M E M O R A N D U M

DATE: January 21, 2011

TO: SFMTA Board of Directors
Tom Nolan, Chairman
Jerry Lee, Vice Chairman
Cameron Beach, Director
Leona Bridges, Director
Cheryl Brinkman, Director
Malcolm Heinicke, Director
Bruce Oka, Director

THROUGH: Nathaniel P. Ford Sr.
Executive Director/CEO

FROM: Sonali Bose
CFO/Director of Finance and Information Technology

SUBJECT: Background Material for February 15, 2011 Workshop – Long Term Financial Plan

---

At the February 15, 2011 Workshop, we will begin the detailed discussion regarding the long-term financial situation of the SFMTA, the plan to issue bonds and what must be in place before we embark on taking on debt as an Agency.

Proposition A approved by the voters on November 6, 2007 added the following language to Section 8A.102 (b) (13):

> To the maximum extent permitted by law, with the concurrence of the Board of Supervisors, and notwithstanding the requirements and limitations of Sections 9.107, 9.108, and 9.109, have authority without further voter approval to incur debt for Agency purposes and to issue or cause to be issued bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation or any other debt instruments. Upon recommendation from the Board of Directors, the Board of Supervisors may authorize the Agency to incur on behalf of the City such debt or other obligations provided: 1) the Controller first certifies that sufficient unencumbered balances are expected to be available in the proper fund to meet all payments under such obligations as they become due; and 2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the Agency.

Before we can issue debt we must demonstrate the financial capacity that is acceptable to the rating agencies and SFMTA bond purchasers. In other words, our long term financial plan must demonstrate the following:

- Annual operating budget should show the ability to, at least for a five to seven year near term period:
  - Cover all operating expenditures (no deficits)
  - Cover all debt service payments for all SFMTA and SMFRIC debt

- Reserves should over the life of the bond (e.g. 20-30 years) show the ability to:
  - Fund the Board approved Reserve (10% of the operating budget)
  - Fund a new Debt Service Reserve Fund (equal to 3-5 years of total debt service payments)

- Establish Appropriate Policies and Procedures
  - Operating Reserve (adopted but not in compliance)
  - Automatic Indexing Plan for Fares, Fines and Fees which are not subject to any legal thresholds (adopted, in effect)
  - Debt Policy (Guidelines and restrictions affecting the amount, issuance process, and type of debt issued by a governmental entity – draft attached, for formal adoption by Board at upcoming meeting)

- Long Term Comprehensive Capital Improvement Plan (CIP)
  - Unconstrained list of projects
  - Constrained and prioritized by funding availability.
  - List of projects to be included in bond issuances for all SMFRIC and SFMTA debt

In order to accomplish the above, the SFMTA Board of Directors will need to determine how best to demonstrate the financial capacity, in other words, how to address the annual deficits currently identified in the long term financial plan. The two ways of addressing the deficit are:

- Reducing Expenditures (labor cost reductions given 2/3rd of the Agency's budget includes labor costs and/or reducing service)
- Increasing Revenues
  - Select a handful of revenue options outlined in the attachment for further research including implementation process and timeline

The next two year operating budget cycle, for Fiscal Years 2013 and 2014, will begin in the fall of 2011 and it is anticipated that addressing the long-term financial plan will essentially be addressing the Fiscal Years 2013 and 2014 operating budget. Additionally, the issues identified above will need to be addressed before the first debt issuance.

The Financial Advisors will be assisting in the presentation to the SFMTA Board of Directors at the February 15, 2011 workshop and the agenda for the meeting is as follows:

- Review Long Term Financial Plan Projections (Item 1)
- Review Revenue Options – Select top 3 to 5 to pursue (Item 2)
  - Voter Approval Required Options
  - Leveraging SFMTA Asset Options
- Review Overall Debt Issuance Plan and Related Projections (Item 3)
  - Review SMFRIC debt issue
  - Review Draft Debt Policy

Attached are documents as listed below which provide the background information for the agenda above:

- Item 1: Long Term Financial Plan Projections
  - Memo with Attachment
  - Powerpoint
- Item 2: Initial Assessment of New Revenue Options
  - Memo with Attachment
  - Powerpoint
  - Garage Preliminary Valuation
    - Memo with Attachment
    - Powerpoint
- Item 3: Debt Issuance Plan
  - Memo
  - Powerpoint
  - SFMRIC Issuance
    - Memo
    - Powerpoint

The team of Financial Advisors who are assisting SFMTA in this effort include:

- Public Financial Management (Lead)
- Backstrom, Berry & Co.
- Ross Financial
- Robert Kuo Consulting
- CBRE Consulting
- Scott Balice
- Capital Partnerships Inc.

We look forward to receiving guidance from the SFMTA Board of Directors on this critical effort for the Agency.

Attachments: See list above

M E M O R A N D U M

DATE: February 15, 2011

TO: SFMTA Board of Directors
Tom Nolan, Chairman
Jerry Lee, Vice Chairman
Cameron Beach, Director
Leona Bridges, Director
Cheryl Brinkman, Director
Malcolm Heinicke, Director
Bruce Oka, Director

THROUGH: Nathaniel P. Ford Sr.
Executive Director/CEO

FROM: Sonali Bose
CFO/Director of Finance and Information Technology

SUBJECT: Background Material for February 15, 2011 Workshop – Item 1: Long Term Financial Plan Projections

---

This memorandum provides a summary of results for the 20-year forecast, describes existing and newly contemplated reserve policies to strengthen the fiscal health of the SFMTA, describes the major assumptions underlying the forecast for operating revenues, expenses and describes the amount of new bond issuance and related debt service contemplated in the 20-year forecast.

Summary of Financial Plan Results

Operating revenues are projected to grow at a compounded average of 2.08% between 2011 and 2031 with growth no greater than 2.97% in any single year. Operating expenses prior to transfers for reserves and capital contributions, when possible, are projected to grow at a compounded average rate of 2.64% through 2031. As annual expenses outpace the annual growth in revenues, the Agency experiences a structural imbalance in the operating budget. This results in a forecast of net operating losses ranging from $27.7 million in FY 2013 to $133.7 million in FY 2031. The cumulative deficit over the next 20 years under this forecast is approximately $1.4 billion through FY 2031.

It is important to note that this forecast does not consider any new operating services or initiatives that may be implemented throughout the course of this 20 year range. The level of service operated is projected to remain constant at FY 2011 levels in order to identify a baseline context from which the Agency can evaluate its operations. As such, the cumulative operating deficit projected in this forecast represents an ongoing structural imbalance within the Agency's current budgetary framework.

Reserve Policies

The SFMTA Board of Directors adopted a Contingency Reserve Policy in FY 2007 with the objective to build up a Contingency Reserve equal to 10% of operating expenditures over a 10-year horizon adding 1% each fiscal year until the reserve is fully funded. This Contingency Reserve and the required annual contributions have been incorporated into this 20-year forecast. The Agency is forecasted to begin making contributions again to this reserve starting in FY 2013 and reach the full 10% target by FY 2022. In maintaining this reserve target beyond 2022, the Agency is estimated to contribute an average of $3.1 million per year through 2031.

In addition to the Contingency Reserve, the Agency is also projected to implement an Operational Debt Reserve (consistent with the proposed debt policy) that targets a reserve fund balance equal to 3 years of total long-term debt service obligation of the Agency. With the establishment of the Operational Debt Reserve, the Board acknowledges the increased importance of liquid resources as a critical component to the Agency's fiscal health and credit strength as it enters into long-term obligations with bond holders and other lenders. As new bonds are issued and outstanding bonds are paid off, any adjustments in annual debt service amounts would be reflected in the target reserve fund balance by either making additional contributions from the operating fund or releasing the extra reserve fund balance back into the operating fund. Based on this 20-year forecast, the Agency would need to contribute $24 million in FY 2013 to fully fund this reserve.

The balances in the Contingency and Operational Debt reserves by FY 2031 would be $130.4 million and $34.6 million, respectively. If the Agency were to fully fund both its Contingency Reserve and its Operational Debt Reserve during this 20-year period, the impact on the ending Agency fund balance after making annual transfers to these reserves would result in a $1.59 billion deficit by FY 2031.

The rating agencies and the bond market will look favorably on these reserves which will result in lower cost debt to the agency as our bonds will be more marketable.

Discussion of Revenues and Expenditures

The major drivers of operating revenues include transit fares, parking fees and revenues, local operating grants, and general fund transfers. Transit fares are estimated to grow in conjunction with the Board approved policy to implement fare increases every two years pursuant to the Automatic Indexing Policy. For forecasting purposes, the rate at which growth is determined is compounded by the two years in between each fare increase,

resulting in increase in transit fare revenues by the same compounded two-year CPI estimate of 4.93% through 2031. Parking revenues represent the largest source of operating revenues of the Agency, and are projected to grow at the CPI estimate of 2.47% per year. The Agency also receives local operating grants including State Transit Assistance funds and various state and local sales tax revenues. These local revenue sources are forecasted to grow at 2.47% per year with the exception of STA funds and the San Francisco County Transportation Authority's sales tax allocation, which are expected to remain constant at FY 2012-2013 levels. Additionally, the Agency receives general fund transfers annually to help support its operations and expects the continued receipt of this transfer increasing at a CPI rate of 2.47%, consistent with all other revenue sources.

On the expenditure side, salaries and benefits represent the largest expense category of the Agency totaling on average 62% of total operating expenditures. This is projected to increase at a rate of 3% per year, which is slightly higher than the CPI-based growth rate of 2.47%. Other main drivers of operating expenditures include contracts and professional services, equipment & maintenance, insurance payments, and work orders performed for other San Francisco agencies. These expense items are projected to grow at the same CPI-based growth rate of 2.47%.

New Bond Debt Service

Additionally, the Agency expects to issue a combined amount of $150 million in long-term debt during the period from FY 2012 to FY 2016. The combined annual debt service resulting from the issuance of additional debt as well as existing outstanding debt is estimated to increase up to $14.6 million in FY 2016 through 2018, and remains constant at $11.7 million thereafter through FY 2031. A portion of these bonds are projected to be issued through the San Francisco Municipal Railway Improvement Corporation (SMFRIC).

This baseline forecast of revenues and expenditures provides a context within which the Board may consider new revenue sources, cost containment measures and forecast their respective impacts on the Agency's annual net income over time.

San Francisco Municipal Transportation Authority - 20-Year Operating Budget Forecast
(FY 2011 - 2031)

CATEGORY	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Type	*Budget*								
Operating Revenues									
Transit Fares	177,912,299	182,312,299	182,312,299	191,308,723	191,308,723	200,749,086	200,749,086	210,655,296	210,655,296
Operating Grants	126,300,000	106,892,909	113,539,864	115,362,463	117,230,032	119,143,679	121,104,542	123,113,786	125,172,604
Parking and Traffic Fees & Fines	256,647,331	276,481,321	257,199,027	263,341,572	269,635,674	276,085,070	282,693,593	289,465,169	296,403,820
Taxi Services	13,400,000	13,500,000	2,299,195	2,355,923	2,414,051	2,473,613	2,534,645	2,597,183	2,661,263
Other (Advertising, Interest, TIDF)	25,772,561	24,068,582	26,851,755	27,514,271	28,193,134	28,888,747	29,601,522	30,331,884	31,080,266
General Funds Transfer	174,990,000	177,320,000	190,596,179	195,298,780	200,117,409	205,054,928	210,114,272	215,298,445	220,610,528
Appropriated Fund Balance	-	-	-	-	-	-	-	-	-
Total Operating Revenues	**775,022,191**	**780,575,111**	**772,798,319**	**795,181,733**	**808,899,023**	**832,395,124**	**846,797,660**	**871,461,762**	**886,583,777**
Operating Expenses									
Salary & Benefits	466,318,956	462,096,086	492,453,180	507,226,776	522,443,579	538,116,886	554,260,393	570,888,205	588,014,851
Contracts & Other Services	69,197,381	75,774,121	54,087,356	55,421,859	56,789,289	58,190,458	59,626,198	61,097,361	62,604,824
Material & Supplies	46,003,349	48,000,000	39,748,378	40,729,094	41,734,008	42,763,715	43,818,829	44,899,976	46,007,799
Equipment & Maintenance	51,600,000	50,500,000	46,428,998	47,574,545	48,748,358	49,951,131	51,183,581	52,446,439	53,740,456
Rent & Building	8,750,000	7,000,000	10,000,584	10,126,672	10,263,146	10,402,988	10,659,662	10,806,490	10,956,940
Bond Debt Service	2,693,805	2,690,660	5,853,379	9,082,832	9,727,828	14,657,795	14,643,628	14,081,769	12,872,000
Insurance & Payments to Other Agencies	72,709,842	76,757,260	85,299,036	86,843,659	88,426,392	90,048,176	92,269,945	93,972,746	95,717,559
Work Orders	60,442,663	60,447,644	66,691,649	68,337,140	70,023,230	71,750,921	73,521,240	75,335,237	77,193,992
Total Operating Expenses	**775,022,191**	**780,575,111**	**800,562,560**	**825,342,577**	**848,155,829**	**875,882,071**	**899,983,475**	**923,528,223**	**947,108,421**
Baseline Scenario									
Agency Fund Balance Before Reserve Transfers									
Beginning Fund Balance	12,300,000	12,300,000	-	(27,764,242)	(57,925,085)	(97,181,892)	(140,668,839)	(193,854,654)	(245,921,115)
Net Operating Income/(Loss)	-	-	(27,764,242)	(30,160,844)	(39,256,806)	(43,486,947)	(53,185,815)	(52,066,461)	(60,524,644)
Ending Fund Balance Before Reserve Transfers	12,300,000	-	(27,764,242)	(57,925,085)	(97,181,892)	(140,668,839)	(193,854,654)	(245,921,115)	(306,445,759)
Agency Fund Balance After Reserve Transfers									
Beginning Fund Balance	-	12,300,000	-	(35,769,867)	(107,900,390)	(161,655,816)	(219,087,312)	(280,451,224)	(341,163,277)
Net Transfer to Contingency Reserve	-	-	(8,005,626)	(8,501,226)	(8,937,823)	(9,590,608)	(9,963,891)	(10,412,520)	(10,885,896)
Net Transfer to Operational Debt Reserve	-	-	-	(33,468,454)	(5,560,796)	(4,353,941)	1,785,795	1,766,928	2,537,169
Ending Fund Balance After Reserve Transfers	12,300,000	-	(35,769,867)	(107,900,390)	(161,655,816)	(219,087,312)	(280,451,224)	(341,163,277)	(410,036,648)
Alternative Scenario									
Agency Fund Balance Before Reserve Transfers									
Beginning Fund Balance	12,300,000	12,300,000	-	2,235,758	52,815,108	96,290,607	137,577,229	171,256,611	208,198,581
Net Operating Income/(Loss)	-	-	(27,764,242)	(30,160,844)	(39,256,806)	(43,486,947)	(53,185,815)	(52,066,461)	(60,524,644)
New Revenue Source(s)	-	-	-	50,000,000	51,233,656	52,497,749	53,793,032	55,120,274	56,480,263
Expenditure Reductions	-	-	30,000,000	30,740,193	31,498,650	32,275,819	33,072,164	33,888,158	34,724,284
Ending Fund Balance Before Reserve Transfers	12,300,000	-	2,235,758	52,815,108	96,290,607	137,577,229	171,256,611	208,198,581	238,878,484
Contingency Reserve Fund (Board Approved)									
Beginning Balance	-	-	-	2,235,758	19,346,654	57,261,357	84,360,625	86,691,131	88,964,007
Net Transfer from Operating	-	-	2,235,758	17,110,896	37,914,703	27,099,268	2,330,506	2,272,875	2,274,407
Ending Balance	-	-	2,235,758	19,346,654	57,261,357	84,360,625	86,691,131	88,964,007	91,238,414
Reserve Target (10% Operating Expenses)	*77,771,600*	*78,326,577*	*77,056,256*	*79,460,238*	*81,665,718*	*84,360,625*	*86,691,131*	*88,964,007*	*91,238,414*
% of Reserve Target Met	*0%*	*0%*	*3%*	*24%*	*70%*	*100%*	*100%*	*100%*	*100%*
Operational Debt Reserve Fund									
Beginning Balance	-	-	-	-	33,468,454	39,029,250	43,383,191	41,597,396	39,830,469
Net Transfer from Operating	-	-	-	33,468,454	5,560,796	4,353,941	(1,785,795)	(1,766,928)	(2,537,169)
Ending Balance	-	-	-	33,468,454	39,029,250	43,383,191	41,597,396	39,830,469	37,293,300
Reserve Target (3 years of Bond Debt Service)	*11,237,844*	*17,626,870*	*24,664,038*	*33,468,454*	*39,029,250*	*43,383,191*	*41,597,396*	*39,830,469*	*37,293,300*
% of Reserve Target Met	*0%*	*0%*	*0%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Cumulative Reserve Balances	-	-	2,235,758	52,815,108	96,290,607	127,743,816	128,288,527	128,794,475	128,531,714
Agency Fund Balance After Reserve Transfers									
Beginning Fund Balance		12,300,000	-	-	-	-	9,833,413	42,968,083	79,404,105
Net Transfer to Contingency Reserve	-	-	(2,235,758)	(17,110,896)	(37,914,703)	(27,099,268)	(2,330,506)	(2,272,875)	(2,274,407)
Net Transfer to Operational Debt Reserve	-	-	-	(33,468,454)	(5,560,796)	(4,353,941)	1,785,795	1,766,928	2,537,169
Ending Fund Balance After Reserve Transfers	12,300,000	-	-	-	-	9,833,413	42,968,083	79,404,105	110,346,770
Transfers to Capital	-	-	-	-	-	(7,833,413)	(40,968,083)	(77,404,105)	(108,346,770)
Ending Fund Balance After Reserve & Capital Transfers	12,300,000	-	-	-	-	2,000,000	2,000,000	2,000,000	2,000,000

San Francisco Municipal Transportation Authority - 20-Year Operating Budget Forecast

(FY 2011 - 2031)

CATEGORY	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Type	*Forecast*								
Operating Revenues									
Transit Fares	221,050,340	221,050,340	231,958,340	231,958,340	243,404,609	243,404,609	255,415,708	255,415,708	268,019,509
Operating Grants	127,282,219	129,443,886	131,658,887	133,928,539	136,254,191	138,637,223	141,079,053	143,581,130	146,144,941
Parking and Traffic Fees & Fines	303,513,670	310,798,942	318,263,964	325,913,172	333,751,109	341,782,433	350,011,914	358,444,443	367,085,028
Taxi Services	2,726,925	2,794,207	2,863,148	2,933,791	3,006,177	3,080,349	3,156,350	3,234,227	3,314,026
Other (Advertising, Interest, TIDF)	31,847,113	32,632,880	33,438,035	34,263,055	35,108,431	35,974,666	36,862,273	37,771,780	38,703,727
General Funds Transfer	226,053,676	231,631,124	237,346,185	243,202,254	249,202,811	255,351,420	261,651,735	268,107,497	274,722,544
Appropriated Fund Balance	-	-	-	-	-	-	-	-	-
Total Operating Revenues	**912,473,943**	**928,351,378**	**955,528,559**	**972,199,152**	**1,000,727,328**	**1,018,230,699**	**1,048,177,032**	**1,066,554,785**	**1,097,989,774**
Operating Expenses									
Salary & Benefits	605,655,296	623,824,955	642,539,704	661,815,895	681,670,372	702,120,483	723,184,097	744,879,620	767,226,009
Contracts & Other Services	64,149,479	65,732,247	67,354,066	69,015,900	70,718,738	72,463,589	74,251,491	76,083,507	77,960,724
Material & Supplies	47,142,954	48,306,118	49,497,980	50,719,249	51,970,651	53,252,929	54,566,844	55,913,178	57,292,730
Equipment & Maintenance	55,066,401	56,425,060	57,817,242	59,243,774	60,705,502	62,203,296	63,738,045	65,310,660	66,922,078
Rent & Building	11,111,102	11,269,068	11,430,932	11,596,789	11,766,738	11,940,881	12,119,320	12,302,162	12,489,515
Bond Debt Service	12,876,700	11,544,600	11,545,188	11,545,700	11,545,450	11,539,925	11,542,325	11,541,550	11,547,025
Insurance & Payments to Other Agencies	97,505,423	99,337,399	101,214,576	103,138,068	105,109,019	107,128,599	109,198,009	111,318,477	113,491,264
Work Orders	79,098,608	81,050,217	83,049,978	85,099,080	87,198,739	89,350,204	91,554,751	93,813,692	96,128,368
Total Operating Expenses	**972,605,964**	**997,489,664**	**1,024,449,665**	**1,052,174,455**	**1,080,685,208**	**1,109,999,904**	**1,140,154,882**	**1,171,162,846**	**1,203,057,712**
Baseline Scenario									
Agency Fund Balance Before Reserve Transfers									
Beginning Fund Balance	(306,445,759)	(366,577,780)	(435,716,066)	(504,637,172)	(584,612,475)	(664,570,355)	(756,339,560)	(848,317,410)	(952,925,472)
Net Operating Income/(Loss)	(60,132,021)	(69,138,286)	(68,921,106)	(79,975,303)	(79,957,880)	(91,769,205)	(91,977,850)	(104,608,062)	(105,067,938)
Ending Fund Balance Before Reserve Transfers	(366,577,780)	(435,716,066)	(504,637,172)	(584,612,475)	(664,570,355)	(756,339,560)	(848,317,410)	(952,925,472)	(1,057,993,410)
Agency Fund Balance After Reserve Transfers									
Beginning Fund Balance	(410,036,648)	(480,352,744)	(560,125,623)	(641,718,476)	(724,460,995)	(807,266,576)	(901,963,350)	(996,963,798)	(1,104,677,956)
Net Transfer to Contingency Reserve	(11,510,888)	(11,965,593)	(12,670,897)	(2,772,479)	(2,851,075)	(2,931,470)	(3,015,498)	(3,100,796)	(3,189,487)
Net Transfer to Operational Debt Reserve	1,326,813	1,331,000	(850)	5,263	3,375	3,900	(7,100)	(5,300)	(1,250)
Ending Fund Balance After Reserve Transfers	(480,352,744)	(560,125,623)	(641,718,476)	(724,460,995)	(807,266,576)	(901,963,350)	(996,963,798)	(1,104,677,956)	(1,212,936,631)
Alternative Scenario									
Agency Fund Balance Before Reserve Transfers									
Beginning Fund Balance	238,878,484	272,201,309	298,823,692	328,025,969	348,595,057	371,662,312	385,460,192	401,654,097	407,886,723
Net Operating Income/(Loss)	(60,132,021)	(69,138,286)	(68,921,106)	(79,975,303)	(79,957,880)	(91,769,205)	(91,977,850)	(104,608,062)	(105,067,938)
New Revenue Source(s)	57,873,807	59,301,734	60,764,892	62,264,151	63,800,401	65,374,556	66,987,550	68,640,341	70,333,912
Expenditure Reductions	35,581,040	36,458,935	37,358,491	38,280,241	39,224,734	40,192,530	41,184,205	42,200,347	43,241,561
Ending Fund Balance Before Reserve Transfers	272,201,309	298,823,692	328,025,969	348,595,057	371,662,312	385,460,192	401,654,097	407,886,723	416,394,258
Contingency Reserve Fund (Board Approved)									
Beginning Balance	91,238,414	93,702,492	96,103,073	98,709,117	101,389,421	104,146,047	106,980,737	109,897,068	112,896,250
Net Transfer from Operating	2,464,079	2,400,581	2,606,045	2,680,304	2,756,626	2,834,690	2,916,330	2,999,182	3,085,365
Ending Balance	93,702,492	96,103,073	98,709,117	101,389,421	104,146,047	106,980,737	109,897,068	112,896,250	115,981,615
Reserve Target (10% Operating Expenses)	*93,702,492*	*96,103,073*	*98,709,117*	*101,389,421*	*104,146,047*	*106,980,737*	*109,897,068*	*112,896,250*	*115,981,615*
% of Reserve Target Met	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Operational Debt Reserve Fund									
Beginning Balance	37,293,300	35,966,488	34,635,488	34,636,338	34,631,075	34,627,700	34,623,800	34,630,900	34,636,200
Net Transfer from Operating	(1,326,813)	(1,331,000)	850	(5,263)	(3,375)	(3,900)	7,100	5,300	1,250
Ending Balance	35,966,488	34,635,488	34,636,338	34,631,075	34,627,700	34,623,800	34,630,900	34,636,200	34,637,450
Reserve Target (3 years of Bond Debt Service)	*35,966,488*	*34,635,488*	*34,636,338*	*34,631,075*	*34,627,700*	*34,623,800*	*34,630,900*	*34,636,200*	*34,637,450*
% of Reserve Target Met	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Cumulative Reserve Balances	129,668,980	130,738,560	133,345,455	136,020,496	138,773,747	141,604,537	144,527,968	147,532,450	150,619,065
Agency Fund Balance After Reserve Transfers									
Beginning Fund Balance	110,346,770	142,532,329	168,085,131	194,680,514	212,574,561	232,888,564	243,855,655	257,126,129	260,354,273
Net Transfer to Contingency Reserve	(2,464,079)	(2,400,581)	(2,606,045)	(2,680,304)	(2,756,626)	(2,834,690)	(2,916,330)	(2,999,182)	(3,085,365)
Net Transfer to Operational Debt Reserve	1,326,813	1,331,000	(850)	5,263	3,375	3,900	(7,100)	(5,300)	(1,250)
Ending Fund Balance After Reserve Transfers	142,532,329	168,085,131	194,680,514	212,574,561	232,888,564	243,855,655	257,126,129	260,354,273	265,775,193
Transfers to Capital	(140,532,329)	(166,085,131)	(192,680,514)	(210,574,561)	(230,888,564)	(241,855,655)	(255,126,129)	(258,354,273)	(263,775,193)
Ending Fund Balance After Reserve & Capital Transfers	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

