



DATE: March 20, 2023

TO: Transportation Authority of Marin Citizens' Oversight Committee

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

SUBJECT: Review of the Measure A/AA and Measure B Revenue Projections and the FY2023-24 Annual Budget Development Schedule (Discussion), Agenda Item No. 5

RECOMMENDATION

The Citizens' Oversight Committee (COC) reviews the Measure A/AA ½-Cent Transportation Sales Tax and the Measure B \$10 Vehicle Registration Fee (VRF) revenue projection recommended for the FY2023-24 TAM Annual Budget development, along with the Budget Development Schedule and provides input/feedback.

At its March 13 meeting, the TAM Administration, Projects and Planning (AP&P) Executive Committee reviewed revenue projections recommended for the FY2023-24 TAM Annual Budget development, along with the Budget Development Schedule, and voted unanimously to refer the item to the TAM Board for approval.

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 approves the Measure A/AA and the Measure B revenue levels in March of every year. The approval of the expected upcoming fiscal year's revenue levels in March allows fund recipients time to build these local funds from TAM into their own FY2023-24 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 and Measure B Strategic Plans, which will guide the FY2023-24 programming and allocation process, and the establishment of contract levels for projects and programs under both Measures.

DISCUSSION/ANALYSIS

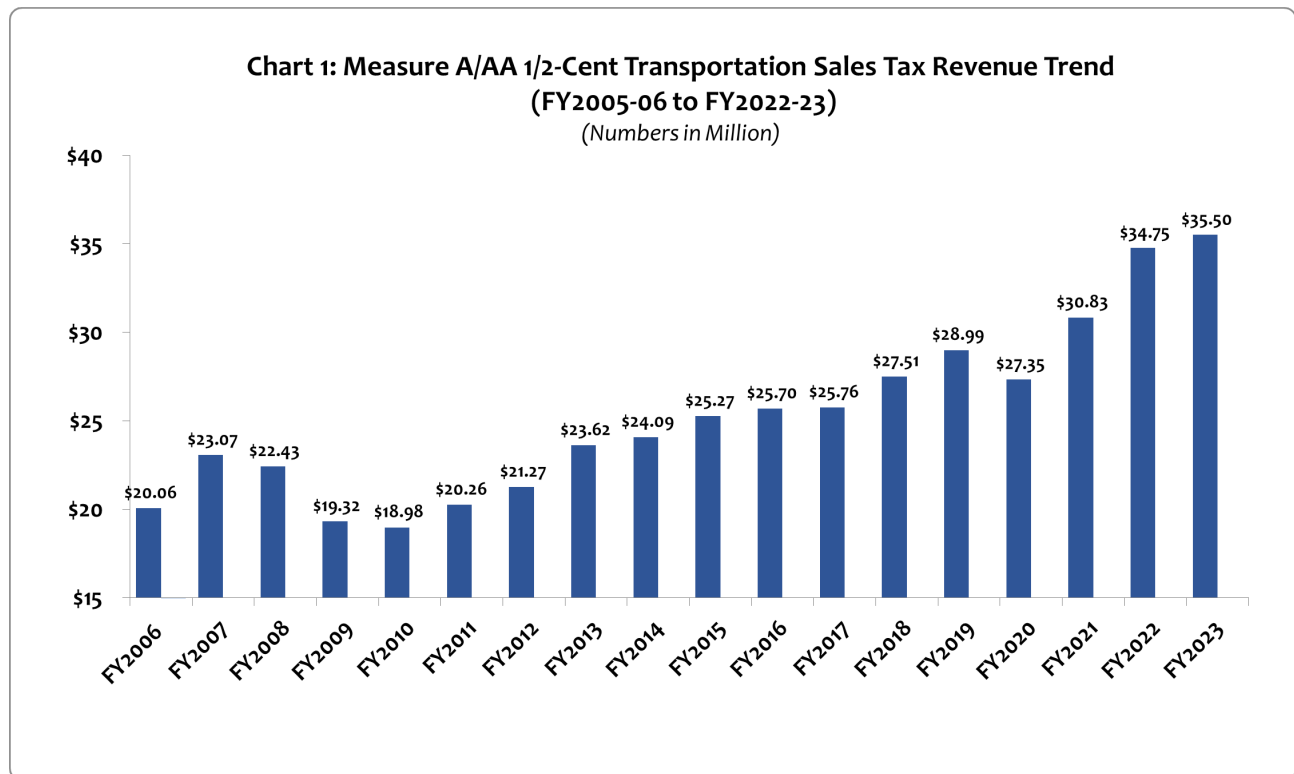
The COVID-19 pandemic has brought unprecedented public health and economic disruptions to the U.S. and globally. The uncertainties caused by the pandemic added extra challenges to TAM's budget processes during the last three fiscal years, from FY2020-21 to FY2022-23. However, due to the demographic and economic nature of the County, TAM's most critical funding source, the ½-Cent Transportation Sales Tax, which suffered some loss at the beginning of the initial Shelter In Place order, has been benefiting from Marin residents working from home, the strong housing market, and the redirected spending from out of the region/state/country travel to local and online spending in the last three years.

