CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Board of Supervisors

FROM: Budget and Legislative Analyst

SUBJECT: June 16, 2026 Committee of the Whole

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File 26-0624	Department: Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Director of Transportation to enter into a loan agreement with the Metropolitan Transportation Commission. The loan has a value of up to $200 million and a term of 12 years.

Key Points

- Changes in state law allow the State Transportation Agency to loan the Metropolitan Transportation Commission up to $590 million for Bay Area transit agencies, including $200 million to MTA. The purpose of the loan is to provide MTA interim funding until two new revenue sources become available starting in FY 2027-28, pending the outcome of the November 2026 election.
- Loan repayment begins with a two-year interest-only period, after which the loan would be repaid on a ten-year amortization schedule (meaning that the payments include principal and interest). The full $200 million plus interest must be repaid by June 3, 2038. The interest rate on the loan is variable and is based on short-term borrowing rates.

Fiscal Impact

- Based on an assumed interest rate of 4%, MTA's budget includes $8 million in each year fiscal year (FY 2026-27 & FY 2027-28) for interest only payments. Starting in FY 2028-29, MTA's annual debt service for the proposed loan is expected to be $30 million, assuming fixed payments over ten years at 4% interest. Actual debt service payments may differ because the proposed loan has a variable interest rate and the amortization schedule will not be finalized until March 2028.
- The loan is secured by State Transit Assistance funds, which are budgeted at $65.3 million in FY 2026-27 and can be used for capital projects or operations.

Policy Consideration

- Because COVID relief funding is expiring, transit and parking revenue have not recovered to pre-pandemic levels, and the General Fund is growing more slowly than it did pre-pandemic, MTA faces a structural budget deficit. The proposed $200 million loan is 13.2 percent of MTA's $1.5 billion operating revenues for FY 2026-27. MTA also has a fund balance of $161 million and a Contingency Reserve of $143 million.
- MTA's FY 2027-28 budget assumes passage of two new revenue measures that will be proposed to votes in November 2026: (1) a regional sales tax increase, which is expected to generate $155 million for MTA in FY 2027-28, and (2) a new parcel tax in San Francisco, which is expected to generate $166 million for MTA in FY 2027-28. If the new revenue measures fail, MTA will still be liable for repaying the proposed loan.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) any modification of such contracts of more than $500,000 is subject to Board of Supervisors approval.

City Charter Section 8A.103(b)(13) states that the Municipal Transportation Agency may incur debt with Board of Supervisors approval, subject to the Controller certifying that Agency revenues and/or assets secures the debt.

BACKGROUND

Assembly Bill 117

In February 2026, the Governor approved Assembly Bill 117, which amended the California Public Resources Code to require the California Transportation Agency to loan $590 million to the Metropolitan Transportation Commission (MTC), the Bay Area's regional planning agency. The purpose of the loan was to allow MTC to loan the funds to the area's transit agencies: the San Francisco Bay Area Rapid Transit District (BART), the San Francisco Municipal Transportation Agency (MTA), the Peninsula Corridor Joint Powers Board (Caltrain), and the Alameda-Contra Costa Transit District. Of the $590 million, $200 million is proposed for MTA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Director of Transportation to enter into a loan agreement with the Metropolitan Transportation Commission. The loan has a value of up to $200 million and a term of 12 years.

The resolution would also affirm MTA's determination that the loan does not require a California Environmental Quality review and allows the Director of Transportation to amend the loan so long as the amendments do not materially increase the obligations or liabilities of MTA or materially decrease the benefits to MTA.

The terms of the loan are shown below in Exhibit 1.

Exhibit 1: Loan Terms

Lender	Metropolitan Transportation Commission
Loan Amont	$200 million
Term	12 years, maturing June 3, 2038
Interest Rate	Variable interest rate, based on the interest rate for the Surplus Money Investment Fund (SMIF) published by the State Controller.
Allowable Uses	Transit operations only. Capital and debt refinancing are prohibited uses.
Security	MTA's share of State Transit Assistance Funds
Repayment Schedule	Quarterly interest only payments for initial two years through June 2028, followed by quarterly amortized payments for ten years starting in FY 2028-29.
Prepayment	Allowed without penalty
Reporting	MTA must provide MTC and State Transportation Agency with annual audited financial statements and certify that loan proceeds are only used for transit operations

Source: Proposed Loan Agreement

As required by State law, the loan repayment begins with a two-year interest-only period, after which the loan would be repaid on a ten-year amortization schedule (meaning that the payments include principal and interest). The full $200 million plus interest must be repaid by June 3, 2038. The interest rate on the loan is variable and is based on the rate for the Surplus Money Investment Fund (SMIF), as published by the State Controller. The SMIF rate is based on short-term borrowing rates. As of March 31, 2026, the SMIF rate was 3.835%.