San Francisco Municipal Transportation Authority - 20-Year Operating Budget Forecast
(FY 2011 - 2031)

CATEGORY	FY 2029	FY 2030	FY 2031
Type			
Operating Revenues			
Transit Fares	268,019,509	281,245,260	281,245,260
Operating Grants	148,772,009	151,463,895	154,222,199
Parking and Traffic Fees & Fines	375,938,803	385,011,028	394,307,094
Taxi Services	3,395,793	3,479,578	3,565,430
Other (Advertising, Interest, TIDF)	39,658,668	40,637,171	41,639,817
General Funds Transfer	281,500,804	288,446,306	295,563,174
Appropriated Fund Balance	-	-	-
Total Operating Revenues	**1,117,285,587**	**1,150,283,239**	**1,170,542,973**
Operating Expenses			
Salary & Benefits	790,242,789	813,950,073	838,368,575
Contracts & Other Services	79,884,257	81,855,251	83,874,875
Material & Supplies	58,706,320	60,154,788	61,638,994
Equipment & Maintenance	68,573,254	70,265,169	71,998,830
Rent & Building	12,681,491	12,878,203	13,079,769
Bond Debt Service	11,547,625	11,542,800	11,546,950
Insurance & Payments to Other Agencies	115,717,661	117,998,989	120,336,605
Work Orders	98,500,154	100,930,459	103,420,728
Total Operating Expenses	**1,235,853,551**	**1,269,575,732**	**1,304,265,325**
Baseline Scenario			
Agency Fund Balance Before Reserve Transfers			
Beginning Fund Balance	(1,057,993,410)	(1,176,561,373)	(1,295,853,867)
Net Operating Income/(Loss)	(118,567,964)	(119,292,494)	(133,722,352)
Ending Fund Balance Before Reserve Transfers	(1,176,561,373)	(1,295,853,867)	(1,429,576,219)
Agency Fund Balance After Reserve Transfers			
Beginning Fund Balance	(1,212,936,631)	(1,334,784,103)	(1,457,432,515)
Net Transfer to Contingency Reserve	(3,279,584)	(3,372,218)	(3,468,959)
Net Transfer to Operational Debt Reserve	75	16,300	17,400
Ending Fund Balance After Reserve Transfers	(1,334,784,103)	(1,457,432,515)	(1,594,606,426)
Alternative Scenario			
Agency Fund Balance Before Reserve Transfers			
Beginning Fund Balance	416,394,258	414,204,028	414,160,669
Net Operating Income/(Loss)	(118,567,964)	(119,292,494)	(133,722,352)
New Revenue Source(s)	72,069,269	73,847,442	75,669,488
Expenditure Reductions	44,308,465	45,401,693	46,521,894
Ending Fund Balance Before Reserve Transfers	414,204,028	414,160,669	402,629,699
Contingency Reserve Fund (Board Approved)			
Beginning Balance	115,981,615	119,154,509	122,417,404
Net Transfer from Operating	3,172,893	3,262,895	3,356,939
Ending Balance	119,154,509	122,417,404	125,774,343
Reserve Target (10% Operating Expenses)	*119,154,509*	*122,417,404*	*125,774,343*
% of Reserve Target Met	*100%*	*100%*	*100%*
Operational Debt Reserve Fund			
Beginning Balance	34,637,450	34,637,375	34,621,075
Net Transfer from Operating	(75)	(16,300)	(17,400)
Ending Balance	34,637,375	34,621,075	34,603,675
Reserve Target (3 years of Bond Debt Service)	*34,637,375*	*34,621,075*	*34,603,675*
% of Reserve Target Met	*100%*	*100%*	*100%*
Cumulative Reserve Balances	153,791,884	157,038,479	160,378,018
Agency Fund Balance After Reserve Transfers			
Beginning Fund Balance	265,775,193	260,412,145	257,122,190
Net Transfer to Contingency Reserve	(3,172,893)	(3,262,895)	(3,356,939)
Net Transfer to Operational Debt Reserve	75	16,300	17,400
Ending Fund Balance After Reserve Transfers	260,412,145	257,122,190	242,251,681
Transfers to Capital	(258,412,145)	(255,122,190)	(240,251,681)
Ending Fund Balance After Reserve & Capital Transfers	2,000,000	2,000,000	2,000,000

M E M O R A N D U M

DATE: February 15, 2011

TO: SFMTA Board of Directors
Tom Nolan, Chairman
Jerry Lee, Vice Chairman
Cameron Beach, Director
Leona Bridges, Director
Cheryl Brinkman, Director
Malcolm Heinicke, Director
Bruce Oka, Director

THROUGH: Nathaniel P. Ford Sr.
Executive Director/CEO

FROM: Sonali Bose
CFO/Director of Finance and Information Technology

SUBJECT: Background Material for February 15, 2011 Workshop – Item 2: Revenue Options

---

Increasing revenues is a key component to SFMTA's ability to balance its budget in future years, in presenting the most compelling credit profile to rating agencies and in expanding its borrowing capacity. The attached report provides information on potential revenue options for the SFMTA Board of Directors' consideration.

The analysis has two phases:

1. **Identification and Initial Screening of Potential Revenue Alternatives.** This preliminary analysis is based on:
   - A review of prior work performed by SFMTA and San Francisco Planning & Urban Research (SPUR)
   - A review of revenue streams used by comparably-sized, multi-modal transit agencies in California and throughout the United States
   - An initial assessment of their potential for annual revenue generation
   - An assessment of their ease of implementation based on such factors as need for additional State legislation, local vote and other factors.

2. Detailed Evaluation and Implementation. This phase will entail**:**

- A more detailed analysis of the revenue potential associated with a “short list” of options preferred by the SFMTA Board of Directors
- An assessment of the nexus between each revenue option to transit expenditures, transportation and environmental benefits, tax incidence, and equity impacts
- An analysis of the potential economic considerations and impacts associated with each of the short-listed items, and
- The development of a detailed implementation plan for each local revenue option.

We are requesting direction from the SFMTA Board of Directors as to which 1-3 revenue options we should pursue for further analysis.

Attachment: Initial Assessment of Revenue Options

San Francisco
Municipal Transportation Agency

Initial Assessment of New Revenue Options

January 2011

The analysis has two phases:

1. **Identification and Initial Screening of Potential Revenue Alternatives.** This preliminary analysis is based on:
    - A review of prior work performed by SFMTA and San Francisco Planning & Urban Research (SPUR)
    - A review of revenue streams used by comparably-sized, multi-modal transit agencies in California and throughout the United States
    - An initial assessment of their potential for annual revenue generation
    - An assessment of their ease of implementation based on such factors as need for additional State legislation, local vote and other factors.
2. **Detailed Evaluation and Implementation.** This phase will entail**:**
    - A more detailed analysis of the revenue potential associated with a "short list" of options preferred by the SFMTA Board of Directors
    - An assessment of the nexus between each revenue option to transit expenditures, transportation and environmental benefits, tax incidence, and equity impacts
    - An analysis of the potential economic considerations and impacts associated with each of the short-listed items, and
    - The development of a detailed implementation plan for each local revenue option.

Increasing revenues is a key component to SFMTA's ability to balance its budget in future years, in presenting the most compelling credit profile to rating agencies and in expanding its borrowing capacity.

This Initial Assessment of New Revenue Options summarizes the results of our "Phase I" comprehensive review of potential revenue sources that might be available to SFMTA, principally for operating purposes. As explained in this report, the starting point of our analysis was the 97 separate revenue streams previously identified by SFMTA and SPUR in 2007. In addition, we reviewed the revenues sources tapped by 15 other multi-modal, generally urbanized, transit agencies in California and throughout the United States. We narrowed the resulting universe of revenue options to 14 revenue different revenue alternatives. Which we group into three categories:

1. **Vehicle-based taxes and fees:** local gas tax; vehicle environmental impact fee, local carbon tax, vehicle license fee ("car tax"), vehicle registration fee, and vehicle impact mitigation fee
2. **Land-based taxes and fees:** off-street commercial parking stall fee, parcel tax, community facilities district, special assessment district, and transportation utility fee
3. **Other taxes:** payroll "head" tax on employees, transportation sales taxes, and an increase in the hotel tax.

This report also identifies criteria for screening and evaluating potential new revenue streams:

- **Initial screening:** (a) potential revenue yield and (b) ease of implementation
- **Detailed evaluation:** adds to initial screening criteria (c) transportation benefits, (d) environmental benefits, (e) tax incidence, and (f) equity impacts.

The initial screening has resulted in a "short list" of five alternative revenue options for a more detailed consideration and evaluation: a sales tax increase, an off-street parking stall fee, a parcel tax, a transportation utility fee and a vehicle impact mitigation fee.

Table of Contents

Table of Contents

Section		Page
1.	**Executive Summary**	1
2.	**Introduction**	10
	a. Purpose of This Report	10
	b. Scope and Methodology	10
	c. Local Revenue Screening Criteria	16
3.	**New Revenue Options**	17
	a. **Vehicle-Based Taxes and Fees**	17
	1) Local Gas Tax	17
	2) Vehicle Environmental Mitigation Fee	19
	3) Local Carbon Tax	20
	4) Vehicle License Fee	22
	5) Vehicle Registration Fee	23
	6) Vehicle Impact Mitigation Fee	24
	b. **Land-Based Taxes and Fees**	26
	7) Off-Street Commercial Parking Stall Fee	26
	8) Parcel Tax	27
	9) Community Facilities District	30
	10) Special Assessment District	32
	11) Transportation Utility Fee	34
	c. **Other Taxes**	37
	12) Payroll Head Tax	37
	13) Transportation Sales Taxes	40
	14) Hotel Tax	42
4.	**Next Steps**	43
	a. Staff Review of Draft Interim Report	43
	b. Discussion of “Short List” with Local Policy Makers	43
	c. Detailed Evaluation of New Revenue Options	43
	d Local Revenue Evaluation Criteria	43
	Bibliography	45

Executive Summary

Executive Summary

Background. The research for this report focused on two areas: (1) two reports from SFMTA and San Francisco Planning & Urban Development (SPUR) and (2) a review of the revenue sources used or considered by major transit agencies in California, the United States and internationally.

In March 27, 2007, the Executive Director of SFMTA submitted a memorandum to the SFMTA Board of Directors (the "2007 SFMTA Report") on additional revenue opportunities. The 2007 SFMTA Report incorporated a January 18, 2006 SPUR report (*Muni's Billion Dollar Problem*) and, collectively, identified a total of 97 potential revenue sources. These revenue streams were grouped into three categories based on potential revenue yield: high (more than $10 million annually), medium (between $2 and $10 million) and low (less than $2 million). Given the magnitude of SFMTA's need for additional operating funds, we focused on those revenue sources that were projected to have a "high" potential yield. From this more limited universe, we eliminated revenue sources that could be characterized as increases to existing revenues (e.g., advertising revenue or parking taxes), one-time revenues (e.g., joint development and developer contributions) and financing techniques; however, we added an increase to the hotel tax, which previously had been characterized as having "medium" potential yield. This process resulted in a review of 11 potentially viable sources of additional revenues.

The review of revenue sources being used or considered by other transit agencies covered six other transit agencies in California, nine transit agencies in other states, and 27 jurisdictions in Canada, Australia and other countries. These other transit agencies and other jurisdictions rely on a myriad of revenues, including many already identified in the 2007 SFMTA Report. We eliminated from consideration any duplicative revenue sources (e.g., sales tax, vehicle license fees, gas taxes) and any revenue sources that are not under local control (e.g., New York MTA relies heavily on bridge tolls). The aggregate result is 14 potential revenue streams that are grouped into three basic categories as shown in the table below:

Category	SFMTA/SPUR	Other Agencies
Vehicle-based taxes and fees	• Local gas tax • Vehicle environmental impact fee • Vehicle license fee (VLF) or "car tax" • Vehicle registration fee (VRF) • Vehicle impact mitigation fee	• Local carbon tax
Land-based taxes and fees	• Off-street commercial parking stall fee • Parcel tax • Special assessment district (SAD)	• Community facilities district (CFD) • Transportation utility fee (TUF)
Other taxes	• Payroll "head" tax on employees • Local option transportation sales tax • Hotel tax increase	

Evaluation and Screening of Potential New Revenue Sources

Each of the 14 potential revenue sources was evaluated by using two sets of criteria:

- **Revenue potential** based on high medium, and low tax or fee levels assumed by our financial advisory team; the size of the tax or fee base to which the rate(s) apply; the extent to which tax or fee revenue keeps pace with inflation; and the extent to which tax or fee revenue remains relatively stable in economic downturns.

- **Ease of implementation** based on the need for State and/or local enabling legislation; voter or property owner approval required to enact a qualified special tax or fee; the estimated time required to obtain approval of a tax or fee (short-term = 1-2 years, mid-term = 2-3 years, long-term = 3+ years; and administrative systems required to collect and distribute revenues.

The matrix below summarizes the results of this evaluation process.

Revenue Source	Tax / Fee Level	Ann. Rev. Potential (millions)	Revenue Stability	Inflation Correlation	Required Approvals	Revenue Collection	Timetable for Approval
Vehicle							
Local gas tax	1 cent	$2	Declining per VMT	Negative	BOS action 50%+ of voters	SBOE	1-2 years
Vehicle environmental mitigation fee	$0.005 to $0.015 / gallon	$1 - $3	Declining per VMT	Negative	Legislature, BOS 2/3s of voters	DMV	2-3 years
Local carbon tax	$0.098 / gallon	$17 - $18	Declining per VMT	Negative	Legislature Impact study BOS 2/3s of voters	SBOE	3+ years
Vehicle license fee	From 0.65% to 2.0%	$60	Subject to "swaps"	Positive	Legislature, BOS 2/3s of voters	DMV	1-2 years
Vehicle reg. fee	$10	$5	Stable	Negative	BOS 50%+ of voters	DMV	1-2 years
Vehicle impact mitigation fee	$50 - $150	$24 - $72	Stable	Negative	Impact study BOS	DMV	2-3 years
Land							
Off-street commercial parking stall fee	$100 - $300 per parking space	$16 - $48 (less surcharge revenues)	Stable	Negative	Impact study BOS	AR / TTC	2-3 years
Parcel tax	$100 - $200 per parcel	$20 - $39	Stable	Negative	BOS 2/3s of voters	AR / TTC	1-2 years
Community facilities dist.	TBD	TBD	Stable	Negative	Nexus study, BOS 2/3s of voters	AR / TTC	3+ years
Special assessment district	TBD	TBD	Stable	Negative	Nexus study, BOS 2/3s of voters	AR / TTC	3+ years
Transportation utility fee	$120 - $240 (flat rate)	$20 - $41	Stable	Negative	Impact study BOS	SF PUC	2-3 years
Other							
Payroll "head" tax	$10 - $20	$2 - $4	Subject to downturns	Negative	Impact study, BOS	TTC	2-3 years
Local option sales tax	1/8 cent to 1/2 cent	$17 - $68	Subject to downturns	Positive	BOS 2/3s of voters	SBOE	1-2 years
Local sales tax increase (BB)	1/8 cent to 1/4 cent	$17 - $34	Subject to downturns	Positive	BOS 2/3s of voters	SBOE	1-2 years
States sales tax increase (TDA)	1/4 cent	$34	Subject to downturns	Positive	Legislature	SBOE	3+ years

Revenue Source	Tax / Fee Level	Ann. Rev. Potential (millions)	Revenue Stability	Inflation Correlation	Required Approvals	Revenue Collection	Timetable for Approval
Hotel tax increase	1% increase	$17	Subject to downturns	Positive	BOS TBD% of voters	AR / TTC	1-2 years

Legend: AR – San Francisco Assessor-Recorder
TTC = San Francisco Treasurer-Tax Collector
DMV = CA Department of Motor Vehicles
SBOE = State Board of Equalization
SF PUC = San Francisco Public Utilities Commission

Applying the evaluation criteria of revenue potential and ease of implementation, we evaluate the list of 14 new revenue options as shown at a high level in the following table:

Revenue Source	Potential Revenue Yield	Implementation Difficulty	Further Study
Vehicle			
Local gas tax	Low	Medium	No
Vehicle environmental mitigation fee	Low	High	No
Local carbon tax	Medium	High	No
Vehicle license fee	High	High	No
Vehicle registration fee	Low	Medium	No
Vehicle impact mitigation fee	Medium to High	Medium	Yes
Land			
Off-street commercial parking stall fee	Medium to High	Medium	Yes
Parcel tax	Medium to High	Medium	Yes
Community facilities dist.	TBD	Medium	No
Special assessment district	TBD	Medium	No
Transportation utility fee	Medium to High	Medium	Yes
Other			
Payroll "head" tax	Low	Medium	No
Local option sales tax	Medium to High	Medium	Yes
Local sales tax increase (BB)	Medium	Medium	No (Local Option is Preferred)
States sales tax increase (TDA)	Medium	High	No
Hotel tax increase	Medium	Medium	No

Recommended "Short List" of Potential New Revenue Options

From a potential revenue yield standpoint, low yield is assumed to be less than $10 million, medium yield is assumed to be between $10 and $30 million, and high yield is assumed to be in excess of $30 million.

From an implementation standpoint, we assume that each of these revenues will require a 2/3rds vote in light of the recent adoption of Proposition 26 in November 2010. Revenues that will

require only a local vote are viewed as having medium difficulty of implementation; high difficulty implementation revenues also require new State legislation.

The result is a short list (presented alphabetically) of the following five potential revenue options:

A. **Local option transportation sales tax:** A local sales tax with revenues dedicated solely to public transit system capital improvements and/or operations and maintenance purposes. Sales taxes are collected by merchants, resellers, and service providers and then processed and disbursed by the State Board of Equalization.

   Estimated annual revenue: $17 million for each 1/8-cent sales tax increase (based on $68.2 million in actual Proposition K sales tax receipts in FY 2009/10).

   Use of this revenue source by others: Use of local option transportation sales taxes to fund capital projects and operations is widespread in California, including San Francisco.

   Rationale for inclusion on the short list: The inclusion of the local option transportation sales tax option is based on their widespread acceptance in California, and the number of jurisdictions that have adopted multiple local sales taxes (e.g., LACMTA, Santa Clara VTA, SF BART). The appeal of this option seems to derive from four characteristics:

   - **Specific, local projects.** Typically, sales tax revenues are used to fund specific projects or programs near voters' homes and work places, so voters personally perceive the benefits of such transportation improvements.
   - **Finite lives.** Voter-approved sales tax increases often "sunset" after a finite period (e.g., 20 or 30 years) unless reauthorized by another popular vote.
   - **Local control.** Typically, sales tax expenditures are controlled by a local transportation authority, assuring residents that the money will not leak into other jurisdictions.
   - **Broad tax base.** Sales taxes generate significant annual revenues, because they have a broad base that includes local residents and businesses, commuters, and tourists.

B. **Off-street commercial parking stall fee:** An annual levy on the estimated 161,000 off-street parking spaces (estimated 57,000 free spaces) at commercial locations. For example, the Safeway Food & Drug Store at 730 Taraval Street has 68 free parking spaces. SFMTA would need to work with other City departments on the collection of the levy – e.g., whether it is added to the annual property tax bill of applicable businesses or invoiced separately. Legal counsel will need to determine if this levy would be subject to Proposition 218 and a 2/3s voter approval.

   Estimated annual revenue: $6 to $17 million with an annual levy ranging from $100 to $300 per space on the estimated 57,000 free, off-street commercial parking spaces, but $16 to $48 million with an annual levy ranging from $100 to $300 per space on all of the estimated 161,000 off-street commercial parking spaces (less the parking revenues already generated by the 25% surcharge on the 107,000 paid off-street parking spaces in San Francisco).

   Use of this revenue source by others: Use of such parking stall levies has essentially been limited to cities in Canada and Australia, where such parking revenues are typically used to help fund public transit improvements and services. However, a number of U.S. cities – Atlanta, Bethesda, Boston, Chicago, New York, Pasadena, Pittsburgh, Portland, and Seattle – are currently contemplating this strategy.

   Rationale for inclusion on the short list: San Francisco is one of the most innovative local governments in the United States when it comes to implementing its "transit first policy"

through a variety of public transportation improvements and traffic, congestion, and parking management strategies. In early 2010, SFMTA staff completed its first-ever count of all publicly available parking spaces in San Francisco. SFMTA is now implementing its two-year SF*park* pilot program to test its new demand-responsive parking pricing system at on-street metered spaces and City-owned parking garages. An annual levy of off-street commercial parking spaces (a) is consistent with the goals and strategies of SF*park*, (b) could generate a significant amount of recurring revenue and (c) if passed along to consumers, could induce drivers to make fewer vehicular trips and/or to take public transit to such commercial locations.

C. **Parcel tax for transit purposes:** A flat rate or multi-tier tax on all residential, commercial, and industrial parcels based on their size, not their assessed values. The appropriate parcel tax would be added to annual property tax bills of all property owners in San Francisco.

   Estimated annual revenue: $20 to $39 million with a flat rate parcel tax ranging from $100 to $200 per parcel (up to $80 million with a multi-tier tax on residential, commercial, and industrial properties).

   Use of this revenue source by others: Over the past several years, voters in a number of California cities, counties, and special districts have approved parcel taxes to generate revenues for municipal purposes ranging from education (public schools, community colleges, and libraries) to public safety (police or fire protection and EMT services) to public works (parks, roads, water levees, and wastewater treatment).