However, globally and nationally there are still many uncertainties. The ongoing conflict between Russia and Ukraine is affecting the global economy via the broad impacts of financial sanctions, rising commodity prices, and worsening of some supply-chain disruptions. In the U.S., inflation continues to be a serious economic concern. While still with uncertainties, more economists are seeing an increased chance that the U.S. economy will sink into a recession this year as a result of interest rate hikes, high inflation, end of fiscal stimulus, weak export markets abroad, and global political instability.

Against this backdrop, staff will monitor the local economic condition and the sales tax trend closely and report to the COC and the Board timely if major negative impacts on TAM's financial health are becoming visible.

Measure A/AA Revenue Estimates/Projection:

Chart 1: Measure A/AA 1/2-Cent Sales Tax Revenue Trend below illustrates the actual annual sales tax collection between FY2005-06 and FY2022-23, with the estimated FY2022-23 revenue at \$35.5 million as recommended by staff as shown in Table 1 (vs. the \$34.85 million as adopted in the FY2022-23 Annual Budget) based on the cash disbursements received for the first 8 months of the year, from July 2022 to February 2023, and the slowdown of sales tax growth projected by various sources.



Recommended FY2023-24 Revenue Level & Projection for the Update of the Strategic Plan:

Table 1: FY2022-23 Measure A/AA Revenue Collection Update and 5-Year Projection Scenarios illustrates the projection scenarios staff reviewed and recommendations for the upcoming fiscal year and the following 5-year period.

Table 1: FY2022-23 Measure A/AA Revenue Collection Update and Projection Scenarios

Year	FY2022-23	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28	FY2028-29
<i>Avenu Insights & Analytics February 2023 Projection</i>							
Annual Revenue	36.03	36.39	37.53	38.71	39.78	40.73	41.56
% Growth	3.7%	1.0%	3.1%	3.2%	2.8%	2.4%	2.0%
<i>California Department of Tax and Fee Administration January 2023 Projection</i>							
Annual Revenue	35.44	35.62					
% Growth	2.0%	0.5%					
<i>Staff Recommendation</i>							
Annual Revenue	35.50	35.68	36.39	37.12	37.86	38.62	39.39
% Growth	2.2%	0.5%	2.0%	2.0%	2.0%	2.0%	2.0%

The Avenu Insights & Analytics February 2023 Projection (Attachment 1) is a more optimistic scenario, whereas the statewide quarterly taxable sale rates released by the California Department of Tax and Fee Administration (CDTFA) in January 2023, which covers up to FY2023-24, indicated minor negative growth from January to September 2023 (Attachment 2). While it is encouraging to see the continuing positive revenue growth over the next 5-year period provided by Avenu, with all the major uncertainties mentioned above, to continue TAM's prudent and conservative approach and better prepare the agency for a possible recession, staff recommends setting the FY2023-24 Measure A/AA budget level at \$35.68 million, and the long-term growth rate at 2% annually thereafter for the update of the Measure A/AA Strategic Plan.

