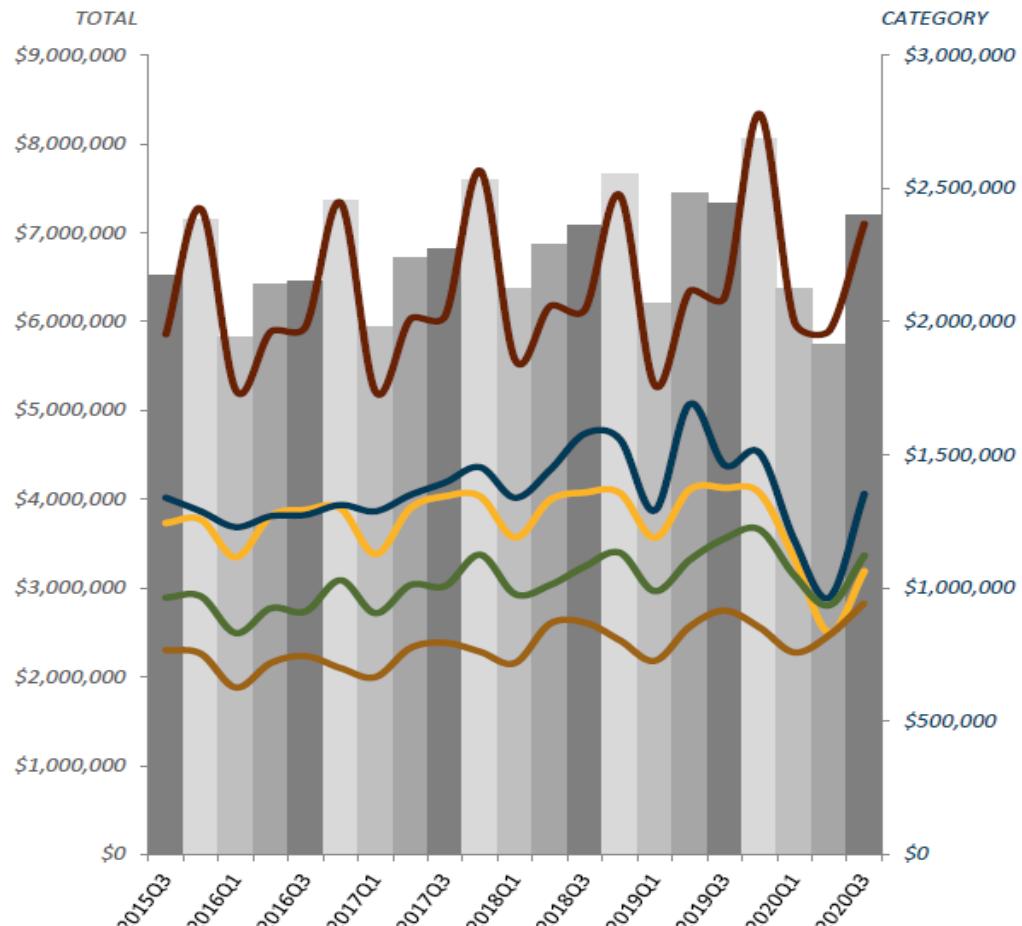
- ✓ Marin's simple taxable sales base helps the County weather this unique recession relatively better than other counties
- ✓ Due to the county's demographic and income level, majority of County's residents are not suffering significant financial difficulties during this unique recession; though wide disparities exist
- ✓ Work from Home arrangement many Marin residents are able to do helps bring taxable sales home
- ✓ Savings from travel are spent on home improvement projects

What's Happening In Marin?

TRANSPORTATION AUTHORITY OF MARIN: Sales Tax Performance Analysis by Quarter

TOTAL

Economic



TOTAL

| 2020Q3 | QoQ %Δ | QoQ \$Δ | YoY %Δ | YoY \$Δ |
|-------------|--------|------------|--------|--------------|
| \$7,205,309 | -1.8% | -\$132,877 | -4.4% | -\$1,274,424 |

GENERAL RETAIL

| 2020Q3 | QoQ %Δ | QoQ \$Δ | YoY %Δ | YoY \$Δ |
|--------------------|--------|-----------|--------|-----------|
| \$2,366,898 | 13.1% | \$274,984 | 7.9% | \$670,674 |
| % of 2020Q3 Total: | | | | 32.8% |

FOOD PRODUCTS

| 2020Q3 | QoQ %Δ | QoQ \$Δ | YoY %Δ | YoY \$Δ |
|-------------|--------|------------|--------|------------|
| \$1,062,895 | -22.8% | -\$313,081 | -17.5% | -\$928,393 |
| % of Total: | | | | 14.8% |

TRANSPORTATION

| 2020Q3 | QoQ %Δ | QoQ \$Δ | YoY %Δ | YoY \$Δ |
|-------------|--------|------------|--------|------------|
| \$1,352,923 | -7.4% | -\$108,339 | -16.6% | -\$998,618 |
| % of Total: | | | | 18.8% |

CONSTRUCTION

| 2020Q3 | QoQ %Δ | QoQ \$Δ | YoY %Δ | YoY \$Δ |
|-------------|--------|----------|--------|----------|
| \$943,663 | 3.1% | \$28,326 | 2.3% | \$76,748 |
| % of Total: | | | | 13.1% |

BUSINESS TO BUSINESS

| 2020Q3 | QoQ %Δ | QoQ \$Δ | YoY %Δ | YoY \$Δ |
|-------------|--------|-----------|--------|-----------|
| \$1,121,868 | -5.4% | -\$63,953 | -2.0% | -\$88,049 |
| % of Total: | | | | 15.6% |

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YoY = YE 20Q3 / YE 19Q3

Measure A/AA Budget Level & Projection

- Original recommended and adopted FY2020-21 Measure A/AA budget level \$27.5M as of April 2020; revised down to \$24.75M, with the use of up to \$2.75M of reserve funds to maintain the \$27.5M funding level at the June TAM Board meeting
- Recommend to reinstate the FY2020-21 Measure A/AA revenue budget level to \$27.5 million based on current economic conditions, most updated sales tax collection and disbursement data
- Set FY2021-22 budget level at \$27.5M, and assume a 2% annual growth for all future year for the revenue update of the SP



Marin Vehicle Registration Trend

Estimated Annual Marin County Vehicles Registered and Measure B Revenue

| Calendar Year | Registered Vehicle | Annual # Change | Annual % Change | Measure B Revenue | % Difference * |
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| 2012 | 235,535 | -356 | -0.15% | 2,244,970 | N/A |
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| 2019 | 249,524 | 1,704 | 0.68% | 2,414,091 | 0.84% |
| 2020 | 243,986 | -5,538 | -2.24% | 2,361,893 | -2.16% |

Data Source: DMV Forecasting Unit

* DMV Charges 0.05% of the Measure B revenue for collection and processing cost.

Measure B Budget Level & Projection

- Original recommended and adopted FY2020-21 Measure B revenue budget level was \$2.42M as of April 2020
- Recommend to revise the FY2020-21 Measure B budget level to \$2.32M based on estimated 2020 registered fee-paying vehicles in Marin and likely continuing decrease of the vehicle numbers
- Set FY2021-22 budget level at \$2.3M, and assume the same funding level for all future years for the revenue update of the SP



Q&A