   Rationale for inclusion on the short list: The inclusion of the parcel tax option is based on the widespread acceptance of this technique throughout California. Because a parcel tax is a "qualified special tax" with a flat rate(s) and is not an *ad valorem* tax on land or buildings, a parcel tax is not subject to Proposition 13 and related restrictions on general taxes. A parcel tax can have multiple flat rates to reflect differences in property types (residential, commercial or industrial) and property sizes (number of dwelling units, square footage or acreage) and their relative impacts on public transit and traffic congestion.

D. **Transportation utility fee (TUF):** A monthly fee based on the notion that a public transit system is similar to other municipal services, such as water and wastewater treatment. A TUF could be based on the front footage or square footage of a property, the gross floor area of residences and commercial buildings, the occupancy of the property and/or trip generation rates established by the Institute of Transportation Engineers. SFMTA would need to consider the method of collection, e.g., whether a TUF could be included on the bi-monthly water/wastewater bill collected by the San Francisco Public Utilities Commission (SFPUC-Water). Counsel will need to opine whether a transportation utility fee is subject to Proposition 218 requirements and the associated voting requirements, if any.

   Estimated annual revenue: $7 to $19 million with a TUF ranging from $60 to $180 per year per single-family residential wastewater billing account; another $5 to $14 million from a TUF ranging from $30 to $90 per dwelling unit on multi-family residential wastewater billing account; $5 to $11 million on TUF ranging from $5 to $10 per hotel room; $5 to $10 million from a TUF ranging from $0.50 to $1.00 per gross square foot of office space; and another $4 to $20 million from a TUF ranging from $200 to $1,000 on commercial and industrial wastewater accounts for a total ranging from $16 to $53 million.

   Use of this revenue source by others: In the past 16 years, 38 cities in eight states have adopted a transportation utility fee (TUF) for street maintenance, rehabilitation/improvement,

street-scaping, street lighting, and/or bikeway and pedestrian improvements (they have been subsequently discontinued or invalidated in five cities in five states). They are currently in use in Colorado, Montana, Oregon, and Texas.

Rationale for inclusion on the short list: A Transportation Utility Fee could offer several advantages over other potential new funding sources:

- Using a trip generation or hybrid approach, a TUF could more closely align transportation costs (i.e., TUF revenues) with transportation usage.
- A TUF could be charged to "users" that are typically exempt from property taxes.
- A TUF could (a) help diversify the local tax base and (b) shift the relative financial burden from residential properties to commercial properties, reflecting the considerable traffic volume that commercial properties generate.

E. **Vehicle mitigation impact fee:** A fee on each vehicle registered in San Francisco to help pay for programs and projects that serve motorists and mitigate the negative impacts caused by vehicular traffic in San Francisco. . Former Supervisor Yee introduced a bill in 2005 in the State Assembly (AB 1208) that would have created such a fee –authorizing the Board of Supervisors to assess a surcharge on all motor vehicles registered in San Francisco to help fund repair and maintenance of local streets and public rights-of-way. AB 1208 was not adopted.

Estimated annual revenue: $24 to $72 million with a vehicle mitigation impact fee ranging from $50 to $150 on the 475,000 to 500,000 vehicles registered in San Francisco.

Use of this revenue source by others: Impact fees are widespread in California, primarily in the context of new development. San Francisco already has a Transit Impact Development Fee (TIDF) that was initially imposed on new office development in the downtown area, but has subsequently been amended to conclude six different categories of economic activity on a citywide basis. This vehicle mitigation impact fee extends this concept to cars.

Rationale for inclusion on the short list: This type of vehicle mitigation impact fee would, in essence, be more like a transportation utility fee, except that it would be based solely on trip generation rates. Counsel will need to opine whether such a vehicle mitigation impact fee is subject to the California Mitigation Fee Act and/or Proposition 218.

The matrix below and on page 7 recaps the suggested "short list" of new revenue options.

"Short List" of New Revenue Options

Revenue Source	Assumed Tax / Fee Levels	Ann. Rev. Potential (millions)	Study Required	Key Implementation Considerations
Local option sales tax	1/8 cent to 1/2 cent of taxable sales	$17 - $68	Expenditure Plan	• Support of SFCTA and MTC for an additional local option sales tax with revenues dedicated solely to fund- ing SFMTA capital improvements and/or operations versus other transportation needs.

Revenue Source	Assumed Tax / Fee Levels	Ann. Rev. Potential (millions)	Study Required	Key Implementation Considerations
Off-street commercial parking stall fee	$100 - $300 per parking stall	$16 - $48	Nexus study	• Determination of the number of off-street commercial parking stalls in San Francisco by location, type of commerce, 2010 revenue, number of employees, etc. • Applicability of Prop. 26 fee approval requirements. • Ability and willingness of the Assessor-Recorder's Office to add an off-street commercial parking stall fee to its property tax billing system.
Parcel tax	$100 - $200 per parcel	$20 - $39	Impact study	• Public support for a multi-tiered parcel tax (based on parcel size, office square footage, number of housing units or hotel rooms, etc.) versus a flat-rate tax applying to all residential, commercial, and industrial parcels. • Ability and willingness of Assessor-Recorder's Office to add a parcel tax to its property tax billing system.
Transportation utility fee	$120 - $240 per account	$20 - $41	Nexus study	• Public support for a transit utility fee based on various factors (front footage, gross floor area, and/or trip generation) versus a flat-rate fee applying to all residential, commercial, and industrial parcels. • Applicability of Prop. 26 fee approval requirements. • Ability and willingness of SFPUC to add a transit utility fee to its water and wastewater billing system.
Vehicle impact mitigation fee	$50 - $150 per vehicle	$24 - $72	Impact study	• Applicability of the California Mitigation Fee Act (California Government Code, ¶66000). • Public support for any type of vehicle impact mitigation fee in light of San Francisco's existing Transit Impact Development Fee (TIDF).

Other Revenue Generating Opportunities

Other types of revenue-generating opportunities, which potentially are better suited to capital projects or financing, also may merit further exploration in Phase II. Below are several examples of such opportunities which would require significant collaboration with other City departments.

- **Value Capture:** These techniques are designed to capture part of the increase in land value resulting from investments in public transportation: [1]
  - **Negotiated exactions:** In-kind contributions to local road networks, parks or other public goods as a condition of development approval (or in-lieu fees). In most cases, negotiated exactions should be seen as a supplemental source of revenue, rather than a large-scale replacement for more traditional sources of revenue. Negotiated exactions are generally politically feasible, as they are seen as a way to make new residents "pay their own way."
  - **Development Fees**: One-time charges collected by local governments from developers for the purpose of financing new infrastructure and service associated with new development. They are similar to negotiated exactions in that they are charged primarily

[1] Source: University of Minnesota, The Center for Transportation Studies, *Value Capture for Transportation Finance: A Report to the Minnesota Legislature* (June 2009).

to new development to help recover growth-related, public service costs, but differ in that impact fees can be levied for off-site services, such as local roads, schools, or parks.

- **Joint development:** Coincidental development of a transportation facility (e.g., a public transit station) and adjacent private real estate development, where a private sector partner either provides the facility or makes a financial contribution to offset its costs. The Washington Metropolitan Area Transit Authority (WMATA) has been particularly active in joint development – e.g., its Bethesda Metro Center combines a retail, office and hotel project over a transit station.
- **Air rights:** Sale or lease of development rights above (or in some cases below) a transportation facility. Both WMATA and Los Angeles County MTA have utilized this approach.

- **Asset-based Transactions:** e.g., Revenues generated from the sale or long-term lease of City garages or other assets – which could generate funds for SFMTA capital improvements The Cities of Pittsburgh (PA) and Minneapolis are examples of cities that have sold municipally-owned parking garages; the City of Los Angeles is also evaluating this strategy. Numerous factors could impact the sales price of a garage, including its location, the age and upkeep of the facility, prevailing parking rates, existing debt and availability of lower cost alternatives. A more detailed analysis of the potential value of certain City-owned garages is being performed by another of SFMTA's financial advisors. Their preliminary analysis suggests City garages could have a valuation, subject to a more detailed appraisal, that range from $60,000 per space on the high side for the most attractive garages (e.g., North Beach, Fifth and Mission) to less than $15,000 per space on the low side for the least attractive garages (e.g., SF General Hospital, Otis and Mission). Procedurally, such transactions would require, at a minimum, approval by the Mayor and the Board of Supervisors.
- **Tax increment:** Tax increment represents a property tax-based revenue stream most commonly associated with redevelopment project areas. The establishment of redevelopment agencies and the generation of tax increment in redevelopment project areas is authorized under the California Constitution (Article XVI, Section 16) and California Redevelopment Law. When a redevelopment agency establishes a redevelopment project area, the assessed value base is "frozen"; the agency may receive that portion of property tax revenues that derives from the increase in assessed value in the redevelopment project area (e.g., due to new development), subject to numerous restrictions in California law. The property tax revenue received as a result of such increased valuation is called "property tax increment." The San Francisco Redevelopment Agency administers nine separate redevelopment project areas, each formed following the making of certain findings of blight and the adoption of a detailed redevelopment plan, which governs the permitted activities by the Redevelopment Agency within a redevelopment project area and the expenditure of tax increment funds.

  In theory, a newly constructed or improved transit line that runs through or near a redevelopment project area could spur new development in that project area – resulting in the creation of tax increment. From the standpoint of equity, one could argue that SFMTA should share in any such benefit it created.

  Assuming the support of the Redevelopment Agency and other agencies for this concept, a tax increment sharing approach likely would require:

- The amendment of the relevant redevelopment plans – a procedurally intensive process involving the making of new findings, public hearings and other steps.
- A finding of "benefit" by the Redevelopment Agency to the extent that tax increment is used outside of a project area,
- The surbordination to existing bond pledges, agreements with developers and State diversions for education and other uses - which potentially makes for an unreliable revenue stream.

Early reports relating to Governor Brown's budget plan suggest another obstacle: the potential elimination of redevelopment altogether.

- **TIFIA grants and loans:** The U.S. Department of Transportation's TIFIA (Transportation Infrastructure Finance and Innovation Act) loan program is a funding resource that receives great fanfare from time to time. In October 2010, Los Angeles County Metropolitan Transportation Authority received a $20 million grant under DOT's TIGER II discretionary grant program for surface transportation projects – which, in turn, supported a $546 TIFIA loan for its LAX rail extension project. These grants and loans are extremely competitive. For example, in March 2010, the DOT received 39 letters of interest for $12.5 Billion of TIFIA loans, but allowed only four projects (including the Presidio Parkway) to move forward with applications. SFMTA should monitor the availability of TIFIA loans in the future but recognize they may facilitate construction funding of projects rather than representing an ongoing source of funds for operations.

Timetable for Evaluating and Implementing New Revenue Options Requiring Voter Approval

The time frame from recommendation of a revenue option to implementation is extended and entails multiple steps. The table below outlines the typical steps that lead up to a General Election – which is assumed to be required for all substantial revenue opportunities that the SFMTA may consider.

Timetables	SFMTA Action Steps
February 2011	Present Initial Assessment of New Revenue Options to SFMTA Board of Directors.
March – May 2011	Conduct Phase II evaluation of revenue options preferred by SFMTA Board.
June – July 2011	Conduct polling of local revenue options based on information in the Phase II report.
June – July 2011	Arrange and conduct focus groups of San Francisco business leaders, residents, and media representatives to assess political and economic viability of local revenue options.
August 2, 2011	Deadline for SFMTA Board to approve local revenue initiative(s).
August 2011 – January 2012	Conduct required impact or nexus studies and/or develop detailed expenditure plans to be funded by local revenue option(s).
September 28, 2011	Deadline for CA Attorney General to issue title/summary of initiative, so initiative proponent(s) may begin circulation of petition to put proposition on November 6, 2012 ballot.
February 2012	Public hearing(s) by SFMTA Board and/or Board of Supervisors on impact/nexus studies and proposed local revenue initiative(s).
March 2, 2012	Deadline for SFMTA or BOS to file ballot petition with County election officials.
June 28, 2012	Deadline for CA Secretary of State to determine whether an initiative qualifies for the November 6, 2012 ballot.

Timetables	SFMTA Action Steps
July – October 2012	Conduct editorial conferences and voter education on SFMTA financial situation, local revenue options and proposed ballot measure(s) with both print and broadcast media.
November 6, 2012	General election

Introduction

2. Introduction

Purpose of This Report

This report represents an initial assessment of new revenue options for SFMTA to consider as additional funding sources for its operating and maintenance costs and capital. It will be followed by a more detailed analysis of three to five options as directed by the SFMTA Board.

Scope and Methodology

This report utilizes the following methodology:

1. **Identify new revenue options**
   a. Review 2007 SFMTA and SPUR report on revenue opportunities
   b. Review and summarize funding sources of other multi-modal, generally urbanized transit agencies
   c. Develop threshold criteria/matrix for screening and evaluating the potential options
2. **Screen/Evaluate New Options**
   a. Estimate potential annual revenue for SFMTA
   b. Assess ease of implementation

SFMTA March 2007 Report on Revenue Opportunities

In a March 27, 2007 report to the SFMTA Board of directors, staff submitted two lists of revenue generation opportunities. The first list was derived from a San Francisco Planning & Urban Research (SPUR) report on Muni's finances, while the second list included additional options identified by SFMTA staff. The following table compiles the various options identified by SFMTA and SPUR.

Summary of SFMTA Revenue Opportunities

<table>
<tr><th>Revenue Yield</th><th>SPUR</th><th>SFMTA Staff</th></tr>
<tr><td>High</td><td>
• Across-the-board fare increases
• Local one-cent gas tax
• Vehicle mitigation fee
• Congestion management fee – AB 2444 (Klehs)
• Congestion management fee – BB 1611 (Simitian)
• Congestion management
• Transit impact fee on downtown businesses
• Vehicle environmental impact fee
• Expanded SFMTA joint development
• Increased Vehicle License Fee (VLF)
• Vehicle license fees – AB 799 (Leno)
• Parcel tax for transit
• Citywide parcel tax
• Downtown parcel tax approved by voters citywide
• Vehicle registration fee – AB 1208 (Yee)
• Increased State sales tax for transit (TDA)
• Increased local sales tax for transit
• Increased State sales tax – SB 1020 (Migden)
</td><td>
• Letter of Intent financing
• TV and video monitors in buses
• Free ride day paid by business
• Naming rights for facilities
• Property tax increment financing
• Employee tax based on number of employees
• Car tax (same as Vehicle License Fee)
• Taxing gas outlets
• Parking stall tax
• Transit-oriented development
• Proposition K (redirection of funding to Muni)
• 1/4-cent sales tax increase (Bradley-Burns law)
• Vehicle advertising
• Parking garages
• Air rights sale or lease
</td></tr>
<tr><td>Medium</td><td>
• Downtown assessment district
• Transit assessment district
• Transit Impact Development Fee (TIDF) indexing
• Downtown parking price rule enforcement
• Improved enforcement of parking tax
• Increased fines for parking violations
• Peak-period surcharge for off-street parking
• Parking congestion impact fee (tolling)
• Increased commercial parking tax
• Expanded pricing of on-street residential parking
• Demand-responsive pricing for on-street parking
</td><td>
• Increase parking violations
• Charging for Muni transfers
• Charging for regular shuttle service
• Donations for media coverage
• Parking meters in effect on Sundays and holidays
• Lease of City garages to private operators
• 50-cent surcharge to stadium tickets for transit
• 10-cent increase in property transfer tax
• 0.5% increase in payroll tax
• 1% increase in hotel tax
• 0.5% increase in the franchise tax
• 1% increase in the utility users tax
• Parcel tax for transit
• Landlord tax on rental properties
• Rental car tax
• Utility pole lease and rental fee
• Boomer advertising
• Various types of advertising (10 options
• Public-private partnerships
</td></tr>
</table>

Revenue Yield	SPUR	SFMTA Staff
Low	• Automated street cleaning enforcement • Improved enforcement of parking violations • Adjudication of fare violations – SB 1749 (Migden) • Hiring of more fare inspectors • Charge fair market rate for City employee parking • Higher fares for premium Muni service	• Charging for services to other entities • Expanding TIDF to residential units • Reduce number of white zones (meter them) • Charge other departments for parking management • Charge Giants and Forty-Niners • Special events pricing • Special location pricing • Vendor carts • Charter service • Access fee • CPI indexing of fares every 2 years • Rental of equipment

Identification of Potential Revenue Sources

Given the magnitude of SFMTA's revenue needs, this initial assessment began with the 33 revenue sources identified by SFMTA staff as having a "high" revenue potential (i.e., annual revenues of $10 million or more). We then eliminated from this list:

- Transit fare increases (beyond the scope of the assignment)
- Changes in SFMTA enforcement of fare and parking meter collection
- One-time funding sources and in-kind developer contributions (e.g., joint development or exactions, such as housing or infrastructure improvements)
- Financing techniques needing other revenue streams to cover debt service (e.g., revenue bonds).

However, we added to this list an increase in the hotel tax, which previously had been identified as having "medium" revenue potential.

This initial screening resulted in 11 potential new revenue sources for further consideration:

- Local gas tax
- Vehicle environmental impact fee
- Vehicle license fee ("VLF") or "car tax"
- Vehicle registration fee ("VRF")
- Vehicle impact mitigation fee
- Off-street commercial parking stall fee
- Parcel tax
- Special assessment district ("SAD")
- Payroll "head" tax on employees
- Local option sales tax (3 variations)
- Hotel tax increase

Review of Other Transit Agencies and Jurisdictions

In addition to the 2007 SFMTA report, we reviewed the revenue sources utilized elsewhere by transit agencies in California and other states. These transit agencies included:

- **California:** AC Transit, BART, Los Angeles, Orange County, San Diego, and Santa Clara Valley
- **Other states:** Atlanta, Boston, Chicago, New Jersey, New York, Philadelphia, Portland, Seattle, and Washington, DC.

We selected these transit agencies because they share the following characteristics as Muni: comparable size, multi-modal, operate in urbanized areas, sizable capital/O&M needs.

Each of these transit agencies face similar financial challenges as SFMTA. Through a review of their budgets, annual reports and short-range transit plans, we have compiled the following list of alternative revenue strategies recently adopted or being considered by such agencies to supplement existing revenue streams.

Summary of Potential New Revenue Streams in Other Transit Agencies

Agency	Location	Est. 2011 Revenue (millions)	Potential New SFMTA Revenue Source Used by Other Transit Agency	Exist-ing	Pro-posed	Requires Legis. Approval	Requires Voter Approval
9 Largest Transit Agencies in Other States							
ACTD 1 of 2	Oakland	$15	• In November 2008, voters in AC Transit Special District No. 1 approved Measure W (supersedes the Measure BB parcel tax), increasing the amount of the parcel tax from $48 to $96 per year for the period from July 1, 2009 through June 30, 2019.	Y			
ACTD 2 of 2	Oakland	$14	• AC Transit 2009/10 – 2010/11 Biennial Budget assumes voter approval of a new parcel tax measure before June 2011.		Y		Y
BART 1 of 2	Oakland	$34	• BART receives a dedicated property tax assessment in the 3 BART counties.	Y			
BART 2 of 2	Oakland	$11	• BART may consider adding 5 more stations to its Core Daily Paid parking program.	Y	Y		
LACMTA 1 of 2	Los Angeles	$0	• MTA formed 2 benefit assessment districts around 4 Red Line stations in the central business district and 1 Red Line station in the Westlake/Macarthur Park area to generate $130 million to repay bonds used to fund station construction (expired in 2008/09).	Y			
LACMTA 2 of 2	Los Angeles	$28	• Advertising revenue is expected to increase by 9% over FY 2009/10 ($25.6 million).	Y			
OCTA	Orange		• Not applicable.				
SCVTA 1 of 3	Santa Clara County		• VTA 2007 financial planning for a BART extension to Silicon Valley involved a review/analysis of 5 VTA-controlled revenue sources, 3 sub-municipal revenue sources, 7 municipal revenue sources, and 5 regional revenue sources.				
SCVTA 2 of 3	Santa Clara County		• Assembly Bill 935 (2003) authorized VTA to create benefit assessment districts on property within ½ mile of existing or proposed rail transit stations with a 2/3 vote of the VTA Board and, if contested, a majority vote of property owners in the district.		Y		Y

Agency	**Location**	**Est. 2011 Revenue** (millions)	**Potential New SFMTA Revenue Source Used by Other Transit Agency**	**Exist-ing**	**Pro-posed**	**Requires Legis. Approval**	**Requires Voter Approval**
SCVTA 3 of 3	Santa Clara County		• VTA considered a Mello-Roos Community Facilities District to finance purchase, construction, expansion, and/or improvement of facilities with a "special tax" on property according to a rate formula, not assessed value.		Y		Y
SDMTS	San Diego		• Not applicable.				
9 Largest Transit Agencies in Other States							
CTA 1 of 3	Chicago	$19	• CTA generates annual revenue from advertisements on buses, trains, and stations.	Y			
CTA 2 of 3	Chicago	$36	• CTA is expecting to increase "other system-generated revenue" from parking charges, rental revenue, third-party contractor reimbursements, and filming fees by 106% over FY 2009/10 ($17.4 million) under a subsidy agreement associated with Build America Bonds issued in 2010.	Y			
CTA 3 of 3	Chicago		• The City of Chicago collects a $1.50 per $100 real estate transfer tax and dedicates the revenues to CTA.	Y			
KCM 1 of 2	Seattle	$14	• In 2009, the Washington Legislature granted King County authority to increase property taxes by 5.5 cents per $1,000 of assessed value. By law, proceeds of the first 1.0 cent must be dedicated to expanded bus service, while the remaining 4.5 cents will be used to preserve planned new RapidRide service around the County.	Y			
KCM 2 of 2	Seattle		• King County is also considering a new local vehicle excise tax.		Y		
MARTA 1 of 2	Atlanta	$160	• The Atlanta Regional Commission supports a 1% regional sales tax for transportation projects (TSPLOST) in the 10-county region; it would generate $7.9 billion over 30 years (2010 dollars).		Y	Y	

Agency	Location	Est. 2011 Revenue (millions)	Potential New SFMTA Revenue Source Used by Other Transit Agency	Exist-ing	Pro-posed	Requires Legis. Approval	Requires Voter Approval
MARTA 2 of 2	Atlanta		• The Commission also identified a number of additional potential funding sources that would generate the following revenues (millions of 2010 dollars) over 30 years: - one-cent increase in motor fuels excise tax = $1.2 billion - 1% increase in prepaid motor fuel sales tax = $5.8 billion - $5 / year regional vehicle registration fee = $651 million - 0.5 mil increase in regional millage rate on property taxes = $3.9 billion - 1 mil increase in regional *ad valorem* tax - 0.5% increase in regional income tax levied by counties = $12.3 billion - 0.5% increase in statewide income tax (regional share) = $11.4 billion - 1.5 cents/mile regional vehicle miles traveled tax = $25.3 billion - $1 / year increase in parking fees on 200,00 parking spaces in Atlanta = $76 million				
MBTA	Boston		• Not applicable.				
NJTC	Newark		• NJT receives subsidies from casino gambling taxes (a number of casinos are in bank-ruptcy) and the State Transportation Trust Fund, which is funded by a 10.5-cent gas tax, a 13.5-cent diesel fuel tax, a 2.75% excise tax on petroleum product distributors, sales taxes on new vehicle purchases, vehicle registration fees, special heavy truck fees, and annual appropriations from toll road authorities.	Y			
9 Largest Transit Agencies in Other States (continued)							
NYMTA	New York	$1,500	• 2008 Ravitch Commission on MTA Financing recommended adoption of State legisla-tion to authorize imposition of a new regional mobility tax in the 12 counties comprising the MTA commuter district. It would take the form of a payroll excise tax equal to 0.0033% of wages (as measured by the FICA tax base) imposed on all employers within the region. Revenues would be dedicated to funding MTA capital improvements and paying debt service on MTA's portfolio of system expansion projects.		Y	Y	
SEPTA 1 of 2	Philadelphia	$407	• SEPTA receives State subsidies from the Pennsylvania Public Transportation Trust Fund, which receives 4.4% of all State sales tax receipts, PA lottery proceeds from the PA Turnpike Authority, a $1 per purchase tire tax, a $2 per day tax on car rentals, and a 3% tax on automobile lease amounts.	Y			

Agency	Location	Est. 2011 Revenue (millions)	Potential New SFMTA Revenue Source Used by Other Transit Agency	Exist-ing	Pro-posed	Requires Legis. Approval	Requires Voter Approval
SEPTA 2 of 2	Philadelphia	$73	• SEPTA receives local subsidies that are appropriated annually by city and county governments to match State funds.	Y			
Tri-Met	Portland	$208	• The 2003 Oregon Legislature gave the Tri-Met Board the authority to increase the payroll tax on employers and self-employed individuals from 0.6218% to 0.7218% in 1/100th of 1-percentage point increments over a 10-year period. The Tri-Met Board adopted the increases on August 11, 2004 and the first increase went into effect January 1, 2005. The payroll tax rate, effective January 1, 2010, is 0.6818%. Effective January 1, 2011, it will be 0.6918%.	Y			
WMATA 1 of 3	Wash. DC		• The District of Columbia dedicates a % of its 20-cent gas tax, parking meter fees, traffic fines, and vehicle registration fees to WMATA operating costs.	Y			
WMATA 2 of 3	Wash. DC		• Maryland pays its subsidies to WMATA from the State Transportation Trust Fund, which receives revenue from the 23.5-cent gas tax, vehicle sales taxes, registry fees, corporate income taxes, and rental car taxes, and other sources	Y			
WMATA 3 of 3	Wash. DC		• In Virginia, each local government funds its subsidy to WMATA differently, usually through a combination of proceeds from an extra 2% gas tax levied within the WMATA service district, property taxes, and general fund appropriations.	Y			

For the most part, these agencies otherwise rely on many of the revenue sources that currently flow to SFMTA or that are contained in the 2007 SFMTA Report. In addition, many of these agencies' revenue sources, if applied to SFMTA, would fall outside of the City and County of San Francisco's control. For example, New York Metropolitan Transportation Authority draws heavily on toll revenues from various bridges and tunnels in the New York metropolitan area. In San Francisco, these revenues are controlled by other agencies, such as the Golden Gate Bridge, Highway and Transportation District, the Metropolitan Transportation Commission, and the Bay Area Toll Authority.