Measure B Revenue Estimates/Projection:

Measure B, the \$10 VRF dedicated to transportation projects and programs, was passed by Marin voters in November 2010. Collection of this local revenue source started in April 2011. Chart 2 illustrates the actual revenue collections of Measure B from FY2011-12 to FY2021-22 and the budgeted level for FY2022-23. As noted in Chart 2: Measure B VRF Revenue Trend, there is a significant revenue drop from FY2018-19 to FY2019-20, from \$2.42 million to \$2.33 million. The revenue collection in FY2020-21 recovered to \$2.40 million but dropped to \$2.31 million again in FY2021-22. Cash disbursement for the first half of FY2022-23 is just above \$1.15 million. The most recent data from the Forecasting Unit of the Department of Motor Vehicle (DMV) shows that the estimated number of vehicles registered in Marin County in 2022 suffered another 2.59% loss from 2021 after the 3.09% drop from 2020 to 2021. Historical registered vehicle data and annual revenue collections are shown in Table 2: Estimated Annual Marin County Vehicles Registered and Measure B Revenue.

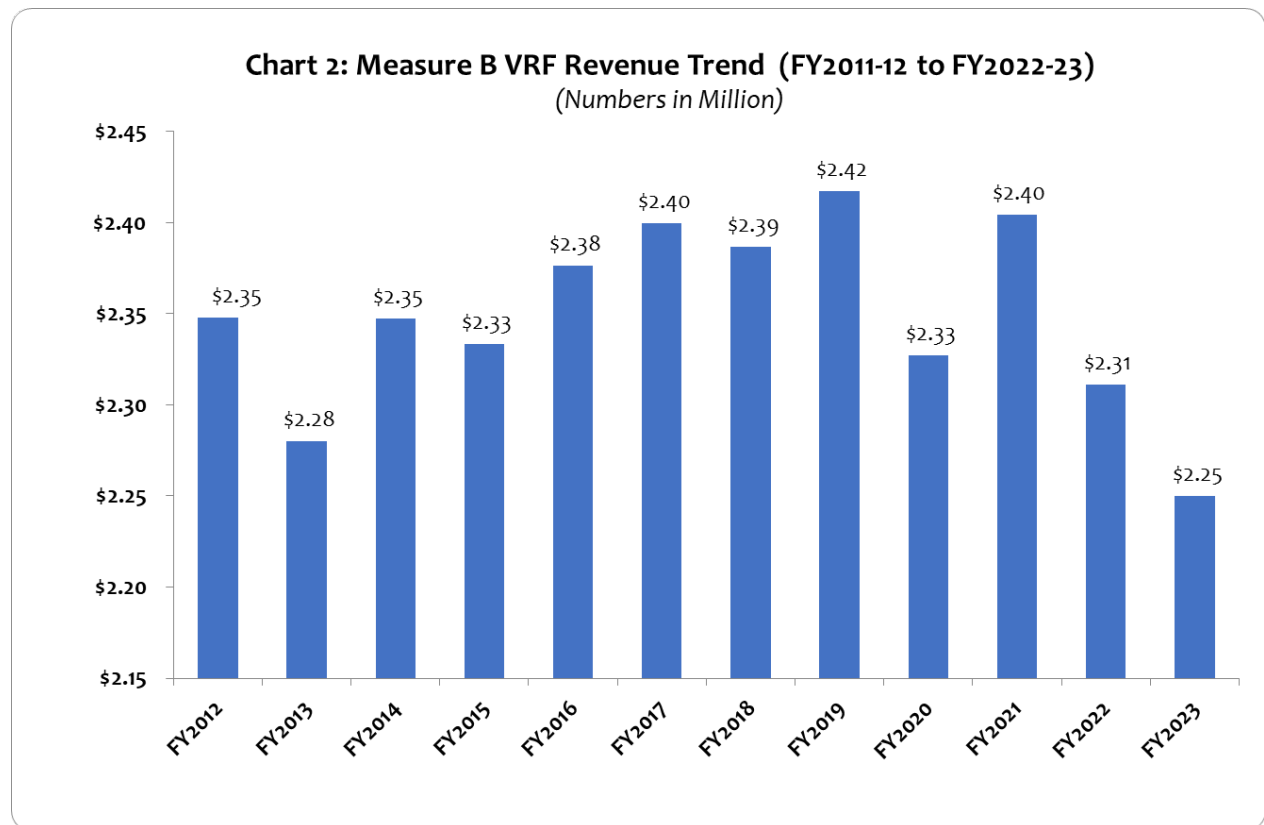


Table 2: Estimated County Marin Fee Paid Vehicle Registration and Measure B Revenue

Calendar Year	Registered Vehicle	Annual # Change	Annual % Change	Annual Revenue ^{1,2}	Annual Revenue % Change
2012	235,535	-356	-0.15%	2,242,958	N/A
2013	240,921	5,386	2.29%	2,323,342	3.58%
2014	243,069	2,148	0.89%	2,335,980	0.54%
2015	245,849	2,780	1.14%	2,358,335	0.96%
2016	249,314	3,465	1.41%	2,402,295	1.86%
2017	247,424	-1,890	-0.76%	2,387,773	-0.60%
2018	247,820	396	0.16%	2,391,857	0.17%
2019	249,524	1,704	0.69%	2,412,072	0.85%
2020	243,986	-3,834	-1.54%	2,359,873	-2.16%
2021	241,977	-7,547	-3.09%	2,343,931	-0.68%
2022*	237,711	-6,275	-2.59%	2,307,377	-1.56%

Data Source: Department of Motor Vehicles

