DATE: September 5, 2025

TO: Governing Board
San Francisco Bay Restoration Authority

FROM: Karen McDowell, Program Manager

SUBJECT: Administrative Cost Scenarios for Measure AA

Background

The Measure AA parcel tax was passed in 2016 and will sunset after 20 years. The first year collecting the parcel tax was FY 17/18 and the last year will be FY 36/37. Measure AA authorizes the Authority to use 5% of the tax proceeds to cover administrative costs. In addition, the Authority can use interest earned on investment of the tax proceeds to cover administrative costs. The 5% of tax proceeds and all of the interest income make up the available funds in the Authority's administrative budget. The interest income started as low as $50,550 in the first year of Measure AA and has risen to $2.6 million in FY 22/23 and $4.4 million in FY 23/24. The Independent Citizens Oversight Committee's (Oversight Committee), established pursuant to Measure AA, requested that the Authority project its administrative costs for the remaining duration of Measure AA to ensure the Authority will have adequate funds to administer Authority-funded projects through project completion (which will take longer than the twenty year life of Measure AA) and to ensure the Authority is making the best use of interest income.

In addition to looking at covering standard administrative costs for the 20 years of Measure AA (including a 5 year wind down after year 20), staff are looking into covering costs for potentially extending Measure AA or adopting another means of raising revenue to replace Measure AA, both of which -would require bringing another ballot initiative to the voters. The cost of placing a measure on the ballot in the nine Bay Area counties in the future could be greater than $5 million and would need to come out of the administrative budget. In 2016, state legislation was passed that provided for a one-time reduction in the ballot costs for the Authority, which brought the ballot costs for Measure AA down from approximately $5 million to $1.1 million. The Authority cannot count on legislation to again reduce ballot costs, so staff recommends that the Authority begin now to reserve any surplus funds in its administrative budget to pay the costs to place a measure on the ballot in the nine Bay Area counties in the mid-2030s. If in the future the Authority decides against placing a measure on the ballot, the Authority could decide at that time how to allocate the funds reserved for ballot costs.

Authority Project Portfolio and Project Management

For purposes of this discussion, a "project" is the set of tasks for which the Authority has authorized a grant, which might be solely planning or another subset or phase of the work necessary to achieve a grantee's ultimate goal. Authority-funded projects tend to take two to five years to complete. During the first five years of Measure AA, the number of projects that Authority staff were managing increased each year. Each year, the amount of Measure AA funds received from the parcel tax less the actual amount spent on projects has increased, which increased the amount of money that the Authority had available to invest in interest-bearing accounts prior to paying invoices to grantees. After year five, the number of projects leveled out as the number of projects coming on was equivalent to the number of projects that were closing out. The amount of encumbered Measure AA funds available to invest in interest-bearing accounts leveled out. The number of projects is expected to remain relatively stable through year 20, when the last round of projects with Measure AA money is approved. After year 20, there will be a decline in the number of projects that staff need to administer, and a steady decline in the amount of encumbered Measure AA funds available to invest in interest-bearing accounts as the projects wind down over a five-year period.

Administrative Cost Projection Parameters

The administrative cost projections are shown in Attachment 1 – Administrative Cost Projections for Measure AA. The projections start with the budget numbers approved for FY 25/26. The changes over the 20 years, in the different categories, are explained below:

- Administrative Percentage
    - The Authority is allowed to use 5% of the Measure AA tax proceeds to cover administrative costs.
    - This estimated annual administrative funding was calculated to increase by 0.1% each year based on a conservative estimate of the number of parcels likely to be added to the nine Bay Area counties each year.
- Interest Revenue
    - The Authority may use interest revenue generated on Measure AA funds to cover administrative costs.
    - The amount of interest projected in the budget for FY 25/26 is quite conservative at $1,925,000, noting that in FY 23/24 the interest revenue was over $4 million and half-way through FY 24/25 the interest revenue was $2.4 million.
    - Interest rates are unpredictable and variable over time; therefore, staff decided to use the conservative estimate of $1,925,000/year through year 20 (the approximate amount of money that is available to invest should be stable over that time period).
    - The estimate of $1,925,000 is decreased by 20% each year over the additional 5 years after year 20, to reflect the projected spend down of the Measure AA funds as the final set of projects close-out.
- Staffing Projections
    - The starting points for staffing are the amounts approved in FY 25/26. Note that those amounts are a bit high to ensure there is enough money in the budget to cover the annual staff costs.
    - The amounts in the chart for the Metropolitan Transportation Commission (MTC) and the State Coastal Conservancy (SCC) include salary, benefits, and indirect costs.