Excluding such duplicative and non-locally controlled revenues, we added from our survey of other transit agencies the following potential revenue sources:

- Local carbon tax
- Community facilities district "special taxes"
- Transportation utility fee.

Local Revenue Screening Criteria

The initial screening criteria fell into two principal categories: revenue potential and ease of implementation.

1. **Revenue potential** was assessed in the context of several considerations outlined below:
   - **Assumed rate:** tax or fee rate assumed by Ross Financial advisory team
   - **Revenue base:** size of the tax (or fee) base to which the rate is applied
   - **Revenue source:** demographic groups on which the ultimate burden of the tax or fee falls
   - **Estimated annual yield:** estimated annual amount of revenue generated by the tax or fee
   - **Inflation correlation:** extent to which tax or fee revenue keeps pace with inflation
   - **Recession correlation:** extent to which tax or fee revenue remains relatively stable in bad economic times.
2. **Ease of implementation** included the following factors:
   - **Required voter approval:** percentage of voter or property owner approval required to enact a special tax or fee
   - **Timetable for approval:** estimated time required to approve a tax or fee (short-term = within 1 year, mid-term = 1-2 years, long-term = 2+ years)
   - **Ease of collection:** administrative system required to collect and distribute tax or fee revenues
   - **Cost of collection:** annual cost of collecting and distributing tax or fee revenue (as a percentage of gross revenue).

The next section of this Report reviews each of the 14 potential new revenue sources which are grouped into three categories: (1) vehicle-based taxes and fee; (2) land-based taxes and fees; and (3) other taxes.

.

New Revenue Options

NEW REVENUE OPTIONS

A. VEHICLE-BASED TAXES AND FEES

1. LOCAL GAS TAX

A local gas tax is a tax on gasoline purchased by motorists at gas stations in San Francisco. Local motor vehicle fuel taxation (i.e., the "gas tax") is governed by two California codes:

- **California Public Utilities Code** (Division 10, Part 11, Chapter 5, ¶99500 – 99510)
- **California Revenue and Taxation Code** (Division 2, Part 4, ¶9501 – 9507).

Both codes authorize a county such as San Francisco to impose a gas tax of one cent ($0.01) per gallon in the area under its jurisdiction pursuant to Article XIX of the California constitution.

Estimated Revenue Potential and Considerations

- Projected San Francisco 2010 consumption of vehicle fuel includes 165.1 million gallons of gasoline and 11.2 million gallons of diesel fuel for a total of 176.3 million gallons of motor vehicle fuel. [2] A 1-cent increase in the gas tax could generate nearly $2 million per year based on this consumption. San Francisco would need at least a 5-cent increase to generate approximately $10 million, but that is beyond the one-cent limit permitted by existing California law.
- The price elasticity of gasoline is estimated to be -0.3 to -0.5 in the short run (2-3 years) and -0.5 to -0.6 in the long run (5-10 years). On this basis, a 10% rise in the current price of gasoline (approximately $0.30) in San Francisco would likely reduce gasoline consumption by 3% to 5% in the short run and by 5% to 6% in the long run. [3] A one-cent increase should have a negligible effect on motor fuel consumption – but would generate only a modest amount of additional revenues.
- Gas tax revenues are declining per vehicle mile traveled (VMT) due to increased vehicle fuel efficiency and more widespread use of alternative fuel vehicles. Implementation of corporate average fuel economy (CAFÉ) standards adopted in 2010 is likely to cause further declines of gas tax revenues per VMT.
- Local gas tax revenues can only be expended for (a) planning, construction, and maintenance of, and the acquisition of rights-of-way for, exclusive public mass transit guideways and exclusive bus lanes and related fixed facilities to such guideways and bus lanes; (b) purchase of transit vehicles; and (c) payment of principal and interest on voter-approved bonds issued for the purposes specified in (a) or (b).

Ease of Implementation

- Adoption of a local gas tax would require (1) the Board of Supervisors to adopt an ordinance to place a local gas tax measure on the ballot, (2) a majority of San Francisco voters voting at a special election to approve the ballot proposition, and (3) the City and County to contract

---

[2] Source: Caltrans, *2008 California Motor Vehicle Stock, Travel and Fuel Forecast, Appendix C.*
[3] Source: American Council for an Energy Efficient Economy, *Steering with Prices: Fuel and Vehicle Taxation and Market Incentives for Higher Fuel Economy*, 2003.

with the State Board of Equalization (SBOE) for administration of the gas tax and to reimburse SBOE for its cost in doing so.

Further Evaluation as a Potential New Revenue Stream

A local gas tax is not recommended for further evaluation because:

- The one-cent local gas tax currently authorized by the two California codes would generate a relatively small amount of revenue (estimated to be $2 million annually).
- A larger local gas tax, if authorized, could suffer from a "leakage" problem in that drivers – particularly commuters – would likely purchase their gasoline in other counties, thereby possibly reducing actual gas tax revenues to the County of San Francisco.
- The Metropolitan Transportation Commission (MTC) prefers to deal with gas tax issues though support of a:
  - Federal gas tax increase of 10 cents per gallon per year for the next four years in order to make the federal Highway Trust Fund solvent and to fund improvements to the national transportation system. [4]
  - Regional gas tax of up to 10 cents (the limit for a regional gas that MTC is currently authorized to put on the ballot for 2/3s voter approval in all nine Bay Area counties). The problem has been getting necessary voter approval in the two counties (Napa and Solano) that do not have a local option transportation sales tax. [5]

[4] Source: MTC, *Thirty-first Annual Report to Congress* (March 2010), p. 21.
[5] Source: MTC, *2009 Annual Report to the California Legislature* (April 2009), p. 11.

2. VEHICLE ENVIRONMENTAL IMPACT FEE (VEIF)

A vehicle environmental impact fee is a fee for the privilege of receiving certain petroleum products such as motor fuel or diesel fuel. It is paid by the receiver who first sells or uses the products. A vehicle environmental impact fee is essentially like a local gas tax, because motor fuel receivers would pass on this fee to the motorist in the form of higher cost per gallon of gasoline and diesel fuel.

Estimated Revenue Potential and Other Considerations

- VEIFs are not currently charged in California. An example of a jurisdiction that does have a VEIF is the State of Illinois, which charges all receivers of motor fuel $0.008 per gallon of gasoline or diesel fuel sold in the state. [6]
- As discussed in the previous section, projected San Francisco 2010 consumption of vehicle fuel includes 165.1 million gallons of gasoline and 11.2 million gallons of diesel fuel for a total of 176.3 million gallons of motor vehicle fuel. [7] Accordingly, a $0.008 per gallon VEIF could be expected to generate approximately $1.4 million per year in additional revenue. A VEIF ranging from $0.005 to $0.015 per gallon would generate approximately $1 to $3 million per year based o such consumption.
- Revenues from a VEIF would be subject to the same price elasticity of gasoline discussed in the context of the local gas tax option. Thus, a 10% rise in the current price of gasoline in San Francisco would likely reduce local gasoline consumption by 3% to 5% in the short run and by 5% to 6% in the long run. [8] A $0.008 per gallon fee increase would have a negligible effect on motor fuel consumption but generate only a small amount of revenue.
- Revenues from a VEIF also would be subject to reduction to a decline due to increased vehicle fuel efficiency and the greater use of alternative fuel vehicles.

Ease of Implementation

- Adoption of a vehicle environmental impact fee may require passage of State enabling legislation.
- Adoption of a vehicle environmental impact fee presumably would require (1) the Board of Supervisors to adopt an ordinance to place a measure on the ballot, (2) 2/3s voters approval, and (3) the County to contract with the State Board of Equalization (SBOE) for collection of the fee, disbursement of the fee revenues, and SBOE reimbursement for its cost in doing so.

Further Evaluation as a Potential New Revenue Stream

A vehicle environmental mitigation fee is not recommended for further evaluation because:

- It likely would generate a relatively small amount of revenue and
- It would likely be viewed as a local gas tax (subject to the same issues identified on page 11).

---

[6] Source: Illinois Revenue Department web site: http://www.revenue.state.il.us/Motorfuel/MFT/environmental.htm
[7] Source: Caltrans, *2008 California Motor Vehicle Stock, Travel and Fuel Forecast, Appendix C.*
[8] Source: American Council for an Energy Efficient Economy, *Steering with Prices: Fuel and Vehicle Taxation and Market Incentives for Higher Fuel Economy*, 2003).

3. LOCAL CARBON TAX

A carbon tax is a tax imposed on carbon dioxide (CO_2) emissions resulting from the burning of fossil fuels (coal, oil, and natural gas). It is one of two market-based options intended to lower CO_2 emissions:

- **Carbon tax system:** transaction taxes on the production or consumption of gasoline, diesel fuel, and jet fuel (and/or other fossil fuels) based on their rate of CO_2 emissions.
- **Cap-and-trade system:** alternative approach under which there is a limit placed on carbon emissions and the market price of tradable carbon allowances is permitted to vary.

Carbon taxes have existed internationally since the early 1990's.However, they have only been considered and, in some cases implemented, in the United States and Canada within the past 3 years, as summarized in the table below:

State / Province	Jurisdiction	Carbon Tax Imposed On	Use of Carbon Tax Revenue
United States			
California	SF Bay Area Quality Management District	Facilities permitted by BAQMD	Climate mitigation programs (i.e., collecting/ tracking data on greenhouse gas emissions)
Colorado	City of Boulder	Electric utility customers	Climate mitigation program planning
Maryland	Montgomery County	Coal producer (1 source)	Residential energy efficiency upgrades (50%) and General Fund expenditures (50%)
Minnesota	State	Coal-fired electricity from North Dakota producers	Reduction in utility taxes
Canada			
Alberta	Province	Oil and coal producers	Renewable energy R&D
Brit. Columbia	Province	Industrial users of fossil fuels	Reduction in other taxes
Quebec	Province	Fossil fuel producers	Climate mitigation / transportation programs

As indicated in the above table, carbon taxes have typically been imposed on fossil fuel producers or industrial users, and resulting revenues have typically been used for climate mitigation programs, energy subsidies or reduction in other taxes.

Estimated Revenue Potential

- Use of gasoline generates 19.5 pounds of CO_2 emissions per gallon; use of diesel fuel generates 22.4 pounds of CO_2 emissions per gallon.[9]
- A tax of $10 per ton of CO_2 emissions translates to a tax of 9.8 cents per gallon of gasoline and 11.2 cents per gallon of diesel fuel.[10] This would generate about 10 times the amount of revenue as a local one-cent gas tax, or about $17-18 million annually.

---

[9] The table on page 13 summarizes carbon taxes implemented in other countries.

[10] Source: "Fuel and Energy Source Codes and Emission Coefficients," Voluntary Reporting of Greenhouse Gases Program, US DOE, Energy Information Administration. http://www.eia.doe.gov/oiaf/1605/coefficients.html.

- However, such a local carbon tax would likely suffer from a "leakage" problem as drivers – particularly commuters – would likely purchase their gasoline in other counties, thereby possibly reducing actual gas tax revenues to the City and County of San Francisco.

Ease of Implementation

- Implementation of a carbon tax system is feasible, because it is relatively easy to calculate (a) the carbon content of every form of fossil fuel and (b) the amount of CO_2 released into the atmosphere when a fossil fuel is burned. [11]

Type of Fuel	Pounds of CO_2 per Gallon	Kilograms of CO_2 per Liter
Gasoline	19.5	2.4
Diesel fuel	22.4	2.7
Jet fuel	21.1	2.6

- Adoption of a local carbon tax would require (1) State enabling legislation, (2) SFMTA to conduct an impact study on greenhouse gas emissions from automobiles and trucks in San Francisco, (3) the Board of Supervisors to adopt an ordinance approving the impact study and placing a measure on the ballot, (4) 2/3s voters approval, and (5) the County to contract with the State Board of Equalization (SBOE) for collection of the fee, disbursement of the fee revenues, and SBOE reimbursement for its cost in doing so.

Further Evaluation as a Potential New Revenue Stream

A local carbon tax is not recommended for further evaluation because:

- A local carbon tax of $10 per ton of CO_2 emissions translates to a tax of 9.8 cents per gallon of gasoline and 11.2 cents per gallon of diesel fuel. It would generate about 10 times the amount of revenue as a local one-cent gas tax, or about $17-18 million annually. Imposition of such a tax would undoubtedly result in the "leakage problem" indicated on page 13 if the local carbon tax was only implemented in San Francisco.
- Regional implementation of a local carbon tax of 9.8 cents per gallon of gasoline and 11.2 cents per gallon of diesel fuel cents is likely not politically viable for the same reasons that MTC faces in obtaining 2/3s voter approval in all nine Bay Area counties for a regional gas tax of 5 to 10 cents per gallon.
- It would require legislative approvals that are highly unlikely in the current State economic and political milieu.

[11] Source: "Fuel and Energy Source Codes and Emission Coefficients," Voluntary Reporting of Greenhouse Gases Program, US DOE, Energy Information Administration. http://www.eia.doe.gov/oiaf/1605/coefficients.html.

4. VEHICLE LICENSE FEE (VLF)

The vehicle license fee (VLF), also called the "car tax" or the motor vehicle in-lieu tax, is a tax on the ownership of a registered vehicle in place of taxing vehicles as personal property. The VLF is applied based on a vehicle's current value as estimated by a depreciation schedule set in State law. The VLF is paid annually upon vehicle registration.

The current 0.65% VLF rate[12] provides general revenues to cities that are protected by Proposition 1A of 2004, which requires the Legislature to provide a replacement source of revenue to cities and counties if it reduces the rate below 0.65%. Counties are allocated 75% of revenues collected from this rate for the provision of health and welfare programs. Of the remaining amount, the Department of Motor Vehicles and other state agencies take administrative charges and cities receive their allocations from what is left.

Estimated Revenue Potential

- The 2007 SFMTA Report estimated that a return to the historical 2.0% VLF rate would generate $60 million annually for San Francisco.

Ease of Implementation

- Increasing the VLF rate with revenues dedicated to public transit would require (1) State enabling legislation, (2) Board of Supervisors action to place a VLF measure on the ballot, and (3) approval by 2/3s of San Francisco voters.
- In 2005, Assemblyman Leno sponsored AB 799, a bill to authorize the Board of Supervisors (by a 2/3s vote) to submit a ballot measure to impose a VLF on vehicles owned by residents of San Francisco if approved by a majority of those voting. The bill specified that (a) the VLF rate for residents of San Francisco would be equal to the difference between the historical 2% State tax rate and the 0.65% rate currently paid to the State by vehicle owners

---

[12] From 1948 through 2004, the VLF tax rate was 2%. In 1998, Governor Wilson signed a bill "offsetting" the tax by 25% to 1.5% effective January 1, 1999 with additional cuts possible in 1999 and 2000. In 2005, the Legislature repealed the offsets, reduced the VLF tax rate to 0.65%, and backfilled with additional property tax revenues.

In May 2004, Governor Schwarzenegger proposed a VLF for property tax swap as a part of a State-local budget agreement. The Legislature included its version of the swap in the 2004 budget package. Under the swap, over 90% of city VLF revenue was exchanged for property tax. As such this "property tax in lieu of VLF" is properly categorized as property tax – not a VLF.

Sources: California City Finance, *City Vehicle License Fee Revenues* (February 1, 2010).
California City Finance, *VLF Facts* (May 2006).

and (b) revenues could be used for general purposes. SB 799 was passed by the California Legislature, but vetoed by Governor Schwarzenegger.

Further Evaluation as a Potential New Revenue Stream

A vehicle license fee is not recommended for further evaluation because:

- It would require legislative approvals that are highly unlikely in the current State economic and political milieu.
- It has a history of being a budget balancing revenue source between State and local governments in California.

5. VEHICLE REGISTRATION FEE (VRF)

In October 2009, Governor Schwarzenegger signed into law Senate Bill 83, which authorizes a countywide transportation planning agency, upon a majority vote of the agency's board, to impose an annual fee of up to $10 on motor vehicles registered within the county for programs and projects for certain purposes. Seven Bay Area county congestion management agencies (CMAs) had local VRF measures on the November 2010 ballot. Five of them received the necessary voter approval, as indicated below.

County	Meas-ure	Annual VRF	Est. Rev. (millions)	Proposed Use of Proceeds	Voter Approval
Alameda	F	$10	$11	Road maintenance (60%), congestion relief (25%), technology improvements (10%), pedestrian (5%)	62.6%
Contra Costa	O	$10	$8	Road maintenance, traffic flow, pedestrian/driver safety, public transportation efficiency	46.2%
Marin	B	$10	$2	Traffic congestion, road maintenance, traffic safety, air pollution	62.8%
San Francisco	AA	$10	$5	Local street repairs and reconstruction, pedestrian safety improvements, and transit reliability improvements	59.6%
San Mateo	M	$10	$7	Local return (50%), Caltrain / SamTrans (50%)	54.8%
Santa Clara	B	$10	$14	Road maintenance, traffic flow, congestion and pollution mitigation	51.7%
Sonoma	W	$10	$5	Safe Routes to School (12%), bus systems (60%), road maintenance (23%)	42.3%

Estimated Revenue Potential

- Based on the recent ballot materials for San Francisco's Proposition AA (for street repair, pedestrian safety and transit reliability), approximately 475,000 to 500,000 motor vehicles are registered in San Francisco. A $10 annual fee, thus, would generate approximately $5 million annually.

Ease of Implementation

- SB 83 requires local vehicle registration fees to be approved by a simple majority of voters. Proposition AA was supported by nearly 60% of San Francisco voters. Given San Francisco voter approval of Proposition AA, the $10 VRF authorized by SB 83 is no longer available to SFMTA as an additional revenue source dedicated to funding public transit.
- SB 83 also specifies that VRF revenues can only be used to pay for programs and projects that bear a relationship or benefit to the owners of motor vehicles paying the fee and that are consistent with a regional transportation plan.

Further Evaluation as a Potential New Revenue Stream

A vehicle registration fee is not recommended for further evaluation because:

- It would generate a relatively small amount of revenue (estimated to be $5 million annually).
- The California Legislature would need to amend SB 83 to increase the annual fee limit from $10 to a higher amount.

6. VEHICLE IMPACT MITIGATION FEE (VIMF)

A vehicle impact mitigation fee is a fee on each vehicle registered in a jurisdiction to help pay for programs and projects that serve motorists and mitigate the negative impacts caused by vehicular traffic in that jurisdiction. In essence, a vehicle impact mitigation fee is like a vehicle registration fee (discussed in Section 5) but with a higher annual revenue potential. This type of fee would differ from development impact mitigation fees that are charged by jurisdictions throughout in California. [13]

Estimated Revenue Potential

- Based on 475,000 to 500,000 registered vehicles in San Francisco, a VIMF in the range of $50 to $150 per year per vehicle would generate approximately $24 to $75 million annually.

Ease of Implementation

- Imposition of a vehicle impact mitigation fee not limited to new development or major expansion may require counsel to opine as to (a) whether such a fee would be governed by the California Mitigation Fee Act, (b) the need for special authorizing legislation and/or (c) applicability of Proposition 218.
- If a vehicle impact mitigation fee is subject to the California Mitigation Fee Act, adoption would require (1) the Board of Supervisors to authorize a nexus study, (b) SFMTA to conduct such a nexus study, (3) the Board of Supervisors to approve the nexus study and adopt an ordinance to place a measure on the ballot and (4) 2/3s voter approval.
- If a vehicle impact mitigation fee is not subject to the California Mitigation Fee Act, adoption would likely require a similar implementation process, depending on the requirements of enabling legislation.

Further Evaluation as a Potential New Revenue Stream

We are recommending a vehicle impact mitigation fee for further evaluation, because:

- Such a fee could generate $24 to $72 million annually and could conceivably be implemented by the Board of Supervisors action without voter approval. [14]

---

[13] Mitigation fees are authorized generally by the California Mitigation Fee Act (California Government Code, ¶66000). Typically, they are monetary exactions other than taxes or special assessments charged by local governmental agencies to an applicant in connection with approval of a development project for the purpose of defraying all or a portion of the cost of public facilities related to the development project. [13] In that sense, a vehicle impact mitigation fee would (a) be limited to helping SFMTA defray the capital costs of new starts (e.g., Central Subway project), small starts (e.g., bus rapid transit projects), and other improvements related to development and redevelopment on the eastern side of San Francisco and (b) require an impact study comparable to the 2000 study of San Francisco's existing Transit Impact Development Fee (TIDF) to determine the transportation impacts of existing residential and non-residential developments. (Source: League of California Cities, *Continuing Education Seminar: A Short Overview of Development Impact Fees* (February 27, 2003).

[14] Source: Legislative Analyst's Office, *Understanding Proposition 218* (December 1996).