1. Annual Revenue is calculated using the monthly disbursement from DMV for the calendar year.

2. DMV takes 0.05% of the collection off the top for its administrative support.

*. 2022 Registered Vehicle # is draft and under review for final publication.

Recommended FY2023-24 Budget Level & Projection for the Update of the Strategic Plan:

Since the revenue collection for the first 6 months of FY2022-23 is only slightly above \$1.15 million and based on the most up to date registered vehicle data for the County, the continuing negative impact on vehicle purchases due to inventory shortage, and the revenue collection trend, staff recommends that the Measure B revenue budget level be set at \$2.25 million for FY2023-24 as well as for all future years for the development of the Measure B Strategic Plan.

FY2023-24 Annual Budget Development Schedule:

Below is the development schedule for the FY2023-24 Annual Budget:

March 23, 2023	TAM Board Review and Approval FY2023-24 Measure A/AA & Measure B Revenue Projections & the Budget Development Schedule
March-May 2023	Development of Draft FY2023-24 Annual Budget and Work Plans and Partner Agency Review and Coordination
May 8, 2023	AP&P Executive Committee Review and Release of Draft FY2023-24 Annual Budget for Required 30-day Public Inspection
May 15, 2023	COC Review and Provide Input on the Draft FY2023-24 Annual Budget
May 25, 2023	TAM Board Review and Release of the Draft FY2023-24 Annual Budget for Public Comment
June 22, 2023	TAM Board Review and Adoption of the FY2023-24 Annual Budget

FISCAL CONSIDERATION

The recommended revenue projections will be used to determine the FY2023-24 programming/allocation and expenditure levels for various projects and programs under both the Measure A/AA and Measure B Expenditure Plans and to update the revenue/programming elements in the respective Strategic Plans.