    - A 5% increase is added to staffing cost estimates each year to include an average of expected cost of living increases and merit increases.
    - The number of staff hours is expected to be relatively even between the current year and year 20 of Measure AA. For the 5-year period after year 20, a 5 percent increase was still incorporated, but a 20% reduction in staff hours each year was also included to account for the annual reduction in the number of projects that will need to be managed between years 20 and 25.
- Other General Operating Expenses
    - This category includes items such as consultants, stipends for committee members, staff travel, audit fees, bank fees, and insurance fees.
    - A 5% annual increase to other general operating expenses was included in the budget. This is a high estimate to ensure there are enough budgeted funds to pay for general operating expenses.
    - For the 5 years after year 20, a 5% annual increase is included, but a 20% reduction is taken since it should take less general operating funds as the program winds down.
- Administrative Budget Balance
    - With an increase in the amount of interest earnings over the past several years, the Authority has been building up a surplus in the administrative budget each year in anticipation of increased administrative costs toward the end of the 20-year parcel tax and, potentially, costs to place a measure to extend or replace Measure AA on the ballot of the nine-county San Francisco Bay Area.

Administrative Cost Projections

Before discussing the results, it is important to note that the most variable component of the projections is the interest income. The current estimated interest percentage is fairly conservative, but if the annual average interest income begins to drop below the estimate used in the projections, then it would be important for the Authority to run these projections again.

Attachment 1 shows the projected administrative costs for the remainder of the duration of Measure AA assuming that it expires after 20 years and that there is a need to fund staffing and project management for a 5-year wind down after Measure AA expires. The projections, which are based on conservative estimates, show that the administrative budget for a given year will include a surplus through year 16 (FY 32/33). After that, the annual administrative budget would be in a deficit if funded solely by the annual amounts of the parcel tax and interest income. However, the projections show that there should be adequate funds (over $15 million) built up in the administrative budget due to surplus in the first 16 years to cover the expenses through year 25 (20 year, plus the 5-year wind down period). This would also leave the Authority with a balance of $6.2 million.

The projections show that, due to the balance of $6.2 million identified above, if the Authority places a measure to extend or replace Measure AA on the ballot, there would be enough funds to pay for those costs, at least for one ballot measure. If the Authority chooses not to place a measure on the ballot, the funds reserved for ballot costs could be allocated for other purposes. If the Authority places a measure on the ballot that passes, then the Authority will likely also have excess funds in the administrative budget that could be allocated for other purposes. If a measure to extend or replace Measure AA is placed on the ballot in the Bay Area prior to year 20 (and it passes), the administrative funding needed to complete Measure AA projects during the 5-year wind down period would likely be covered by the administrative percentage from the new measure.

The Oversight Committee asked the Authority to analyze whether funds should be transferred from the administrative budget to the project budget if interest income continues to be high. Given the unpredictability of interest rates, the unknown and likely high costs of placing a measure on the ballot in the nine counties, and that the Authority is only in year 9 of a 20 year program (with a five year wind down period), staff recommends that the Authority continue to build up the fund balance in the administrative budget. If these funds prove to be unneeded for ballot access costs or administration, they can be reallocated to other purposes at some future date.

Summary

After projecting revenue and administrative costs for Measure AA, staff has determined that if interest income comes in as projected (conservatively), then the Authority will be able to adequately fund administrative operations through the 20 years of Measure AA, including a 5-year wind down. In addition, projections show that the Authority would have enough funds to cover ballot costs (at least for one ballot measure), if the Authority chooses to place another measure on the ballot.