- The concept has previously been addressed by the Legislature. In 2005, AB 1208 (Yee) would have authorized the San Francisco Board of Supervisors to assess a surcharge on all motor vehicles registered in San Francisco to help fund repair and maintenance of local streets and public rights-of-way. The fee would have appeared as a line item on vehicle registration renewal sent out annual by DMV. AB 1208 was passed by the California Legislature, but vetoed by Governor Schwarzenegger.
- In any case, implementation of a vehicle impact mitigation fee needs to reflect the fact that San Francisco already has a Transit Impact Development Fee (TIDF) that was initially imposed on new office development in the downtown area. It has subsequently been amended to be imposed in connection with six different categories of economic activity on a citywide basis.[15]

---

[15] San Francisco enacted its TIDF ordinance in 1981 to impose a $5 fee per gross square foot of new office development in the downtown area. The TIDF was based on studies showing that the development of new office space places a burden on provision of public transit, especially in the downtown area during commute hours. After a legal challenge to the TIDF, a California Court of Appeals found that the TIDF was a valid municipal condition for approving private development of real property, and not a special tax requiring voter approval.

In 2000, the City's Planning Department, with assistance from SFMTA, commissioned a study of the TIDF to determine: (1) whether the TIDF should be expanded to include types of land uses in addition to offices; (2) whether the TIDF should be expanded geographically beyond the downtown area; (3) whether fee amounts should vary by geographic or land use categories; (4) what standards should be used for measuring the baseline performance of the Municipal Railway and (5) the developer fees that would be necessary to fund public transit to meet the additional demand resulting from new development. The TIDF study concluded that:

In 2004, SFMTA updated the Muni base service standard rates established in the TIDF study with FY 2003 data and established TIDF rates per gross square foot of development in the six categories. Since July 1, 2005, the TIDF schedule has been adjusted, without further action by the Board of Supervisors, to reflect the average annual change in the Bay Area Consumer Price Index for the prior two years, as reported by the Association of Bay Area Governments.

B. LAND-BASED TAXES AND FEES

7. OFF-STREET COMMERCIAL PARKING STALL FEE

The City and County of San Francisco currently imposes a 25% tax on the cost of parking in most paid off-street parking spaces located in San Francisco. The tax is not charged on valet parking. The existing tax generates $55 million per year, of which $22 million is allocated for transit purposes.

The City could also impose an annual levy on an estimated 57,000 free off-street commercial parking spaces. Several jurisdictions in Canada and Australia have levied such fees on off-street commercial parking.[16]

Location	Type of Parking Levy	Annual Levy (per space)	Use of Proceeds
Canada			
Montreal	2010 City budget includes a Parking Space Tax of $295 per year for CBD surface parking spaces and $74 annually for neighborhood structured parking spaces	$74	Public transit improvements
Toronto	Commercial Concentration Tax of $1.00 per square foot on commercial properties (including parking space) larger than 200,000 square feet (repealed after 3 years)	N/A	Transit and road programs
Vancouver	Parking Site Tax of $1.02 per square meter of non-residential parking facilities (replaced after 1 year with a 21% sales tax on parking transactions)	$25 - $40	Roads, bike paths, and public transport services
Australia			
Melbourne	Congestion Levy on 56,000 long-term / permanently leased parking spaces in central business district parking facilities	$845	CBD bus system
Perth	Parking License Fee for short-term facilities (lower rate) and long-term facilities (higher rate)	$152 $177	Downtown transit
Sydney	Parking Space Levy on privately-owned, non-residential, off-street parking in the central business district (higher rate) and other business districts (lower rate)	$1,965 $698	Transport facilities improvements and maintenance
Elsewhere			
Nottingham (England)	Nottingham City Council enacted a Workplace Parking Levy of about 1 pound (currently $0.67) per day on all businesses with 11 or more parking spaces (15% of businesses).[17]	$400	General fund
Singapore	Parking Spaces Act of 1975 charged $35 a month on non-residential parking spaces; in 1998, it was reduced to $0.60 a month per non-residential parking space	$504	General fund

Several US cities are contemplating various parking management strategies and pricing options that include consideration of a levy on free off-street parking. These cities include Atlanta, Bethesda, Boston, New York, Pasadena, Pittsburgh, Portland and Seattle.

---

[16] Source: Victoria Transport Policy Institute, *Parking Taxes: Evaluating Options and Impacts* (January 19, 2010)
[17] Source: My Nottingham, Council to Officially Approve First Ever Parking Levy in the U.K., http://www.nottinghamcity.gov.uk/index.aspx?articleid=2600

Estimated Revenue Potential

- In March 2010, SFMTA completed an 18-month inventory of all publicly available parking spaces in San Francisco, including: [18]
  - ~161,000 off-street parking spaces in San Francisco with ~104,000 paid spaces
  - ~38,000 off-street parking spaces on commercial parcels with ~29,400 free spaces for customer parking and another ~7,700 free spaces for other purposes (e.g., churches, community and social centers, and government offices)
- A $100 to $300 annual levy on free off-street commercial parking spaces could generate $5 to $15 million annually.
- In theory, a levy could be imposed on all off-street commercial parking spaces (free and paid), which could generate $16 to $48 million in gross revenues annually based on the SFMTA's count of 161,000 spaces. This approach would likely raise issues of double taxation due to the existing 25% tax on the cost of paid off-street parking spaces located in San Francisco.
- A recent economic impact report by the City's Chief Economist indicated that (a) the elasticity of parking revenues with respect to parking prices is between -0.9 and -1.2, meaning a 1% increase in parking prices leads to a 0.9% to 1.2% decrease in parking garage revenues and (b) a 1% increase in parking prices leads to a 0.16% decrease in car trips, a 0.03% increase in carpooling, walking, and biking and a 0.02% increase in transit use.[19]

Ease of Implementation

- Establishing a parking levy would require (a) detailed validation of the recently completed inventory of off-street commercial parking spaces, (b) analysis of existing tax revenues from commercial parking garages and lots, (c) further analysis of trip generation to commercial locations in San Francisco, and (d) Board of Supervisors action to adopt the parking levy.

Further Evaluation as a Potential New Revenue Stream

We are recommending an off-street commercial parking stall fee for further evaluation, because:

- It could generate a substantial amount of annual revenue, especially if it is levied on all 161,000 (or more) off-street commercial parking spaces.
- It would be consistent with the City's "transit first" and SF*park* goals and strategie*s*.
- If passed along to consumers, it could induce drivers to make fewer vehicular trips and/or to take public transit to some commercial locations.

[18] Source: SFMTA, *SFMTA Parking Census*, March 29, 2010.
[19] Source: Ted Egan (Chief Economist, City & County of San Francisco), *Parking Tax Increase and Tax on Valet Services: Economic Impact Report* (July 9, 2010).

8. PARCEL TAX

In California, a parcel tax is a "qualified special tax" imposed by a local unit of government if it is approved at a regularly scheduled election by at least 2/3rds of those voting on the measure. All real property in the taxing jurisdiction must be taxed; the only exception in the law is for senior citizens (taxpayers age 65 or older). Parcel tax revenues can be used to fund any type of municipal expenditure. Parcel taxes have been approved in California to support public schools, community colleges, public libraries, fire protection, community policing, park maintenance, and road improvements. Below is a summary of California parcel tax elections held in 2009 and 2010. [20] California voters approved 68% of parcel taxes on the ballot in 2009 and 45% of parcel taxes on the ballot in 2010. To our knowledge, no California jurisdiction has voted on and approved a parcel tax to fund public transit operations.

Type of Special District	2009 Elections Held	2009 Measures Passed	2010 Elections Held	2010 Measures Passed
School districts	31	21	47	16
Community colleges			2	1
Fire / police / EMT	3.9	2.9	26	15
Hospitals / health care	1	1	3	2
Libraries	2	1	5	4
Community center	0.6	0.6		
Parks / pools / golf course	2	2	2	1
Roads / other public works	1.5	0.5	1	
Water / wastewater / levees	1	1	3	1
Mosquito abatement			1	1
Mailbox replacement			1	
General purposes	1			
Total	44	30	91	41

A parcel tax could have multiple flat rates to reflect differences in property types (residential, commercial or industrial) and property sizes (number of dwelling units or acreage) and their relative impacts on public transit and traffic congestion.

[20] Source: Ballotpedia, http://www.ballotpedia.org/wiki/index.php/Parcel_tax_elections_in_California

Estimated Revenue Potential

- Below is a summary of the number of parcels in San Francisco: [21]

- 134,802 single-family parcels on the 2008 San Francisco assessment roll (68.35%)
- 35,218 multi-family parcels on the 2008 San Francisco assessment roll (17.86%)
- 1,560 commercial (office) parcels on the 2008 San Francisco assessment roll (0.79%)
- 744 commercial (hotel) parcels on the 2008 San Francisco assessment roll (0.38%)
- 16,477 commercial (other) parcels on the 2008 San Francisco assessment roll (8.36%)
- 2,395 industrial parcels on the 2008 San Francisco assessment roll (1.21%)
- 6,012 other miscellaneous parcels on the 2008 San Francisco assessment roll (3.05%)
- Total of 197,208 parcels on the 2008 San Francisco assessment roll

- A flat rate tax of $100 to $200 per parcel could generate $20 to $39 million annually.
- A multi-tier parcel tax based on the type of parcels (i.e., single family residential, multi-family residential, commercial, industrial, etc.) and the size (e.g., number of dwelling units, hotel rooms, gross square feet of office space, etc.) could generate even higher revenues (estimated to be as much as $80 million annually).

Ease of Implementation

- Under Proposition 13, passed by California voters in 1978, "qualified special taxes" require:
  - Board of Supervisors to enact an ordinance placing the "qualified special tax" on the ballot
  - Voters to approve the "qualified special tax" by a 2/3s majority and
  - The tax to be a fixed dollar amount per parcel of property (as opposed to being an *ad valorem* tax based on a property's assessed value). [22]

Further Evaluation as a Potential New Revenue Stream

We are recommending a parcel tax for further evaluation, because:

- It could generate a substantial amount of annual revenue.
- A parcel tax can have multiple flat rates to reflect differences in property types (residential, commercial or industrial) and property sizes (number of dwelling units, square footage or acreage) and their relative impacts on public transit and traffic congestion.
- Parcel taxes are becoming more commonly accepted in California.

---

[21] Source: City & County of San Francisco, Office of the Assessor-Recorder, *2008 Annual Report*.

[22] Prior to Proposition 13, California cities, counties, and special districts set their property tax levies at the level deemed necessary to pay for essential community services. Property taxes could be increased by simple majority approval of voters. The base property tax was based on a home's actual market value, so as a property's value increased, so did property tax revenues.

Passage of Proposition 13 dramatically limited local revenue growth for public education and other community services. Taxes on property are limited to 1% of a property's assessed value, which is subject to a 2% annual growth ceiling. Assessed value of properties only coincides with market value when a property changes ownership.

9. COMMUNITY FACILITIES DISTRICT (CFD)

A Community Facilities District (CFD) or Mello-Roos District (in California) is a geographic area in which a special property tax, in addition to the normal property tax, is imposed on real property within a defined geographic area. Unlike a parcel tax, the geographical area can be specially configured. A CFD does not need to consist of contiguous areas, and it could exclude certain areas. CFDs may be formed to fund public improvements and/or ongoing maintenance.

CFDs formed in connection with new development are typically established as "landowner districts," which require 2/3rds approval by registered property owners. For already developed areas such as San Francisco, CFDs are established as "registered voter districts," which require 2/3s approval by registered voters. [23] The table below summarizes the typical uses of Mello-Roos CFDs to pay for facilities and services in "registered voter districts."

Facilities	Services
CFDs may be used to finance purchase, construction, expansion, improvement, or rehabilitation of real or other tangible property with an expected useful life of 5 years or longer which the local agency is authorized by law to construct, own, operate, or to which it may contribute revenue.	• Police protection services • Jail, detention facility, and juvenile hall services • Fire protection and suppression services • Ambulance and paramedic services • Maintenance of parks, parkways, and open space • Flood and storm protection services • Environmental cleanup and remediation services • Recreation program services • Library services • Operation and maintenance of museums and cultural facilities • Maintenance services for public school sites.

Estimated Revenue Potential

- CFD revenue would depend on (a) the costs of eligible SFMTA transit facilities and services and (b) the special tax formula to be imposed on subject properties.

[23] Source: Daniel C. Bort, Orrick Herrington & Sutcliffe LLP, *an Introduction to California Mello-Roos Community Facilities Districts* (2006).

Ease of Implementation

- Requirements for establishing a community facilities district are clearly spelled out in the Community Facilities District Act The creation of a CFD and the imposition of a special tax is procedurally-intensive. Below is a general outline of the process:
  1. Adoption of local goals and policies pertaining to CFD use and financing
  2. Establishment of a citizens committee to work with local elected officials to determine a CFD Rate and Method of Apportionment (RMA) of the special tax
  3. Board of Supervisors (BOS) passage of procedural legislation (petition) to initiate creation of a community facilities district (in this case, a citywide district).
  4. SFMTA preparation of a report to be used for public hearings
  5. BOS public hearing(s) on the proposed community facilities district
  6. SFMTA publication and dissemination of a notice of the proposed CFD election
  7. CFD election requiring 2/3s registered voter approval
  8. BOS ordinance levying the CFD special tax
  9. BOS action approving the CFD financing documents.

Further Evaluation as a Potential New Revenue Stream

We are not recommending a community facilities district for further evaluation, because:

- Although a "registered voter" version of a community facilities district could provide a potential new revenue stream for public transit in built-out areas such as San Francisco, a parcel tax could accomplish the same goals without the complexity of the CFD process.

10. SPECIAL BENEFIT ASSESSMENT DISTRICT

A special assessment is a charge on properties that are deemed to receive special benefit from a public improvement. The rationale for a special assessment for transit improvements, presumably, is that property owners close to transportation (other public) improvements will realize greater benefits than those experienced by the larger community.

Special benefit assessment districts have long been authorized by California law – in fact, since 1911. In California, they have used to fund transit capital improvements; outside of California, they also have been used to fund transit operations as well. The table below provides examples of transit-related, special benefit assessment districts: [24]

Agency	Location	Amount (millions)	Use of Special Assessment Proceeds
LA MTA	Los Angeles	$130.0	MTA formed 2 SADs around 4 Red Line stations in the central business district and 1 Red Line station in the Westlake/Macarthur Park area to fund about 9% of station construction costs (expired in 2008/09).
BART	Pleasant Hill		Contra Costa County has used SADs to finance a variety of public infrastructure improvements at the BART Pleasant Hill transit-oriented development.
Tri-Met	Portland	$41	City used SAD to finance about 40% of its 4-mile streetcar line construction.
KCM	Seattle	$20 $25	City used SAD to finance about 4% of Seattle Bus Tunnel City used SAD to finance about 47% of South Lake Union streetcar capital costs.
HART	Tampa	$1.2 per year	Tampa City Council created SAD to help fund operation of the TECO Line Streetcar System (2.4 miles). The special assessment is approved annually on non owner-occupied properties; the current rate is $0.33 per $1,000 of assessed value.
WMATA	Washington	$25	WMATA used SAD to finance about 23% of the New York Avenue Metro station construction (part of the Dulles Corridor Metro Rail project).

Estimated Revenue Potential

- Special assessment districts would not generate annual revenue for general SFMTA operations and maintenance purposes. Accordingly, they become relevant as a means for SFMTA to defray the cost of a capital project(s) by, in effect, allocating the cost to those properties that will benefit from that improvement(s).
- Special assessments inure to the benefit of the Assessment District; they would not flow to SFMTA per se.

Ease of Implementation

- Formation of a special assessment district in California is governed by either the Improvement Act of 1911 or the Municipal Improvement Act of 1913. In each case, the District must include all properties that receive special benefit from a proposed improvement.

[24] Source: Government Accountability Office, *Public Transportation: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies* (July 2010)

In addition, the formation and assessment procedures are subject to the majority protest at a required public hearing.

Further Evaluation as a Potential New Revenue Stream

We are not recommending a special assessment district for further evaluation, because:

- Special benefit assessment districts historically finance public improvement projects not ongoing operations and maintenance.
- Use of special benefit assessment districts in California has been rendered more or less obsolete since passage of the more flexible Mello-Roos Community Facilities Act.

.

11. TRANSPORTATION UTILITY FEE

A transportation utility fee is based on the notion that a public transit system is similar to other municipal services, such as water and wastewater treatment, which are financed primarily from user charges. Transportation utility fees have been adopted in eight states since 1984, but subsequently abandoned by local governments or invalidated by the courts in five jurisdictions.[25]

Jurisdiction(s)	State	Calculation of Transportation Utility Fee	Status
Fort Collins	Colorado	Front footage and trip generation	Discontinued by the city
Loveland	Colorado	Flat fee per unit per acre	In use
Port Orange	Florida	Flat fee	Invalidated by the courts
Pocatello	Idaho	Trip generation	Invalidated by the courts
Billings, Bozeman, Butte-Silver Bow, Hamilton, Helena, Lewistown, Livingston,	Montana	Flat fee by type of residential dwelling unit Flat fee per gross floor area of commercial, industrial, and institutional development Trip generation rates	In use
Ashland, La Grande, Portland	Oregon	Flat fee per unit	In use
Bay City	Oregon	Determined by City council	In use
Corvallis, Medford, Milwaukie, North Plains, Oregon City, Talent, Tualatin	Oregon	Trip generation	In use
Eagle Point, Philomath,	Oregon	Flat fee per unit based on gross floor area	In use
Grants Pass, Lake Oswego, Wilsonville	Oregon	Flat fee per unit based on gross floor area and trip generation	In use
Hillsboro, Hubbard, Phoenix	Oregon	Flat fee per unit and trip generation	In use
Tigard	Oregon	Flat fee per unit per parking space	In use
Austin	Texas	Trip generation	In use
Beaumont	Texas	Flat fee	In use
Soap Lake	Washington	Flat fee	Invalidated by the courts
Oconomowoc	Wisconsin	Flat fee per unit based on gross floor area and trip generation	Abandoned by the city

[25] Source: Jason Junge and David Levinson, *Economic and Equity Effects of Transportation User Fees*, **http//www.nexus.umn.edu**

Estimated Revenue Potential

- As indicated in the above table, transportation utility fees are typically based on trip generation, gross floor area, front footage, and other factors.
- The most common basis for the transportation utility fee is an estimated number of trip attributable to each property type using the procedures found in the *Trip Generation* manual published by the Institute of Transportation Engineers (Seventh Edition, 2003).

- In theory, transportation utility fees could be "piggybacked" on bi-monthly water/wastewater bills of San Francisco accounts. Below is a summary of the number of such accounts in San Francisco: [26]
  - 110,759 single-family wastewater billing accounts in 2009 (64.28%)
  - 39,664 multi-family wastewater billing accounts in 2009 (23.02%)
  - 20,003 commercial wastewater billing accounts in 2009 (11.61%)
  - 97 industrial wastewater billing accounts in 2009 (0.06%)
  - 1,764 municipal billing accounts in 2009 (1.02%)
  - 11 suburban water billing accounts in 2009 (0.01%)
  - Total of 172,298 wastewater billing accounts in 2009
- A flat rate TU of $120 to $240 per wastewater billing account could generate $20 to $41 million annually. A multi-tier TUF could generate $25 to $71 million in annual revenues, as indicated by the hypothetical example below (which does not yet factor in trip generation rates):
  - $60 to $180 TUF on single-family accounts could generate $7 to $19 million annually.
  - $30 to $90 TUF per dwelling unity on multi-family accounts could generate an additional $5 to $14 million annually (assumes an average of 4 dwelling units per multi-family account).
  - $5 to $10 TUF per room (estimated 1.1 million rooms at 744 hotel accounts) could generate an additional $5 to $11 million annually.
  - $0.50 to $1.00 TUF per gross square foot (estimated 10 million square feet at 1,560 office accounts) could generate an additional $5 to $10 million annually.
  - $200 to $1,000 TUF on 17,000 other commercial and industrial accounts could generate an additional $3 to $17 million annually.

Ease of Implementation

- Imposition of a transportation utility fee potentially would require the adoption of special legislation and an analysis as to whether such fees would be characterized "as an incident of property ownership: and, thus, restricted by Proposition 218. [27]

---

[26] Source: San Francisco Public Utilities Commission, *Comprehensive Financial Annual Report for the Year Ended June 30, 2009.*

[27] The drafters of Proposition 218 indicated that their intent was to include most fees commonly collected on monthly bills to property owners, such as those for water delivery, garbage service, sewer service, and storm water management fees. Other analysts of Proposition 218 contend that fees that vary by level of service (for example, a fee for metered water usage) should not be considered a property-related fee, because it is based on service usage,

- Establishing a transportation utility fee would require detailed analysis of trip generation and other factors that could be used to establish such a fee. The San Francisco County Transportation Authority and the Metropolitan Transportation Commission have substantial trip generation and other related modeling capabilities.
- Implementing a transportation utility fee would require the Board of Supervisors to (a) adopt the impact study findings and recommendations and (b) enact an ordinance authorizing imposition of the transportation utility fee.

Further Evaluation as a Potential New Revenue Stream

We are recommending a transportation utility fee for further evaluation, because:

- It has the potential to generate a substantial amount of annual revenue.
- It could be designed based on trip generation, gross floor area, front footage, and other factors that correlate to trip generation and traffic congestion.
- It could offer several advantages over other potential new funding sources:
  - Using a trip generation or hybrid approach, a TUF could more closely align transportation costs (i.e., TUF revenues) with transportation usage.
  - A TUF could be charged to "users" that are typically exempt from property taxes.
  - A TUF could (a) help diversify the local tax base and (b) shift the relative financial burden from residential properties to commercial properties, reflecting the considerable traffic volume that commercial properties generate.
  - A utility fee can potentially be imposed with no or majority voter approval.

---

rather than property ownership. Source: Legislative Analyst's Office, *Understanding Proposition 218* (December 1996).

C. OTHER TAXES

12. PAYROLL "HEAD" TAX

The employee-based tax is a payroll "head" tax based on the number of employees. It could be calculated annually as part the business registration process with payments remitted either annually or more frequently (i.e., quarterly or monthly) for large employers. This type of tax would be different from the 1.0% FICA surcharge imposed by Tri-Met in Portland and the 3.3% FICA surcharge recommended by the 2008 Ravitch Commission for the New York MTA.

Estimated Revenue Potential

- There are about 80,000 registered businesses in San Francisco; about 6,000 (7.5%) of the registered businesses are required to pay the Payroll Expense Tax on annual payrolls of $250,000 or more [28] The Payroll Expense Tax generated about $346 million in FY 2009/10.
- There are an estimated 450,000 employees in San Francisco; however, numerous employees are exempt from the Payroll Expense Tax, including: [29]
  - 26,000 City and County of San Francisco employees.
  - 6,000 SFUSD employees.
  - 7,000 City College / SFSU employees
  - 6,000 State of California employees
  - 10,000 federal employees
  - 42,000 not-for-profit organization employees
  - 148,000 employees working for small business
  - 5,000 employees working in the Presidio federal enclave
- Because of the above types of exemptions, only 37% of the estimated employees in 7 of the City's 13 largest employers are subject to the Payroll Expense Tax. Accordingly, only an estimated 200,000 employees in San Francisco would be subject to the payroll "head" tax if the same Payroll Expense Tax exemptions apply.
- A payroll "head" tax could generate $2 million annually for each $10 assessed per employee.
- The stability of payroll expense tax revenues is subject to economic downturns

Ease of Implementation

- Development of a payroll "head tax" would require a detailed study of San Francisco employment by categories including, but not limited to: (a) companies paying the Payroll Expense Tax, (b) small businesses exempt from the Payroll Expense Tax, (c) all businesses

---

[28] San Francisco currently has a Payroll Expense Tax (PET) that is imposed upon every person engaging in business within the City in order to assure that commerce and the business community carry a fair share of the costs of local government; revenues are used for general governmental purposes.