NEXT STEPS

After the Board's approval of the FY2023-24 Measure A/AA and Measure B revenue projections, staff will develop the draft FY2023-24 Annual Budget, present it to the AP&P Executive Committee, the Citizens' Oversight Committee (COC), the Marin Managers' Association, and staff of various local jurisdictions for review and input in April and May 2023. The final draft budget will be made available for the 30-day public inspection after the review of the AP&P Executive Committee and be released for a formal public comment period at the May 25, 2023 TAM Board meeting and adopted at the June 22, 2023 TAM Board meeting.

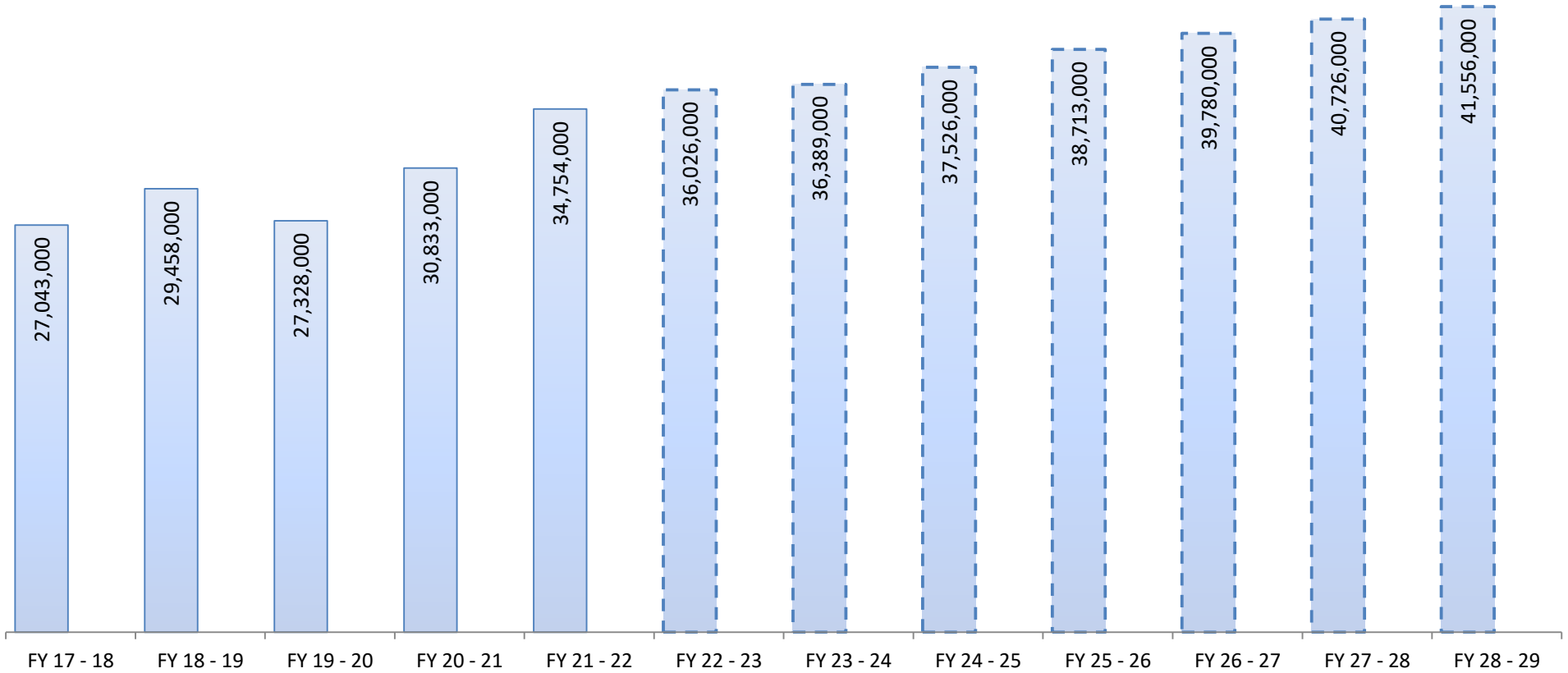
ATTACHMENTS

- Attachment 1 – Avenu Insights & Analytics February 2023 Projection
- Attachment 2 – CDTFA January 2023 Projection
- Attachment 3 – Staff PowerPoint Presentation