The current payroll expense tax rate is 1.5%. Small businesses with San Francisco payroll expense of less than $250,000 are exempted from the tax. Beginning in 2011, the ceiling for the small business exemption (rounded to the nearest $10,000.00 increment) is being adjusted to reflect increases in the Bay Area consumer price index (CPI) for each of the preceding two tax years. Businesses in the Presidio federal enclave are also exempt from the payroll expense tax.

[29] Source: US Census Bureau, *2006-2008 American Community Survey*.

in the Presidio federal enclave exempt from the Payroll Expense Tax, (d) all governmental employers, and (e) all not-for-profit organizations.

- Implementing a payroll "head" tax would require the Board of Supervisors to (a) adopt the impact study findings and recommendations and (b) enact an ordinance authorizing imposition of the tax.

Further Evaluation as a Potential New Revenue Stream

We are not recommending a payroll "head" tax for further evaluation, because:

- A payroll "head" tax with the same exemptions as the existing Payroll Expense Tax would generate a relatively small revenue stream.
- A payroll "head" tax on larger employers with 40% to 50% of the employees in San Francisco would likely face vociferous opposition by the business community.
- The City Controller's Office is working with stakeholders, including Board of Supervisors President David Chiu, business interests and the Mayor's Office, on exploring overhauls to current tax system.[30]

[30] Source: Joshua Sabatini, "Overhaul of San Francisco business tax eyed," *The Examiner*, January 31, 2010.

13. Transportation Sales Taxes

The 2007 SFMTA Report identified an increase in the existing sales and use taxes (SUT) as a means for funding SFMTA capital and/or O&M. The tax is collected by the State Board of Equalization and remitted monthly to the local agency. Given the State budget situation and the State's history of local revenue grabs, the sales tax option has a particular benefit: it operates totally outside of the State budget process.

During the last 30 years, residents of 20 "self-help" counties – comprising 75% to 80% of California's population – have voted to raise local sales taxes for defined periods to pay for transportation improvements. Collectively, these local option transportation sales taxes generate more than $2 billion per year for the support of capital investments in new highways and transit systems as well as operation and maintenance of existing ones. With a few exceptions, they are 1/2% sales taxes that range in duration from 9 to permanent. [31]

County	Measure	Approved	FY 10 Rev. (millions)	Transit	Local Streets	High-ways	Bike/ Pedes.	Other/ Admin.
Alameda	B, B	1986, 2000	$100.0	61%	22%		5%	
Contra Costa	C, J	1988, 2004	61.0	40%	18%	26%	2%	14%
Fresno	C, C	1986, 2006	49.0	30%	35%	30%		5%
Imperial	D	1989	8.0		95%			5%
Los Angeles	A, C, R	1982, 1990, 2008	$700.0 (Measure R)	65%	15%	20%		
Madera	T	1990	15.5	2%	44%	51%		3%
Marin	A	2004	19.5	55%	37%	8%		
Orange	M, M2	1990	213.4	25%	32%	43%		
Riverside	A, A	1989, 2009	106.0	15%	54%			
Sacramento	A, A	1988, 2004	125.0	37%	64%			
San Benito	A	1988	Expired		55%			
San Bernardino	I, I	1989, 2004	47.8	12%	44%	42%		2%
San Diego	D, A	1989, 2008	120.0		33%	33%		
San Francisco	B, K	1989, 2003	74.0	74%	25%			1%
San Joaquin	K, K	1990, 2006	29.0	29%	35%	35%	1%	
San Mateo	A, A	1988, 2004	27.0	27%	49%	23%		1%
Santa Barbara	A, D	1989, 2000	33.6	2%	69%	29%		
Santa Clara	A, B, A, A	1984, 1996, 2000, 2008	139.3	100%				
Santa Cruz	J, J	1978, 2004	11.7	5%	20%	64%	5%	6%
Sonoma	M, Q	2004, 2008	36.6	15%	40%	40%	4%	1%

[31] Sources: University of California, Institute of Transportation Studies, *Local Transportation Sales Taxes: California's Experiment in Transportation Finance* (February 2005) and the Self-Help Counties Coalition web site http://selfhelpcounties.org/.

County	Measure	Approved	FY 10 Rev. (millions)	Transit	Local Streets	High-ways	Bike/ Pedes.	Other/ Admin.
Tulare	R	2006	17.0		35%	50%	14%	1%

Note: Some allocation percentages are rounded to the nearest one percent.

For SFTMA, sales tax funding for transportation could occur by way of three possible methods:

1. **Local option transportation sales tax:** a local sales tax (such as the Proposition K sales tax) of up to 1/2 cent with revenues dedicated solely to public transit system capital improvements and/or operations and maintenance (O&M) purposes.
2. **Bradley-Burns Uniform Sales and Use Tax:** an increase in the existing one-cent local sales tax by up to 1/4-cent under authority that has existed since 1956. [32]
3. **Transportation Development Act (TDA) sales tax:** a doubling of the existing 1/4-cent State sales tax now dedicated to transit operations through the Local Transportation Fund established by the Transportation Development Act (TDA) of 1971. [33]

Estimated Revenue Potential

- As a point of reference, the Proposition K sales tax, approved by nearly 75% of San Francisco voters in 2003, generated $68.2 million in FY 2009/10 net revenues. [34]
- Each 1/8-cent increase in sales tax would generate approximately $17 million in FY 2010/11.
- Sales tax revenues are economically sensitive. In the most recent downturn, sales tax revenues declined by more than 20% in many Bay Area jurisdictions.

[32] In 1956, the California Legislature enacted the Bradley-Burns Uniform Sales and Use Tax, which provides for a city/county sales tax rate of 1-1/4%. One-quarter cent of the levy currently goes to the countywide regional transportation fund, and 3/4 of a cent of the levy goes to support local government general funds. No California county has yet increased the city/county sales tax rate from 1% to 1-1/4% as permitted under the 1956 law.

[33] In 1971, then-Governor Reagan signed into law the Transportation Development Act, which authorized the board of supervisors in each county to impose sales and use (SUT) tax within the county. The act provided that the revenues collected by the SBOE in excess of 1%, but not more than 1.25%, would be returned to each county that established a Local Transportation Fund. Soon after passage, the boards of supervisors in all 58 counties imposed the TDA sales tax. Revenues are supposed to be dedicated to providing public transit service and to maintaining streets and roads in rural counties that can demonstrate they have no unmet transit needs.

[34] Source: Ms. Cynthia Fong, Chief Financial Officer, San Francisco County Transportation Authority.

Ease of Implementation

- Adoption of the local option transportation sales tax and Bradley-Burns sales tax alternatives would require (1) the Board of Supervisors to adopt an ordinance to place a local sales tax measure on the ballot, (2) 2/3s voter approval, and (3) San Francisco to contract with the State Board of Equalization (SBOE) for administration of the sales tax.
- Implementation of the TDA increase would require the California Legislature to adopt legislation. [35]

Further Evaluation as a Potential New Revenue Stream

We are recommending a transportation sales tax for further evaluation, because:

- The three options could generate $34 to $68 million in FY 2010/11 dollars (assuming a 1/4-cent to 1/2-cent increase).
- Based on the historical success of sales tax measures, this approach has the best established glide-path for adoption:
  - **Specific, local projects.** Typically, sales tax revenues are used to fund specific projects or programs near voters' homes and work places, so voters personally perceive the their benefits.
  - **Finite lives.** Typically, voters approve sales tax increases that "sunset" after a period of time (e.g., 20 to 30years, subject to reauthorization by another popular vote.
  - **Local control.** Sales tax expenditures are controlled by a local transportation authority, and cannot be grabbed by another jurisdiction, i.e., the State.
  - **Broad tax base.** Sales taxes generate significant annual revenues because they have a broad base that includes local residents and businesses, commuters, and tourists. Although sales taxes are considered regressive (i.e., they impose the biggest relative burden on low-income individuals and families), resulting public transportation improvements also tend to benefit transit dependent populations more than the general population.

---

[35] In 2005, State Senator Migden introduced SB 1020, a bill authorizing a county board of supervisors to place on the ballot the option of doubling the existing 1/4-cent sale and use tax under the Transportation Development Act with revenues dedicated to local transportation. The additional 1/4-cent sales tax would not have been subject to the 1.5% cap on local option sales tax rates, so it would not have had any impact on a county's ability to raise local sales tax for other purposes. SB 1020 had broad support from the City and County of San Francisco, the Metropolitan Transportation Commission, and the California Transit Association. However, SB 1020 was held in committee by the Senate Revenue and Taxation Committee.

In 2005, State Assemblymember Wolk introduced AB 2873, a companion bill authorizing a county board of supervisors to place on the ballot the option of doubling the existing 1/4-cent sale and use tax under TDA with revenues dedicated to local transportation. AB 2873 was passed by the Assembly Local Government and Revenue & Taxation Committees and was referred to the Senate Revenue and Taxation Committee, where it was held.

14. Hotel Tax Increase

The 2007 SFMTA Report identified a 1% increase in the existing hotel tax (also called a transient occupancy tax) to provide additional funding for San Francisco cable cars. SFMTA staff identified two options for such a hotel tax increase: (1) a 1% increase with revenues flowing to the City's general fund with a comparable amount being passed through to SFMTA or (2) a 1% increase with the incremental revenues flowing directly to SFMTA.

Typically, hotel tax revenues flow to a city's general fund or economic development fund to help fund tourism-related facilities, such as a convention center (e.g., San José and San Francisco), Allegheny County, PA and in the State of Washington.[36] In some cases, a hotel tax surcharge is levied to fund specific public transportation service. However, these generally occur in small jurisdictions (e.g., water taxi service in Woodlands, Texas) or for unique development situations (e.g., construction of a Charlotte rapid transit system station in conjunction with the Bobcats NBA arena).

Estimated Revenue Potential

- Proposition J on the November 2010 ballot called for a 2% increase in hotel tax to generate an estimated $35 million annually for three years.[37]
- Proposition K on the November 2010 ballot called for two key changes in administration of the existing hotel tax that would have generated an estimated $6 million annually:[38]
  - Base the tax for hotel rooms booked through an online service on the amount the website charges the customer, not just the net amount the hotel receives from the online service
  - Deny the "permanent resident" exemption to the hotel tax granted to low-income individuals living in residency hotels (e.g., YMCAs and YWCAs) to airline employees who frequently stay in San Francisco hotels.
- A 1% increase in the City's hotel tax (without the Proposition K changes in hotel tax administration) would generate an estimated $17 - $18 million annually.

---

[36] Source: Transportation Research Board Transit Cooperative Research Program, *TCRP Report 129: Local and Regional Funding Mechanisms for Public Transportation* (2009).

[37] Source: Ballotpedia, San Francisco Hotel Tax Increase, Measure J (November 2010), http://ballotpedia.org/wiki/index.php/San_Francisco_Hotel_Tax_Increase,_Measure_J_(November_2010)

[38] Source: Ballotpedia, San Francisco Hotel Tax Clarifications and Definitions, Measure K (November 2010), http://www.ballotpedia.org/wiki/index.php/San_Francisco_Hotel_Tax_Clarifications_and_Definitions,_Measure_K_(November_2010)

Ease of Implementation

- Either hotel tax increase option could be placed on the local ballot by the Board of Supervisors or through the initiative process.
- Option 1 would require approval by a simple majority of San Francisco residents voting on the measure, while Option 2 would require 2/3s voter approval, because it would be a "qualified special tax" with revenues flowing to a special district (i.e., SFMTA).
- Voters rejected the Proposition J hotel tax increase by 55.5% to 45.5%.
- Voters also rejected the Proposition K hotel tax changes by 61.5% to 38.5%.

Next Steps

NEXT STEPS: DETAILED EVALUATION OF SELECTED POTENTIAL NEW REVENUE SOURCES

Following a review of this report with SFMTA staff and Board, the Ross Financial team is prepared to conduct a more detailed assessment of potential new revenue sources selected by SFMTA in Phase II. That more detailed assessment could also include other potential revenue generating opportunities not surveyed in this Report, such as the value capture, asset-based and tax increment approaches noted in the Introduction. Whatever alternatives are preferred for additional analysis, we envision that our Phase II detailed evaluation would provide the following information:

1. More detailed analysis of the revenue potential
2. Assessment based on additional, more refined criteria such as:

   a. **Nexus to Transit Expenditures**

   - **Transit capital improvements:** extent to which tax or fee revenues are dedicated to transit capital improvement expenditures
   - **Transit operations & maintenance:** extent to which tax or fee revenues are dedicated to transit operations and maintenance expenditures

   b. **Transportation Benefits**

   - **Vehicle miles traveled:** extent of reduction in average number of vehicle miles traveled per year in San Francisco
   - **Vehicle trips:** extent of reduction in average number of vehicle trips per year in San Francisco
   - **Travel delays:** extent of reduction in average travel delay time per year in San Francisco

   c. **Environmental Benefits**

   - **Fuel consumption:** extent of change in annual consumption of gasoline and diesel fuel within San Francisco (residents) and to/from San Francisco (commuters)
   - **Emissions / air pollution:** extent of reduction of carbon / carbon dioxide in San Francisco per year

   d. **Tax Incidence**

   - **Single-family property owners:** owners of San Francisco properties zoned RH-1(D), RH-1, RH-1(S), RH-2, and RH-3
   - **Multi-family property owners:** owners of San Francisco properties zoned RM-1, RM-2, RM-3, RM-4, RC-3, RC-4, RED, and RTO
   - **Renters:** renters living in San Francisco properties
   - **Small businesses:** generally less than $7 – $9 million / year for retailers ($27 million / year for department stores are warehouse clubs)
   - **Other businesses:** other retailers larger than small businesses
   - **Commuters:** drivers who reside outside the City & County of San Francisco

e. **Equity Impacts**

- **Vertical equity:** extent to which a tax or fee impacts individuals or entities of different income levels proportionately
- **Horizontal equity:** extent to which a tax or fee impacts groups of people with similar incomes in a similar manner
- **Geographical equity:** extent to which people in the area that pays a tax or fee benefit from the resultant revenues
- **Fiscal equity:** extent to which different areas have the same capacity to generate tax or fee revenues
- **Benefit equity:** extent to which benefits received by an individual are proportional to the amount of taxes or fees paid
- **Social equity:** extent to which the costs incurred by an individual due to a tax or fee are proportional to the benefits received from the tax (or fee) and the costs imposed on society by the individual

Bibliography

Bibliography

Transportation Funding and Financing

Arizona Department of Transportation, *Developing a Stabilized Public Transportation Revenue Source* (January 2007).

Brookings Institute, *Options for Metropolitan Transit Funding* (September 15, 2008).

California League of Cities, *California Local Government Finance Almanac*.

California League of Cities*, California Municipal Revenue Sources Handbook* (2008).

Council of State Governments, *Transportation and Infrastructure Finance* (2009).

Government Accountability Office, *Highway and Transit Investments: Flexible Funding Supports State and Local Transportation Priorities and Multimodal Planning* (July 2007)

Jason Junge and David Levinson, *Economic and Equity Effects of Transportation User Fees,* http//www.nexus.umn.edu.

Kevin A. Hassett, *An Energy Tax Policy for the Twenty-First Century* (August 9, 2007).

Legislative Analyst's Office, *Analysis of the FY 2007-08 Budget Bill, Funding for Transportation Programs*.

Legislative Analyst's Office, *California's Tax System: A Primer* (April 2007).

Legislative Analyst's Office, *Understanding Proposition 218* (December 1996).

Metropolitan Transportation Commission, *Transportation 2035: Regional Transportation Plan*.

RAND Corporation, *Financing Transportation Infrastructure in California* (March 2009).

Ronald Kirby, *Financing Public Transportation* (1984).

San Jose State University, Mineta Transportation Institute, *Transportation Financing Opportunities for the State of California* (October 2006).

Transportation Research Board, Transit Cooperative Research Program, *TCRP Report 40: Strategies to Attract Auto Users to Public Transportation* (1998).

Transportation Research Board, Transit Cooperative Research Program, *TCRP Report 89: Financing Capital Investment: A Primer for the Transit Practitioner* (2003).

Transportation Research Board Transit Cooperative Research Program, *TCRP Report 129: Local and Regional Funding Mechanisms for Public Transportation* (2009).

Trust for Public Land, *Matrix of Local Finance Tools*.

University of Texas, University Transportation Center for Mobility, *A Guide to Transportation Funding Options*, http://utcm.tamu.edu/tfo/.

Victoria Transport Policy Institute, *TDM Encyclopedia: Options for Funding Transportation Programs* (February 16, 2010).

California Transit Agency Funding

Alameda-Contra Cost Transit District, *Adopted Biennial Budget for FY 2009/10 and FY 2010/11*, September 9, 2009.

Los Angeles County Metropolitan Transportation Authority, *Proposed Budget Fiscal Year 2011* (May 18, 2010).

National Transit Database, reports on the 15 transit agencies identified in Appendix A.

Orange County Transportation Authority, *Approved Budget FY 2010-11* (June 14, 2010).

Orange County Transportation Authority, *Transportation Funding Resources Guide* (2006).

San Francisco Bay Area Rapid Transit District, *2009 Annual Report*.

San Diego Metropolitan Transit System, *Adopted FY 2011 Budget* (June 10, 2010)

San Francisco Bay Area Rapid Transit District, *Short-Range Transit Plan: FY08 - FY17* (September 2007).

San Francisco County Transportation Authority, 2009*Proposition K Prioritization Programs* (July 2009).

San Francisco County Transportation Authority, *Proposition AA Vehicle Registration Fee* (July 20, 2010).

San Francisco County Transportation Authority, *Proposition K Strategic Plan* (July 2009).

San Francisco Municipal Transportation Agency, *FTA New Starts Financial Plan* (September 10, 2010).

San Francisco Municipal Transportation Agency, *Revenue Opportunities* (March 27, 2007).

San Francisco Municipal Transportation Agency, *Revenue Opportunities* (March 27, 2007).

San Francisco Municipal Transportation Agency, *Short-Range Transit Plan FY 2009-2027* (October 2, 2007).

San Francisco Planning & Urban Research Association, *Muni's Billion Dollar Problem* (January 18, 2006).

San Francisco Planning & Urban Research Association, *Rebuilding Our Transportation Infrastructure* (May 19, 2009).

Other Transit Agency Funding

Atlanta Regional Commission, *Bridging the Gap, 2010: Investigating Solution for Transportation Funding Alternatives in the Atlanta Region* (July 2010).

Chicago Transit Authority, *Meeting the Challenges of a Struggling Economy*.

City of Minneapolis, *Minneapolis Streetcar Feasibility Study Final R*eport (December 2007).

City of Tampa, *Tampa's TECO Streetcar Line System*.

Julie B. Kirschbaum, *Paying for Transit Operations: Challenges and Solutions for the Chicago Transit Authority* (June 2004).

King County, *Metro Financial Update* (September 15, 2010)

Massachusetts Bay Transportation Authority Advisory Board, *Born Broke* (April 2009).

Metropolitan Atlanta Rapid Transit Authority, *2009 Budget Summary Review*.

New Jersey Transit, *2009 Annual Report*.

Ravitch Commission of Metropolitan Transportation Authority Financing, *Report to Governor David Paterson* (December 2, 2008).

Tri-County Metropolitan Transportation District of Oregon, *Approve Budget Summary 2010-2011*.

Tri-County Metropolitan Transportation District of Oregon, *Transit Investment Plan 2011*.

Washington Area Metropolitan Transportation Authority, *FY 2011 Budget Discussion* (March 25, 2010).

Carbon Taxes

Bulletin of the Atomic Scientists, *Carbon Tax vs, Cap-and-Trade* (September 5, 2008).

Carbon Tax Center, *Pricing Carbon Efficiently and Equitably*.

Carolyn Brouillard and Sarah Van Pelt, *A Community Takes Charge: Boulder's Carbon Tax* (February 2007).

Elizabeth McGowan, *Maryland County Carbon Tax Law Could Set Example for Rest of County* (May 25, 2010).

National Renewable Energy Laboratory, *Carbon Taxes, A Review of Experience and Policy Design Considerations* (December 2009).

Scientific American, *First Carbon Tariff Will Tax CO2 at the Border* (January 1, 2010).

The Economist, *Some More Thoughts on a Carbon Tax* (June 18, 2010).

U.S. Department of Energy (DOE), Energy Information Administration (EIA), *Fuel and Energy Source Codes and Emission Coefficients: Voluntary Reporting of Greenhouse Gases Program,* http://www.eia.doe.gov/oiaf/1605/coefficients.html.

Victoria Transport Policy Institute, *Carbon Taxes: Tax What You Burn, Not What You Earn* (June 4, 2010).

Employee Taxes

Joshua Sabatini, "Overhaul of San Francisco business tax eyed," *The Examiner*, January 31, 2010.

US Census Bureau, *2006-2008 American Community Survey*

Gas Taxes and Vehicle Environmental Mitigation Fees

American Council for an Energy Efficient Economy, *Steering with Prices: Fuel and Vehicle Taxation and Market Incentives for Higher Fuel Economy*, 2003.

California Public Utilities Code Sections 99500 - 99510, *Local Motor Vehicle Fuel Taxation*.

California Revenue and Taxation Code Part 4, Division 2, *Local Motor Vehicle Fuel Taxation*.

Caltrans, *2008 California Motor Vehicle Stock, Travel and Fuel Forecast, Appendix C*.

Greg Mankiw, *The Pigou Club Manifesto: Raise the Gas Tax* (October 20, 2006)

Illinois Revenue Department web site: http://www.revenue.state.il.us/Motorfuel/MFT/environmental.htm

Metropolitan Transportation Commission, *Governor Signs Complex Gas Tax Swap* (March 22, 2010)

Victoria Transport Policy Institute, *TDM Encyclopedia: Fuel Taxes* (March 17, 2010).

Impact Fees

San Francisco Administrative Code, *Chapter 38: Transit Impact Development Fee*.

Land Value Taxes

David Beatty et al, *Redevelopment in California* (2004).

University of Minnesota, The Center for Transportation Studies, *Value Capture for Transportation Finance: A Report to the Minnesota Legislature* (June 2009).

Victoria Transport Policy Institute, *Financing Transit Systems Through Value Capture: An Annotated Bibliography* (December 30, 2009).

Parcel Taxes

Ballotpedia, *California Parcel Tax Elections, 2009,*
http://ballotpedia.org/wiki/index.php/Category:California_parcel_tax_elections,_2009.

Ballotpedia, *California Parcel Tax Elections, 2010,*
http://ballotpedia.org/wiki/index.php/Category:California_parcel_tax_elections,_20010.

City and County of San Francisco, Office of the Assessor-Recorder, *2008 Annual Report*.

Parking Levies

Chicago Metropolitan Agency for Planning, *Parking Management Strategy Report* (March 2009).

Donald C. Shoup, *The Ideal Source of Local Public Revenue* (October 23, 2003).

Dr. Marcus Enoch and Dr. Stephen Ison, *Levying Charges on Private Parking: Lessons from Existing Practice* (November 1, 2006).

Harry Clarke, Parking Economics (April 3, 2009).

Leonard Bier et al, *Parking Matters: Designing, Operating, and Financing Structured Parking in Smart Growth Communities* (July 2006).

Matthew Roth, *San Francisco First City in the Nation to Count Its Par*king Spaces (March 29, 2010).

Ronald Kirby, *managing Congestions Through Innovative Pricing and Financing* (2007).

San Francisco Municipal Transportation Authority, SFMTA Parking Census (March 29, 2010.