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

Accrual through August Clean-up

Voter Approved	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29
Cash Projection	34,754,000	36,026,000	36,389,000	37,526,000	38,713,000	39,780,000	40,726,000	41,556,000
Percent Change	12.7%	3.7%	1.0%	3.1%	3.2%	2.8%	2.4%	2.0%



Attachment 2 – CDTFA January 2023 Projection



STATE OF CALIFORNIA

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

450 N STREET, SACRAMENTO, CA
 PO BOX 942879, SACRAMENTO, CA 94279-0067
 916-445-0840
www.cdtfa.ca.gov

GAVIN NEWSOM
 Governor

AMY TONG
 Secretary, Government Operations Agency

NICOLAS MADUROS
 Director

January 25, 2023

TO: CITY AND COUNTY FINANCE OFFICIALS

Below are the statewide taxable sales growth rates for the January 2022 – June 2024 period.

The table shows actual, preliminary, and estimated statewide changes in taxable sales by calendar quarter. CDTFA’s Research and Statistics team calculated the actual and preliminary rates. The California Department of Finance calculated the estimated rates in conjunction with its preparation of the *2023-24 Governor’s Budget*.

Sales Period	Year to Year Change In Taxable Sales	Allocations Received By Local Jurisdictions
Jan. – Mar. 2022	18.3% (actual)	Mar. – May 2022
Apr. – Jun. 2022	11.3% (actual)	Jun. – Aug. 2022
Jul. – Sep. 2022	6.9% (preliminary)	Sep. – Nov. 2022
Oct. – Dec. 2022	2.4% (estimated)	Dec. 2022 – Feb. 2023
Jan. – Mar. 2023	-0.9% (estimated)	Mar. – May 2023
Apr. – Jun. 2023	-0.5% (estimated)	Jun. – Aug. 2023
Jul. – Sep. 2023	-0.5% (estimated)	Sep. – Nov. 2023
Oct. – Dec. 2023	0.7% (estimated)	Dec. 2023 – Feb. 2024
Jan. – Mar. 2024	1.0% (estimated)	Mar. – May 2024
Apr. – Jun. 2024	0.9% (estimated)	Jun. – Aug. 2024

For taxable sales, monthly local allocations, and many other current and historical data, please visit our new data visualization tool: <https://www.cdtfa.ca.gov/dataportal/visual.htm>.

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

Genti Droboniku, Manager
 Research and Statistics Section

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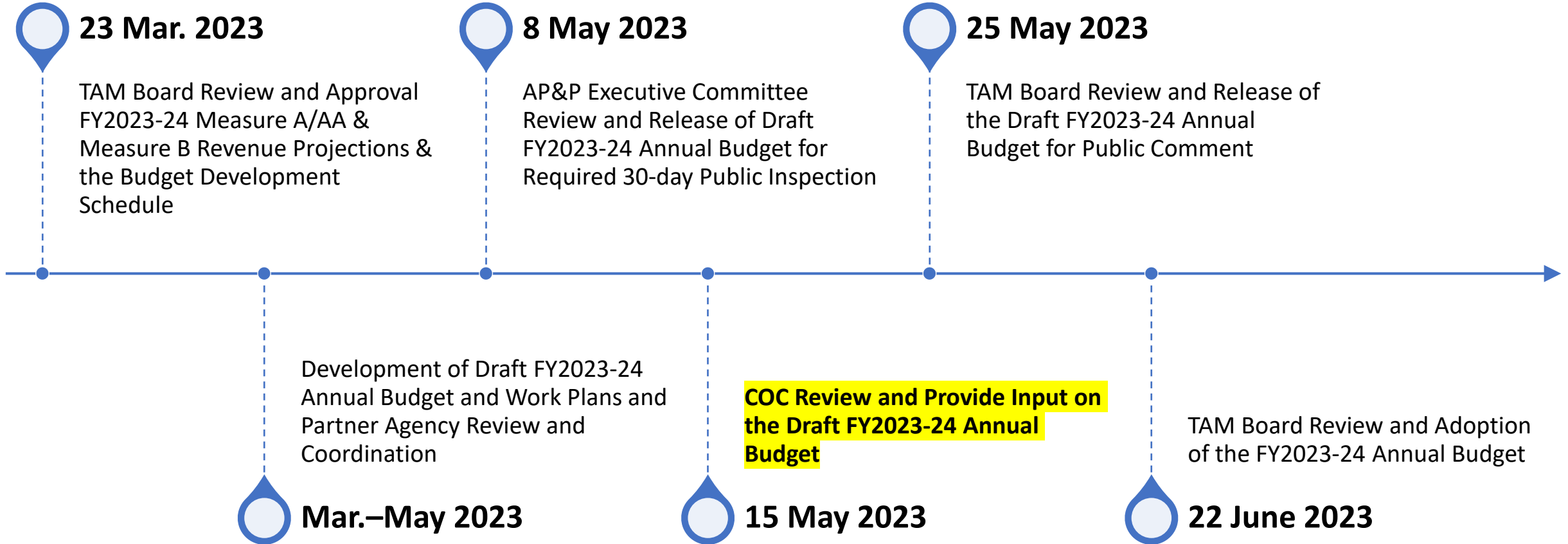
Item 5 - Attachment 3

Economic Update and Measure A/AA and Measure B Revenue Projections

Citizens' Oversight Committee

March 20, 2023

FY2023-24 Budget Development Timeline



Current Economic Conditions

*The Big Question:
Are we heading into a recession?*



Economic Data

Gross Domestic Product (GDP)

Most Recent: Q4 2022 +2.9%

Trend: down 0.3% from Q3 2022 (3.2%)

Grade: Good

ISM Manufacturing Index

Most Recent: Dec 2022 48.4

Trend: down 0.6 from Nov 2022 (49)

Grade: Bad

Retail Sales

Most Recent: Dec 2022 -1.1%

Trend: down 1.1% from Nov 2022

Grade: Bad

Consumer Price Index (CPI)

Most Recent: Dec 2022 +6.5%

Trend: down 0.6% from Nov 2022 (7.1%)

Grade: Bad

Industrial Production

Most Recent: Dec 2022 102.9

Trend: down 0.7 from Nov 2022 (104.6) but up 1.6 from Dec 2021

Grade: Neutral

Conference Board Leading Economic Index

Most Recent: Dec 2022 110.5

Trend: down 1% from Nov 2022

Grade: Bad

Data Source: Forbes Feb 3, 2023 "Are We In A Recession Yet?"; <https://www.conference-board.org/us/>;
<https://fred.stlouisfed.org/series/INDPRO>

Job Market Data

Unemployment Rate

Most Recent: Jan 2023 3.4%

Trend: down 0.1% Dec 2022 (3.5%); 4% Jan 2022

Grade: Good

Initial Jobless Claims

Most Recent: Jan 19, 2023 183,000

Trend: down 0.6% from Nov 2022 (7.1%)

Grade: Good

Job Openings and Labor Turnover Survey (JOLTS)

Most Recent: Dec 2022 11 million

Trend: about 7 million job openings in Jan 2020, vs 11 million in Dec 2022

Grade: Good



Housing & Financial Market Data

Housing Starts

Most Recent: Dec 2022 1,330,000

Trend: down 1.6% from Nov 2022 and down 30% from Dec 2021

Grade: Bad

NAHB Home Builders Index

Most Recent: Feb 2023 42

Trend: up 6 from Dec 2022 (35) but way lower than Feb 2022 (81)

Grade: Bad

S&P 500

YTD Performance: +6.1% as of Feb 1, 2023

Grade: Neutral

Treasury Yield Curve

10-year/2-year Spread: -0.66%, as of Jan 24, 2023

Grade: Bad



Data Source: Forbes Feb 3, 2023 “Are We In A Recession Yet?”