San Francisco Planning & Urban Research Association, *Parking and Livability in Downtown San Francisco* (October 20, 2004).

Ted Egan (Chief Economist, City & County of San Francisco), *Parking Tax Increase and Tax on Valet Services: Economic Impact Report* (July 9, 2010).

Transportation Research Board Transit Cooperative Research Program, *TCRP Report 95: Parking Prices and Fees* (2005).

University of Washington, Washington State Transportation Center, *Local Option Commercial Parking Tax Analysis* (January 1992).

Victoria Department of Treasury and Finance, *Review of the Effectiveness of the Congestion Levy* (May 2010).

Victoria Transport Policy Institute, *Parking Taxes: Evaluating Options and Impacts* (January 19, 2010).

Victoria Transport Policy Institute, *TDM Encyclopedia: Parking Prices* (February 25, 2010).

Sales Taxes

Self-Help Counties Coalition web site http://selfhelpcounties.org/.

State and Local Government Review, *Life in the Fast Lane: Transportation Finance and the Local Option Sales Tax* (2006).

University of California, Institute of Transportation Studies, *Local Transportation Sales Taxes: California's Experiment in Transportation Finance* (February 2005).

Special Assessment Districts / Community Facilities District

California Public Utilities Code Sections 100600 - 100619, Chapter 9, *Benefit Assessment Districts*.

Center for Transit-Oriented Development, *Capturing the Value of Transit* (April 5, 2007).

City and County of San Francisco, Office of the Controller, *Sensitivity Analysis of New Development Impact Fees on Project Economics* (August 12, 2008).

Daniel C. Bort, Orrick Herrington & Sutcliffe LLP, *An Introduction to California Mello-Roos Community Facilities Districts* (2006).

FCS Group, *City and County of San Francisco City-Wide Development Fee Impact Study* (March 2008).

Government Accountability Office, *Public Transportation: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies* (July 2010)

Transportation Utility Fees

Angelo Planning Group, *Transportation Utility Fee Program Discounts and Exemptions* (February 22, 2008).

Ballotpedia, *California Proposition 26, Supermajority Vote to Pass New Taxes and Fees* (2010).

Government Finance Review, *Transportation Utility Fees* (June 1994).

Jason Junge and David Levinson, *Economic and Equity Effects of Transportation User Fees,* http//www.nexus.umn.edu.

Montana Department of Transportation, *What Is a Transportation Utility Fee?* (2009).

San Francisco Public Utilities Commission, *Comprehensive Financial Annual Report for the Year Ended June 30, 2009*.

Transportation Research Board, *Transportation Utility Fee: Oregon Experience* (2004).

University of Wisconsin, Robert M. La Follette School of Public Affairs, *Transportation Utility Fees: Possibilities for the city of Milwaukee* (Spring 2007).

Vehicle License and Registration Fees

Ballotpedia, *Vehicle Registration Fees in California,* http://ballotpedia.org/wiki/index.php/Vehicle_registration_fees_in_California.

Ballotpedia, Alameda County Vehicle Registration Fee, Measure F
http://ballotpedia.org/wiki/index.php/Alameda_County_Vehicle_Registration_Fee,_Measure_F_(November_2010).
Ballotpedia, Contra Costa County Vehicle Registration Fee, Measure O
http://ballotpedia.org/wiki/index.php/Contra_Costa_County_Vehicle_Registration_Fee,_Measure_O_(November_2010).
Ballotpedia, Marin County Vehicle Registration Fee, Measure B
http://ballotpedia.org/wiki/index.php/Marin_County_Vehicle_Registration_Fee,_Measure_B_(November_2010).

Ballotpedia, San Mateo County Vehicle Registration Fee, Measure M
http://ballotpedia.org/wiki/index.php/San_Mateo_County_Vehicle_Registration_Fee,_Measure_M_(November_2010).
Ballotpedia, Santa Clara County Vehicle Registration Fee, Measure B
http://ballotpedia.org/wiki/index.php/Santa_Clara_County_Vehicle_Registration_Fee,_Measure_B_(November_2010).
Ballotpedia, Sonoma County Vehicle Registration Fee, Measure W
http://ballotpedia.org/wiki/index.php/Sonoma_County_Vehicle_Registration_Fee,_Measure_W_(November_2010).

California City Finance, *City Vehicle License Fee Revenues* (February 1, 2010).

California City Finance, *VLF Facts* (May 2006).

Rachel Hiatt, *An Alternative to Auto LOS for Transportation Impact Analysis* (August 1, 2005).

San Francisco Municipal Code, *Chapter 38: Transit Impact Development Fee*.

CBRE CONSULTING

CBRE
CB RICHARD ELLIS

101 California Street
44th Floor
San Francisco, CA 94111

T 415 772 0123
F 415 772 0459

RE Lic. 00409987
www.cbre.com/consulting

DRAFT MEMORANDUM

To: Vincent McCarley, Backstrom McCarley Berry & Co., LLC

From: Mary A. Smitheram-Sheldon, CBRE Consulting

Re: SFMTA Parking Garage Preliminary Valuation Estimates

Date: December 29, 2010

Introduction

CBRE Consulting was requested by Backstrom McCarley Berry & Co., LLC to prepare preliminary valuation estimates for 20 parking garages owned by the SFMTA. It is important to note that the estimates presented in this memorandum do not constitute an appraisal of each garage; rather these are broad preliminary valuation estimates to be used solely for SFMTA's internal purposes. In particular, this current assignment had a very limited time frame for completion and significant data items critical for the analysis were not made available. CBRE Consulting expects that the estimates presented herein will be refined significantly as more detailed analysis is performed as part of a larger, more comprehensive, consulting assignment.

Data Used

Basic garage data was obtained from the SFMTA website. Net operating incomes (NOI) covering different time periods were made available for the garages, as well as trend information for certain properties. CBRE Consulting researched sales of private-sector garages, which provided two reference points – a range of "per space" values and a range of capitalization rates to apply to net operating income. CBRE Consulting also prepared a range of estimated cost to construct new garages (reflecting a variety of garage types), based on data in our files and a third-party cost estimation vender (Marshall Valuation Service). These data points are summarized on the following page. Due to the wide range in income generated by the SFMTA garages, capitalization of the net operating income was deemed the most reliable approach. The results were checked against the sales and the cost new estimates.

Limitations to the Analysis

The following summarizes the limitations associated with this preliminary analysis, specifically with respect to the amount of data provided:

- The source of the data is primarily information on the garages from the SFMTA website (e.g., number of parking spaces, daily maximum rates, and monthly rates), plus net operating income obtained via Backstrom McCarley Berry & Co., LLC. The properties were not individually inspected, nor were SFMTA personnel contacts provided to discuss the income information.
- Critical underlying net operating income data from the SFMTA was in some cases incomplete. The latest net operating incomes were not available for certain garages.
- The trend in net operating income (including forecasts) for certain garages fluctuates significantly (+/- >10%). Details regarding revenues and operating expenses were not provided, so it is difficult to pinpoint the reasons for the income swings. A more precise estimate would be available if the "stories" behind the income data were available.
- The physical conditions of the garages and information regarding the type and amount of needed capital expenditures were not made available. If a particular property has significant capital expenditure requirements, this factor could dramatically reduce its valuation estimate.
- A few of the garages appear to be performing poorly. It would be helpful to have a discussion regarding these properties to better understand their performances and the potential for improvement in operations.
- Ideally, a detailed review of the operating expenses for SFMTA-operated garages versus those under third-party contracts would be helpful in identifying contracts that might impair immediate or long-term performance that would suggest adjustment to valuation parameters. For garages with retail leases, information regarding those leases would assist in providing more precise value indications.
- The analysis did not consider the potential for additional commercial uses, sale of air rights, or reuse/redevelopment of the garage sites.

Additional factors that potentially influence the preliminary valuations include the following items:

- Current and anticipated future supply of and demand for garage parking in San Francisco, and how this relationship varies by location.
- Comparison of the garages' rate structures with market rates for each location.
- Background economic and capital markets conditions, including the availability of debt financing and equity.
- The City of San Francisco's policies discourage private automobile transit – while this limits potential future parking supply, it could also make travelling to San Francisco via private automobile so expensive as to impair potential future garage revenue increases. (An example is the City's study of a potential future congestion pricing plan.)

Data Points and Estimates

Sales of Other San Francisco Garages: **$16,000 to $55,000 per space**
Range of Annual NOI/Space: $820 to $3,500
Capitalization Rate Range (from Sales): 5.1% to 7.3%

Construction Cost New Range: **$27,000 to $55,000 per space**

SFMTA Parking Garage
2010-2011 Budget Net Operating Income: **($167) $390 to $4,140 per space**

Application of Cap Rate to Revenues @ 6%: **$2,800 to $69,000 per space**

The following table presents the individual garages, their NOIs per space and preliminary valuation per space. Exhibit 1, which is attached, is a matrix presenting garage detail, such as number of spaces, estimated/budgeted incomes, etc. A few of the garages offer unique, high profile/high traffic locations that would be extremely difficult to replicate. These garages have very high net incomes per space and generate "above range" indications. Note that potential future refinements to the following estimates include more current and/or accurate income information, adjustments for capital expenditure items, and potential refinements to the capitalization rate used based on prospective individual property performance.

Category/Garage	NOI per Space (Rd.)	Preliminary Valuation Per Space (Rd.)
Properties above Range		
North Beach	$4,140	$69,000
Golden Gateway	$3,800	$63,300
Fifth and Mission	$3,500	$58,300
Properties within Range		
Sutter-Stockton	$3,340	$55,650
Portsmouth Square	$2,800	$46,700
Vallejo	$2,330	$38,800
Moscone Center	$2,190	$36,400
Civic Center	$1,980	$33,000
Union Square	$1,930	$32,200
St. Mary's Square	$1,720	$28,600
Ellis-O'Farrell	$1,660	$27,600
Japan Center	$1,530	$25,500
Performing Arts	$1,490	$24,800
Properties below Range		
7th & Harrison	$864	$14,400
Lombard Street	$607	$10,100
SF General Hospital	$575	$9,600

Category/Garage	NOI per Space (Rd.)	Preliminary Valuation Per Space (Rd.)
Polk-Bush	$390	$6,500
Mission-Otis	$167	$2,800
16th and Hoff	Operates at a loss (2008-09)	$0

Sources: SFMTA, CoStar, CBRE VAS, Marshall Valuation Service, and CBRE Consulting.

The contents of this memorandum are subject to the attached Assumptions and General Limiting Conditions.

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

CBRE Consulting has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although CBRE Consulting believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of CBRE Consulting.

M E M O R A N D U M

DATE: February 15, 2011

TO: SFMTA Board of Directors
Tom Nolan, Chairman
Jerry Lee, Vice Chairman
Cameron Beach, Director
Leona Bridges, Director
Cheryl Brinkman, Director
Malcolm Heinicke, Director
Bruce Oka, Director

THROUGH: Nathaniel P. Ford Sr.
Executive Director/CEO

FROM: Sonali Bose
CFO/Director of Finance and Information Technology

SUBJECT: Background Material for February 15, 2011 Workshop – Item 3: SFMTA Debt Issuance

---

The purpose of this memorandum is to provide the SFMTA Board of Directors with a Debt Issuance Plan. This Debt Issuance Plan is the culmination of various separate, but related, tasks the Agency has been undertaking to prepare to enter the capital markets to accelerate critical upcoming capital projects. The Debt Issuance Plan provides a general context for borrowing, specific borrowing assumptions for the Agency (e.g., timing and loan amount), a description of the necessary steps it will need to take to access the capital markets and an estimate of the annual debt service costs associated with the Agency's contemplated bond issuance.

Municipalities borrow on a tax-exempt basis to help deliver their capital programs in a timely manner and to align the payment of long-lived infrastructure assets over the useful life of the asset. Additionally, most major transportation projects are funded through a combination of federal, state and local resources. Debt financing will enhance the Agency's ability to provide a local match for key projects and therefore improve its competitiveness for limited federal and state grants. As one of the nation's largest transit agencies with an aggressive near-term capital program, the Agency is contemplating borrowing to help accelerate major capital projects. The Agency's most recent 5-year CIP anticipates undertaking several billion of capital projects over the next five years

including several projects critical to either expanding or replacing San Francisco's transit, bicycle, parking and pedestrian infrastructure.

The Financial Plan assumes $150 million of borrowings over the next five years to help finance capital program. The first issuance will be undertaken by the San Francisco Municipal Railway Improvement Corporation (SFMRIC) in mid-to-late 2011 and will be based on an annual $3 million debt service payment from SFMTA revenues or approximately $30-$35 million of total debt based on current market rates. The remaining $115-120 million in debt will be issued by the SFMTA directly spread across 2 separate issues over the next five years with the first issuance potentially occurring in late 2011 or early 2012. Based on current market conditions we estimate that the Agency's anticipated $150 million of debt issuance will result in ongoing annual combined debt service of $12 million through 2043.

As part of the Agency's effort to enter the capital markets it must establish itself with the market participants (rating agencies and bond investors) as a credit worthy entity. A critical first step in that process is adopting debt issuance and management related policies in line with commonly used financial best practices and market expectations. Approval of a formal Debt Policy is the first step.

The a major task will be the presentation of a balanced budget for a 5-7 year period which will require the SFMTA to address operating deficits.

M E M O R A N D U M

DATE: February 15, 2011

TO: SFMTA Board of Directors
Tom Nolan, Chairman
Jerry Lee, Vice Chairman
Cameron Beach, Director
Leona Bridges, Director
Cheryl Brinkman, Director
Malcolm Heinicke, Director
Bruce Oka, Director

THROUGH: Nathaniel P. Ford Sr.
Executive Director/CEO

FROM: Sonali Bose
CFO/Director of Finance and Information Technology

SUBJECT: Background Material for February 15, 2011 Workshop – Item 3: Debt Policy

---

The attached policy is intended as an initial draft for the board to consider prior to adoption.

Purpose of a Debt Policy
The purpose of a Debt Policy is to organize and formalize debt issuance-related policies and procedures for the SFMTA in a single guiding document. The Debt Policy establishes, in a public manner for the financial markets, the Agency's desire to adhere to sound debt management practices and to ensure its debt policies are consistent with the relevant local, state and federal laws.

Formulation of the Debt Policy
As part of the process in drafting a debt policy appropriate for the SFMTA, the following steps were taken:

- Reviewed debt policy guidelines provided by the Government Finance Officers Association (GFOA) and the California Debt and Investment Advisory Commission (CDIAC). These materials helped to define the appropriate items to cover in the Agency's policy.

- Reviewed adopted debt policies currently in use by other major Bay Area transportation (AC Transit, SFCTA, SFO, Port of SF…) and general issuers (City and County of San Francisco, City of Oakland…).

- Incorporated the SFMTA's specific characteristics including the following:

  - SFMTA will be a new issuer
  - SFMTA's fund balance levels
  - SFMTA's financial structure

A debt policy is a living document that will be updated overtime to reflect changes in the Agency's financial situation as well as the capital markets.

Major Sections of the Debt Policy

Provided below is an overview of the Debt Policy's major sections and the policy goals they seek to accomplish:

I. INTRODUCTION

This section states the purpose of the policy.

II. DEBT POLICY OBJECTIVES

This section outlines SFMTA's objectives in any debt financing and the purpose for debt financing in the first place; mainly accelerating capital projects.

III. SCOPE OF POLICY

This section defines what the Debt Policy pertains to (issuance of new debt obligation and management of existing obligations) and how the SFMTA will implement and maintain the policy.

IV. LEGAL AUTHORITY

This section defines how the SFMTA has the authority to issue debt and also the entities through which the SFMTA may issue debt which include the San Francisco Municipal Railway Improvement Corporation (SFMRIC) in addition to the SFMTA itself.

V. CAPITAL PLANNING AND BUDGETING

The section describes how the SFMTA's capital planning and budgeting process, including key documents such as the Capital Budget and 5-Year CIP, inform its debt policy and debt management. The SFMTA's goal will be to issue and manage debt in a manner that is consistent with its approved capital plans and budget. This section also spells out the SFMTA's policy goal of maintaining adequate reserves (Contingency Reserve and Operational Debt Reserve) both to help make debt payments if necessary and to strengthen its credit ratings.

VI. PURPOSES OF BONDS

This section defines what debt obligations will be issued for; mainly to fund capital projects (New Money) or to refinance prior obligations that initially financed capital projects (Refunding).

VII. TYPES OF DEBT

This section defines the different types of debt (long-term, short-term, variable rate, lease financing) the SFMTA can contemplate issuing as well as specific instruments that are associated with these types of debt.

VIII. TERMS AND CONDITIONS OF BONDS

This section defines the baseline terms and conditions that must be a part of SFMTA debt issuance as well SFMTA -wide debt management metrics that must monitored prior to every issuance. Parameters covered in this section include term, structure, call provisions, debt service reserve funds and others.

IX. THIRD PARTY CREDIT ENHANCEMENT

This section defines when credit enhancement may be secured to enhance the efficiency of specific SFMTA debt issuances. This section also describes the type of credit enhancement facilities the Agency is likely to use in connection with its debt issuances.

X. REFINANCING OUTSTANDING DEBT

This section describes the conditions under which the SFMTA will seek to refinance its outstanding debt and provides guidelines for how to undertake a refinancing.

XI. METHODS OF ISSUANCE

This section describes the SFMTA's available methods to issue debt (competitive sale, negotiated sale and private placement) and elaborates on the conditions under which each method is appropriate.

XII. MARKET RELATIONSHIPS

This section defines the SFMTA's goals in maintaining relationships with key financial market participants; primarily the Rating Agencies and the Agency's potential bond investors. This section also describes the SFMTA's Federal Tax Law ongoing disclosure requirements whose prompt filing will also help to facilitate transparency and good relationships with market participants.

XIII. PROFESSIONALS

This section describes the team of financing professionals the SFMTA will need to assemble when undertaking a debt financing and provides guidelines for selecting these professionals.

Attachment: Draft Debt Policy

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY DEBT POLICY

I. INTRODUCTION

The purpose of this Debt Policy (the "Policy") is to organize and formalize debt issuance-related policies and procedures for the San Francisco Municipal Transportation Agency ("SFMTA" or the "Agency"). This Debt Policy confirms the commitment of the Agency's Board of Directors ("Board"), management and staff to adhere to sound debt management practices. The debt policies and procedures of the Agency are subject to and limited by the applicable provisions of State and Federal law.

II. DEBT POLICY OBJECTIVES

The primary objectives of the Agency's debt and financing related activities are to:

- Establish sound financial policies and strength
- Accelerate and finance capital projects in accordance with the priorities identified within the Charter of the City and County of San Francisco, under the direction of the Board of Directors
- Achieve the lowest cost of borrowing while identifying mitigation factors for any additional risk to the Agency
- Preserve future financial flexibility
- Maintain strong credit ratings and good investor relations

III. SCOPE OF POLICY

This Debt Policy shall govern the issuance and management of all bonds, notes, certificates lease financings and other obligations for borrowed money together with the credit, liquidity and other instruments and agreements secured or executed in connection with such obligations.

While adherence to this Policy is required in applicable circumstances, the Agency recognizes that changes in the capital markets, Agency programs and other unforeseen circumstances may from time to time create situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained.

This Policy will be reviewed annually and updated as needed, with any proposed changes to be considered and approved by the Board. Responsibility for administration of this Policy shall lie with the Board. Responsibility for implementation of the Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Agency's debt and finance program, shall lie with the Chief Financial Officer. This Debt Policy requires that the Board specifically authorize each debt financing and its related documents or agreements.

IV. LEGAL AUTHORITY

Under the Charter of the City and County of San Francisco, the Agency has, to the maximum extent permitted by law, with the concurrence of the Board of Supervisors, and notwithstanding the requirements and limitations of Sections 9.107, 9.108, and 9.109, the authority without further voter approval to incur debt for Agency purposes and to issue or cause to be issued bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation or any other debt instruments. Upon recommendation from the Board of Directors, the Board of Supervisors may authorize the Agency to incur on behalf of the City such debt or other obligations provided: 1) the Controller first certifies that sufficient unencumbered balances are expected to be available in the proper fund to meet all payments under such obligations as they become due; and 2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the Agency.

The Agency may also from time-to-time issue debt through other entities under its legal authority, such as the San Francisco Municipal Railway Improvement Corporation (SFMRIC), as appropriate. In these instances the proposed debt issuance will be evaluated and approved as if it were a direct issuance of the Agency if the proposed obligation will be repaid from Agency revenues and all provisions of this policy will apply to those obligations (this debt will also be included in calculations of "Agency-wide" debt).

All bonds of the Agency shall be issued in accordance with applicable provisions of the Charter and federal and state laws, rules and regulations, including the Internal Revenue Code of 1986 (the "Code"), the Securities Act of 1934 and the Securities Exchange Act of 1933, in each case as supplemented and amended, and regulations promulgated pursuant to such laws.

V. CAPITAL PLANNING AND BUDGETING

The Agency's borrowing decisions in terms of timing, amount, structure and alternative products will be made in the context of the Agency's 5-year Capital Investment Plan (CIP) and the Agency's Capital Budget. As the Agency's CIP is developed in the context of the Agency's Strategic Plan and Long Range Transit Plan, borrowing decisions will be made in the appropriate strategic context to ensure that any proposed borrowing is directly supporting the goals and objectives of the Agency. While the 5-year CIP represents the unconstrained (i.e., unconstrained by available revenues) plan for the Agency, the Capital Budget expenditures are constrained based upon the amount of realistic revenues resulting in balanced budgets for all fiscal years to which they apply. Developing financing strategies in this context ensures that any proposed borrowing both supports the long-term goals of the Agency and it's affordability from a budgetary perspective.

A. 5-Year Capital Investment Plan

The Agency's 5-Year CIP focuses on integrating capital planning, capital budgeting, capital financing and capital project prioritization concepts into a long-range strategic plan designed to improve the capital assets of the SFMTA. The major objectives of this program are to strategically invest the Agency's dollars into capital assets, thereby improving their physical condition, extending their useful life and increasing their value as well as acquiring new assets. Investing in the capital program will strengthen the SFMTA's ability to achieve many of its strategic goals, such as delivering better quality services and increasing the financial capacity of the Agency.

The CIP provides information on the development of a capital project, types of construction programs, capital funding, capital prioritization process, capital implementation process and the capital asset management/inventory process. The CIP also provides a listing of capital projects that represent the most critical capital investment needs of the SFMTA.

B. Capital Budgets

While the CIP reflects a five-year projection of capital needs, the capital budgets are developed based upon a variety of budget assumptions. The planned expenditure assumptions are based upon the phase of the project, project needs and impacts on the potential workload of the project management staff. The anticipated revenues are based upon assumptions driven by the various Federal, State, and Local agencies that provide funding for Agency capital projects.

The Agency's budget is presented to the Citizen's Advisory Council and the public for review and comment. No later than May 1st of each even-numbered year, the proposed budget must be submitted for each of the next two fiscal years to the Mayor and the Board of Supervisors. As long as SFMTA stays within the revenue formulas outlined in the Charter, and does not ask for additional General Fund resources or support, the Mayor must forward the budget to the Board of Supervisors as submitted. The Board of Supervisors may allow the SFMTA's budget to take effect without any action on its part or it may reject the budget in its entirety by a seven/eleventh's vote. Additionally, by May 1st of each odd-numbered year, the SFMTA can submit any budget amendment for the second year of the two-year budget to the Mayor and the Board of Supervisors.

The Board's adoption of the 5-year CIP or Capital Budget does not, in and of itself, constitute authorization for debt issuance for any capital projects. Each financing shall be presented to the Board for separate approval.