https://ycharts.com/indicators/nahb_wells_fargo_us_hmi



Current Economic Conditions – Confidence Data

University of Michigan Consumer Confidence Survey

Most Recent: Jan 2023 64.6

Trend: up 8% from Nov 2022

Grade: Good

NFIB Small Business Optimism Index

Most Recent: Dec 2022 89.8

Trend: down 2.1 from Nov 2022 and has been below 49-year average of 98 for 12 consecutive months

Grade: Bad



Data Source: Forbes Feb 3, 2023 “Are We In A Recession Yet?”

What Does the Data Show?

- Out of the 15 data points tracked by Forbes, more troubled signs:
 - *Good*: 5
 - *Neutral*: 2
 - *Bad*: 8
- Labor market is the strongest part of the current economy: historical low unemployment and large number of unfilled jobs, but pressure from labor cost/wage increase
- Consumers seem to be enduring high inflation better than they did in 2022, and hopefully prices will continue to moderate in the months to come but cost-of-living crisis still weighs heavily on the outlook
- Housing market is suffering from higher borrowing costs and the downward trend is expected to continue in 2023

In Addition:

- Ongoing geopolitical conflicts add additional pressure to the US and global economy
- Will the recent banking industry events cause wider/long-term impact??

SF Bay Area's Economic Challenges

- San Francisco (SF) Metro Area still down 21,600 jobs, 1% lower than its pre-pandemic employment:
 - Most decrease due to service sector
 - Knowledge workers (tech, R&D, etc.) grew during the pandemic but will this stay true for long with the current tech layoffs?
- SF and San Jose (SJ) Metro Areas together lost 147,000 people during the pandemic
 - Will this trend continue, if so, what's the long-term impact on retail, housing, office space markets?
- SF office vacancy rate is 28% as of Q4 2022, vs. 4% Q4 2019
 - Continuation of remote work
 - Reduction and/or consolidation of office spaces
- Retail sales in counties like San Francisco, are still way below pre-pandemic level
 - Big conventions are slowly coming back
 - International travel is still in recovery and will take time
 - Workers have not come back

Data Source: Bay Area Council Weekly News March 3, 2023

Marin's Economic and Retail Sales Trend

- Marin's relatively simple economic and taxable sales bases helped the County weather the last three years well
- Due to the County's demographics and income level, majority of County residents are not suffering significant financial difficulties during the period; though wide disparities exist
- Remote work options for many Marin residents help the strong increase of taxable sales
- Savings from out of region/country travels spent on home improvement and other home base items
- Moving forward, will the slow-down eventually lead to negative growth in Marin?



**Neighborhood Delivery Pic
Shared in April 2020**

Measure A/AA Budget Level and Projection

- Adopted FY2022-23 Measure A/AA Budget Level: \$34.85 Million vs. Current FY2022-23 Estimate: \$35.5 Million
- Recommended FY2023-24 Budget Level: \$35.68 Million, and assume a 2% annual growth for all future years for the revenue update of the Measure A/AA Strategic Plan

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Marin's Vehicle Registration Trend

- Annual number of registered vehicles in the County continues to drop since 2020
- Possible reasons:
 - Population loss
 - Shortage of cars
 - With remote work options, many decide not to replace a retired car or get an extra car
- Moving forward, will the negative growth change in the next year or two?

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Data Source: Department of Motor Vehicles

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2. DMV takes 0.05% of the collection off the top for its administrative support.

*. 2022 Registered Vehicle # is draft and under review for final publication.

Measure B Budget Level and Projection

- Adopted FY2022-23 Measure B Budget Level: \$2.3 Million
- Recommended FY2023-24 Budget Level: \$2.25 Million, and assume flat at \$2.25 million for all future years for the revenue update of the Measure B Strategic Plan



Questions?

Thank You!