C. Maintenance of Adequate Reserves

The Agency shall maintain unencumbered reserve amounts sufficient in the determination of the Agency to cover unexpected revenue losses, operating and maintenance costs, extraordinary payments, and other contingencies, and to provide liquidity in connection with the Agency's outstanding debt. The Agency recognizes that maintenance of adequate reserves is not only a commonly accepted financial best practice for transit agencies, but also a critical component of the Agency's credit relations with market participants designed to minimize the Agency's overall cost of borrowing. The Agency's ability to fully fund its reserves will be dependent on future financial forecasts and its ability to cover all operations and debt service obligations, before adequately funding the required reserves.

Specifically the Agency will maintain the following reserves

1) *"Rainy Day"/Contingency Reserve.* The Agency shall maintain an unencumbered Contingency ("Rainy Day") Reserve to cover unexpected revenue losses, operating and maintenance costs, extraordinary payments, and other contingencies consistent with the Agency's Official Reserve Policy, approved in 2007. The Agency's Reserve Policy establishes a goal of setting aside a Rainy Day reserve at 10% of operating costs and stated that the Agency intended to gradually ramp up to its desired reserve target over a ten year period.

2) *Operational Debt Reserve*. Once the Agency begins undertaking a long-term borrowing program, the Agency shall maintain a separate unencumbered Operational Debt Reserve with a goal of setting aside 3 years of the Agency's annual debt service. The Operational Debt Reserve is available, but not limited, to debt service payments and may be used for other purposes. With the establishment of the Operational Debt Reserve and the funding target, the Board acknowledges the increased importance of liquid resources as a critical component to the Agency's fiscal health and credit strength as it enters into long-term obligations with bond holders and other lenders.

VI. PURPOSES OF BONDS

The Agency may issue debt obligations for the purposes of financing and refinancing the costs of capital projects undertaken by the Agency. Long-term debt financing shall not be used to fund operating costs.

A debt transaction will be categorized as a new money financing or a refunding financing according to the following criteria.

A. New Money Financing

New money issues are financings that generate new proceeds for capital projects. Eligible capital projects include the acquisition, construction or major rehabilitation of capital assets. Projects that provide new revenue sources to the Agency upon their completion shall be considered a top candidate for debt financing. New money debt proceeds may not be used for operating expenses. If the Agency is issuing debt to reimburse itself for a recent capital project, within Federal limits, or issuing debt used to repay an interim financing vehicle such as commercial paper that itself funded a new capital project, that debt will also be considered new money in line with Federal regulations.

B. Refunding Financing

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Refunding issuances can be used to achieve present-value savings on debt service or to restructure the payment schedule, type of debt instrument used or covenants of existing debt. The Agency must analyze the refunding issue on a present-value basis to identify economic effects before approval. Policies on the administration of refunding financings are detailed further in Section X. Refinancing Outstanding Debt.

VII. TYPES OF DEBT

When the Agency determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued. The Agency shall consider risks associated with each type of debt and the potential impact on the Agency's finances. It is the preference of the Agency to issue long-term fixed rate debt whenever appropriate; however this policy also recognizes that market conditions and specific project requirements may require the evaluation and eventual implementation of alternative structures.

Consistent with its credit rating objectives, the Agency shall periodically review its debt affordability levels and capacity for the undertaking of new financing obligations to fund its capital improvement plans. Debt affordability measures shall be based upon the credit objectives of the Agency, criteria identified by rating agencies for high-grade credits, comparison of industry peers and other internal factors of the Agency. A summary review of selected major transit agencies and their rating profile may provide a peer comparative basis. While there are many unique characteristics to each of these entities, the nature of their applicable pledged revenues, lien structures, other covenants and policies; this will provide a limited snapshot to aid in evaluating relative debt capacity and high grade rating considerations and tradeoffs. Upon the issuance of the Agency's first debt obligation subsequent to the approval of this Policy and periodically thereafter, the Agency will revise the Policy to contain specific debt affordability targets (i.e. debt service coverage ratio and other financial covenants) specific to the actual obligation issued or being considered and that reflect current municipal market conditions.

A. Long-Term Debt

The Agency may issue long-term debt (i.e., debt with a final maturity of at least 5 years) when projects cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or maintenance.

1) *Current Coupon Bonds* are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features should be adjusted to accommodate the market conditions at the time of sale, including changing dollar amounts for principal maturities, offering discount and premium bond pricing, modifying call provisions, utilizing bond insurance and determining how to fund the debt service reserve fund.

2) *Zero Coupon and Capital Appreciation Bonds* pay interest only when principal matures. Interest continues to accrue on the unpaid interest, therefore representing a more expensive funding option. In the case of zero-coupon bonds, principal and interest, at one coupon rate, is repaid at maturity. In the case of Capital Appreciation Bonds, the value of the bond accretes until maturity

3) *Transportation Infrastructure Finance Innovation Act (TIFIA) Loan* is a loan provided by the United States Department of Transportation for transportation projects of regional

importance. The Agency may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option available.

4) *Grant Anticipation Revenue Vehicle Financing (GARVEE)* are debt obligations secured by certain federal grants such as Federal Transit Administration (FTA) section 5307 funds or a Full Funding Grant Agreement under the Section 5309 New Starts Program. The Agency may consider the issuance of GARVEEs as an alternative to traditional revenue bonds.

B. Short-Term Debt

The Agency may issue debt with shorter-term maturities, including commercial paper and grant and bond anticipation notes, to provide interim financing for capital projects in anticipation of the issuance of long-term debt and/or the receipt of Grant moneys. The Agency may use commercial paper, a line of credit or a similar short-term product as a source of temporary funding of operational cash flow deficits where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates. Short-term borrowings to support operations may not be refinanced with long-term debt and must be repaid with eligible revenue sources, as available. Short-term obligations shall consist of obligations with a final maturity of less than 5 years.

1) *Commercial Paper Notes* may be issued as an alternative to fixed rate debt, particularly when the timing of funding requirements is uncertain. The Agency may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed. The retirement of commercial paper is most commonly a result of the issuance of long-term bonds. Periodic issuances or retirements of commercial paper notes with a Board approved commercial paper program do not require further Board action.

2) *Grant Anticipation Notes (GANs)* are short-term notes that are repaid with the proceeds of State or Federal grants of any type.

3) *Bond Anticipation Notes (BANs)* are short-term notes that are repaid with the proceeds of a long-term bond issuance. The Agency may wish to consider BANs as an interim financing strategy to accelerate projects ahead of an upcoming bond transaction. Short-term, fixed interest rates will be considered under a proposed BAN strategy, as will the interest rate risk associated with the proposed long-term take-out of the BANs.

4) *Direct Line of Credit* shall be considered as an alternative to other short-term borrowing options. They are often structured as a short-term agreement with a financial institution providing the line of credit. The line of credit shall be structured to limit concerns as to the Internal Revenue Code.

C. Variable Rate Debt

To maintain a predictable debt service burden, the Agency will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is floating or variable rate debt. It may be appropriate to issue variable rate debt to diversify the Agency debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. Variable rate debt typically has a lower cost of borrowing than fixed rate financing, but carries interest rate risk as the interest rates on the bonds are periodically reset on a daily or weekly basis. The amount of long-term variable rate debt will not exceed 20% of all outstanding debt.

The Agency may issue bonds that may be converted between two or more interest rate modes without the necessity of a refunding. Such interest rate modes may include, without limitation, daily interest rates, weekly interest rates, other periodically variable interest rates, fixed rates for a term and fixed rates to maturity.

The cost and availability of third-party liquidity to support variable rate debt will be considered when evaluating the use of variable rate obligations. The current cost and ongoing liquidity renewal risk will be described and presented to the Board when variable rate debt is presented as an alternative.

D. Lease Financing Structures

Lease obligations are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where lease financing will be more beneficial, either economically or from a policy perspective. A tax-exempt lease may be used to finance any property that the Agency has the statutory authorization to lease. As a general matter, only land and depreciable property may be leased. Generally, the leased property is a capital asset to be used by the Agency in its own operations, however a tax-exempt lease financing can be used to provide a facility for the use of another borrower or when the Federal Government has partial ownership of the project through the inclusion of Federal grants in the funding plan.

Payments made by the Agency pursuant to a long-term lease may be made from any lawfully available funds of the Agency. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding $10 million.

This Policy covers the following Lease Financing structures commonly used by transit agencies:

1) CERTIFICATES OF PARTICIPATION (COPS): In the event the Agency wishes to utilize a tax-exempt lease in connection with the sale of municipal securities, certificates of participation, representing undivided interests in the rental payments under the tax-exempt lease, may be sold to the public.

2) LEASE REVENUE BONDS: Bonds issued by another public entity (such as a SMFRIC or the Parking Authority) or on behalf of the Agency to provide a means to finance capital

improvements to be leased to the Agency. The bonds are payable solely from lease payments paid by the Agency to the original entity.

3) CAPITAL/EQUIPMENT LEASE: The Agency may also use long-term lease obligations to directly finance or refinance specific capital equipment.

E. Financial Derivative Products.

The Agency will consider the use of derivative products only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where it will reduce the total project cost. At this time the Agency does not anticipate using any derivative products in any future financing plans and therefore has not addressed them in this policy. If at some point in the future the Agency wishes to reconsider the use of derivative products in connection with future debt issuances in order to create a qualified hedge it will first draft and submit a separate policy to address the use of derivative products to the Board. Derivative products will only be utilized with prior approval from the Board.

VIII. TERMS AND CONDITIONS OF BONDS

The Agency shall establish all terms and conditions relating to the issuance of bonds, and will control, manage and invest all bond proceeds. Unless otherwise authorized by the Agency, the following shall serve as bond requirements:

A. General Guidelines for all Agency Borrowings

Unless changed by Board action, it is the policy of the Agency to meet the targets listed below. These limits, in combination with the Agency's updated Capital Budget and 5-Year CIP which are in turn guided by the Agency's Strategic Plan and Long Range Transit Plan. By following the guidelines established in these planning documents the Agency will ensure that it continues to provide essential operational services while planning for replacement, rehabilitation, repair and expansion of its capital investments.

1) The Agency will seek to maintain aggregate outstanding debt at a level not-to-exceed 5% of the Agency's annual total operating expenses. The actual terms and conditions specific to each debt issue will be controlled by the applicable documents.
2) So long as the above conditions are met, the Agency will seek to minimize the level of debt outstanding consistent with the most recently Capital Budget and 5-Year CIP.

B. Term

All capital improvements financed through the issuance of debt will be financed for a period not to exceed the 120% of the average useful life of the assets being financed.

C. Lien Levels

Senior and Junior Liens for the Agency's borrowing program may be utilized in a manner that will maximize the most critical constraint, typically either cost or capacity, thus allowing for the most beneficial use of the revenue source(s) securing the borrowing.

D. Debt Service Structure

The Agency's debt service structure will be developed and maintained to achieve strong credit ratings while addressing the overall revenue constraints and capacity of the Agency. The Agency will first consider a level debt service structure, in aggregate for all outstanding bond issuances, when evaluating proposed borrowing strategies. In the case of assets with shorter useful lives and the expectation of near-term revenues, the Agency may wish to accelerate the repayment of a specific borrowing to reduce interest costs. The Agency shall maintain the flexibility to consider deferred repayment structures if appropriate.

E. Call Provisions

The Agency shall seek to include the optional call rights on bonds with a final maturity of more than 10 years, consistent with optimal pricing of such bonds. Call premiums, if any, should not be in excess of then prevailing market standards and to the extent consistent with the most advantageous borrowing cost for the Agency.

F. Debt Service Reserve Funds

The Agency may be required to issue bonds that are secured, in part, by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more series of bonds, and may be funded by proceeds of bonds, other available moneys of the Agency, and/or by suitable surety policies, letters or lines of credit or other similar instruments. Surety policies, letters or lines of credit or other similar instruments may be substituted for amounts on deposit in a debt service reserve fund if such amounts are needed for capital projects or other purposes.

IX. THIRD PARTY CREDIT ENHANCEMENT

The Agency may secure credit enhancement for its debt from third-party credit providers to the extent such credit enhancement is available upon reasonable, competitive and cost-effective terms. Such credit enhancement may include municipal bond insurance ("Bond Insurance"), letters of credit and lines of credit (collectively and individually, "Credit Facilities"), as well as other similar instruments. Credit enhancement providers shall be selected on a competitive or negotiated basis dependent upon procurement requirements and market constraints.

A. Bond Insurance

All or any portion of an issue of bonds may be secured by Bond Insurance provided by municipal bond insurers ("Bond Insurers") if it is economically advantageous to do so, or if it is otherwise deemed necessary or desirable in connection with a particular issue of Bonds. The relative cost or benefit of Bond Insurance may be determined by comparing the amount of the Bond Insurance premium to the present value of the estimated interest savings to be derived as a result of the insurance.

B. Credit Facilities

The issuance of certain types of bonds requires a letter of credit or line of credit (a "Credit Facility") from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. The types of bonds where a Credit Facility may be necessary include commercial paper and variable rate bonds.

The criteria for selection of a Credit Facility provider shall include the following:

1) Long-term ratings from at least two nationally recognized credit rating agencies ("Rating Agencies") that have, at the time of selection, no rating below A2/A/A.
2) Short-term ratings from at least two Rating Agencies of at least P-1/A-1 or equivalent;
3) Experience providing such facilities to state and local government issuers;
4) Fees, including initial and ongoing costs of the Credit Facility; draw, transfer and related fees; counsel fees; termination fees and any trading differential; and
5) Willingness to agree to the terms and conditions proposed or required by the Agency.

X. REFINANCING OUTSTANDING DEBT

The Agency shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Agency will consider the following issues when analyzing possible refunding opportunities:

A. Debt Service Savings

The Agency has established a minimum net present value (NPV) debt service savings threshold goal of three (3) percent of the refunded bond principal amount unless there are other compelling reasons for defeasance. The present value savings will be net of all costs related to the refinancing.

B. Restructuring

The Agency may restructure outstanding debt to meet unanticipated revenue expectations, mitigate irregular debt service payments, release reserve funds or amend restrictive bond covenants.

C. Term of Refunding Issues

The Agency may refund bonds within the term of the originally issued debt. However, the Agency may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible and potential credit impacts are adequately evaluated. The Agency may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

D. Escrow Structuring

The Agency shall utilize the least costly securities available in structuring refunding escrows. The Agency will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate from a third party agent, who is not a broker-dealer, is required stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Series Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Agency from its own account.

E. Arbitrage

The Agency shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

XI. METHODS OF ISSUANCE

The Agency will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

A. Competitive Sale

In a competitive sale, the Agency's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. Conditions under which a competitive sale would be preferred are as follows:

1) Bond prices are stable and/or demand is strong
2) Market timing and interest rate sensitivity are not critical to the pricing
3) Participation from DBE firms is best efforts and not required for winning bid
4) There are no complex explanations required during marketing regarding issuer's projects, media coverage, political structure, political support, funding or credit quality
5) The bond type and structure are conventional
6) Manageable transaction size

7) Proposed security and repayment source have strong credit rating
8) Proposed security and repayment source are well known to investors

B. Negotiated Sale

The Agency recognizes that some securities are best sold through negotiation. Conditions under which a negotiated sale would be preferred are as follows:

1) Bond prices are volatile
2) Demand is weak or supply of competing bonds is high
3) Market timing is important, such as for refundings
4) Proposed security and repayment source have lower or weakening credit rating
5) Proposed security and repayment source are not well known to investors
6) Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality
7) The bond type and/or structural features are non-standard, such as for a forward delivery bond sale, issuance of variable rate bonds, or where there is the use of derivative products
8) Early structuring and market participation by underwriters are desired
9) The par amount for the transaction is significantly larger than normal
10) Demand for the bonds by retail investors is expected to be high
11) Participation from DBE firms is desired

C. Private Placement

The Agency may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the Agency relative to other methods of debt issuance or the terms and conditions of a private placement are more favorable to the Agency than those terms achieved through a publicly sold transaction.

XII. MARKET RELATIONSHIPS

A. Rating Agencies and Investors

The Chief Financial Officer shall be responsible for maintaining the Agency's relationships with Moody's Investors Service, Standard & Poor's and Fitch Ratings, as appropriate. The Agency may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Chief Financial Officer shall: (1) meet with credit analysts on a periodic basis to provide program updates, and (2) prior to each competitive or negotiated sale, offer conference calls with rating agency analysts in connection with the planned sale.

B. Agency Communication

The Chief Financial Officer shall include in the annual report to the Board feedback from rating agencies and/or investors regarding the Agency's financial strengths and weaknesses and recommendations for addressing any weaknesses.

C. Continuing Disclosure

The Agency shall remain in compliance with Rule [15c2-12] by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 240 days of the close of the fiscal year. While there is reliance on timely audit and preparation of the Agency's annual report, the Chief Financial Officer will ensure the Agency's timely filing with the Electronic Municipal Market Access ("EMMA").

D. Rebate Reporting

The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates related to any bond issues, with rebate paid every five years. Therefore, the Chief Financial Officer shall ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation, and timely rebates, if necessary.

XIII. PROFESSIONALS

The Agency shall select its primary professional(s) by competitive process through a Request for Proposals (RFP).

A. Selection of Financing Team Members

The Chief Financial Officer will oversee the selection process for the Agency's financial advisors, underwriters (under a negotiated sale) and other financing team members. The City Attorney's Office will oversee the selection process for legal professionals for the Agency's financings, including the selection of Bond Counsel and Disclosure Counsel.

B. Financial Advisor

The Agency shall utilize a financial advisor(s) to assist in its debt issuance and debt administration processes. Selection of the Agency's financial advisor(s) shall be based on, but not limited to, the following criteria:

1) Experience in providing consulting services to complex issuers
2) Knowledge and experience in structuring and analyzing complex issues
3) Experience and reputation of assigned personnel
4) Fees and expenses

Financial advisory services provided to the Agency shall include, but shall not be limited to the following:

1) Evaluation of risks and opportunities associated with debt issuance
2) Monitoring marketing opportunities
3) Evaluation of proposals submitted to the Agency by investment banking firms
4) Structuring and pricing
5) Preparation of request for proposals for other financial services such as trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.
6) Advice, assistance and preparation for presentations with rating agencies and investors

The Agency also expects that its financial advisor will provide the Agency with objective advice and analysis, maintain the confidentiality of Agency financial plans, and be free from any conflicts of interest.

C. Bond Counsel

The Agency shall retain one or more bond counsel firms to provide ongoing legal advisory services with respect to the Agency's outstanding and proposed bonds and related agreements, including without limitation credit facilities, investment agreements and other similar matters.

Agency debt will include a written opinion by legal counsel affirming that the Agency is authorized to issue the proposed debt, that the Agency has met all constitution and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues.

D. Disclosure Counsel

The Agency may retain a disclosure counsel firm to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the Agency's outstanding and proposed bonds. The issuance of bonds by the Agency shall require a written opinion from the Agency's disclosure counsel, as appropriate, regarding (i) the exemption of the bonds from registration requirements under Federal securities laws, and (ii) their absence of knowledge, after due review, regarding any material misstatement in or omission from the official statement or other public offering document with respect to the bonds.

E. Dissemination Agent

The Agency may retain a dissemination agent to provide continuing disclosure agreements on behalf of the Agency for the purpose of filing annual reports and event notices with Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and State information depositories. The dissemination agent service shall be provided by either the disclosure counsel or the trustee.

F. Trustee and Fiscal Agent

The Agency may engage bond trustees and/or fiscal agents and paying agents, as necessary or appropriate, in connection with the issuance of its bonds. Bond trustees and fiscal agents shall have a minimum capitalization of $100 million.

G. Underwriter(s)

1. SENIOR MANAGER SELECTION

The Agency shall have the right to select a senior manager for a proposed negotiated sale. The criteria shall include but not be limited to the following:

a) The firm's ability and experience in managing complex transactions

b) The firm's willingness to provide support with capital and demonstration of such support

c) The firm's ability to sell bonds

d) Quality and experience of personnel assigned to the Agency's engagement

e) Financing plan presented

f) Such other appropriate criteria as determined by the Agency

2. CO-MANAGER SELECTION

Co-managers will be selected on the same basis as the senior manager. Co-managers appointed to specific transactions will be appointed based on of the size of the bond issuance and the necessity to ensure maximum distribution of the Agency's bonds.

3. SELLING GROUP

The Agency may establish a selling group to increase the distribution of bonds in negotiated transactions. To the extent that selling groups are used, the Chief Financial Officer at his or her discretion, may make appointments to a selling group.

4. UNDERWRITER'S DISCOUNT AND SYNDICATE POLICY

The Agency will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Agency will determine the allocation of fees with respect to the underwriter's discount and management fee, if any. The determination will be based, in part, upon participation in the structuring phase of the transaction.

5. EVALUATION OF FINANCING TEAM PERFORMANCE

The Agency will evaluate each bond sale after its completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

M E M O R A N D U M

DATE: February 15, 2011

TO: SFMTA Board of Directors
Tom Nolan, Chairman
Jerry Lee, Vice Chairman
Cameron Beach, Director
Leona Bridges, Director
Cheryl Brinkman, Director
Malcolm Heinicke, Director
Bruce Oka, Director

THROUGH: Nathaniel P. Ford Sr.
Executive Director/CEO

FROM: Sonali Bose
CFO/Director of Finance and Information Technology

SUBJECT: Background Material for February 15, 2011 Workshop – Item 3: Potential SFMRIC Bond Issue

---

Background

The San Francisco Municipal Railway Improvement Corporation ("SFMRIC") was formed as a public benefit corporation in 1968 to finance capital improvements when Muni was part of the Public Utilities Commission. Currently, SFMRIC is governed by a board of directors composed of 7 members as follows:

Rudy Nothenberg, President
James L. Ludwig, Vice President
Thomas C. Escher, Treasurer
Nancy Lenvin, Secretary
Wilbert Din, Board Member
James McCray, Jr., Board Member
Robert P. Morrow III, Board Member

SFMRIC was originally authorized to issue $54.2 million of bonds and last issued bonds in 1975. Revenues from Muni provided payment for the debt service on the bonds. These bonds financed projects including Woods Motor Coach Center, Muni Metro Rail

Center and various equipment improvements. Currently, all of SFMRIC's bonds have been paid and SFMRIC has no outstanding debt.

Potential SMFRIC Bond Issue

SFMRIC Board members have been presented with two potential lease financing structures.

- Lease revenue bonds issued by SFRMIC in the past were secured by lease payments from SFMTA for the project being constructed. For example, the Woods Motorcoach Facility was used to secure the lease revenue bonds used to finance its construction.

- As an alternative, SFMTA can transfer an asset to SFMRIC to be used in a lease to secure an issuance of lease revenue bonds.

The current financing strategy for the lease revenue bonds is to issue 30-year fixed rate debt with debt service not to exceed $3 million per year. In the current market, we believe that SFMTA can receive approximately $38.4 million in bond proceeds from such a structure. Our estimate is based on current interest rates and a ratings assumption in the high "A" category among other assumptions. Changes in market conditions would affect the level of proceeds received by the SFMTA.

Approval Process

The following steps need to occur prior to the issuance of bonds by SFMRIC.

- SFMTA Board to formally ask SFMRIC to issue bonds.

- SFMRIC board approval of the financing and the required legal documentation

- SFMTA board approval of the financing and required legal documentation including Controller review

- SF Board of Supervisors approval of the financing and required legal documentation

- Mayoral approval of the financing and required legal documentation

The above steps do not include the process that the SFMTA will have to take associated with the issuance of both SFMRIC and SFMTA bonds.