FISCAL IMPACT

Based on an assumed interest rate of 4%, MTA's budget includes $8 million in each year FY 2026-27 & FY 2027-28 for interest only payments, which increases total debt payments the agency must make from $27.8 million in FY 2025-26 to $35.8 million in FY 2026-27. Starting in FY 2028-29, MTA's annual debt service for the proposed loan is expected to be $30 million, assuming fixed payments over ten years at 4% interest. Actual debt service payments may differ because the proposed loan has a variable interest rate and the amortization schedule will not be finalized until March 2028.

The loan is secured by State Transit Assistance funds, which are budgeted at $65.3 million in FY 2026-27 and can be used for capital or operations. The Controller has certified that MTA has sufficient local funds to repay the loan, as General Fund transfers to MTA are projected to be at least $650 million annually through FY 2028-29.

POLICY CONSIDERATION

Because COVID relief funding is expiring, transit and parking revenue have not recovered to pre-pandemic levels, and the General Fund is growing more slowly than it was pre-pandemic, MTA faces a structural budget deficit. As shown below in Exhibit 2, the proposed loan is approximately 13.2 percent of MTA's FY 2026-27 operating revenues. The purpose of the loan is to provide MTA interim funding until two new revenue sources become available starting in FY 2027-28, pending the outcome of the November 2026 election.

MTA's FY 2027-28 budget assumes passage of two new revenue measures that will be proposed to votes in November 2026: (1) a regional sales tax increase, which is expected to generate $155 million for MTA in FY 2027-28, and (2) a new parcel tax in San Francisco, which is expected to generate $166 million for MTA in FY 2027-28.[1] The regional sales tax requires approval from a majority of voters across the following five counties: Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara. If the new revenue measures fail, MTA will still be liable to repay the proposed loan.

Exhibit 2: MTA Operating Revenues

Revenue	FY 2025-26	FY 2026-27	FY 2027-28
General Fund Support	554,459,347	608,494,737	601,457,892
Parking	279,237,064	287,638,481	295,773,571
Operating Grants	461,430,947	211,317,691	216,253,282
Proposed State Loan	0	200,000,000	0
Transit	113,943,426	134,039,601	141,736,543
Other	42,705,314	39,273,929	39,385,233
Fund Balance	6,446,622	17,695,244	0
Regional Sales Tax	0	17,000,000	155,000,000
Parcel Tax	0	0	166,000,000
Total Operating Revenues	**1,458,222,720**	**1,515,459,683**	**1,615,606,521**

Source: Operating Budget passed by SFMTA Board April 21, 2026.

Notes: FY 2025-26 Operating Grants include approximately $200 million in COVID relief funding. General Fund support includes parking tax and congestion management sales tax revenues and does not include General Fund support for capital projects.

[1] The regional sales tax proposal is for 14 years and would increase San Francisco sales tax by 1% and other counties by 0.5%. The parcel tax is for San Francisco parcels only and ranges from a base of $129 - $799 per parcel plus additional amounts, depending on the size and use of the parcel, with annual inflation escalation.

Other MTA funding sources include an operating fund balance of $161 million, projected for the start of FY 2026-27[2] and $143 million in a Contingency Reserve, which can be used to provide for the continuation of services in the event of natural or fiscal emergency.[3]

RECOMMENDATION

Approve the proposed resolution.

[2] The Controller's FY 2025-26 Nine Month Budget Status report projected $178 million ending fund balance for MTA operating funds in FY 2025-26. The actual ending balance will be different, as the projection assumes a $48.9 million operating surplus in FY 2025-26. MTA's proposed budget for FY 2026-27 appropriates $17 million from fund balance, so the starting fund balance in FY 2026-27 would be $161 million, if actual revenues and expenditures are consistent with the Controller's projections.

[3] MTA's Contingency Reserve Policy sets a reserve target of 10 percent of annual operating expenditures. MTA's proposed budget funds the Contingency Reserve at 9 percent of annual operating expenditures and assumes the suspension of contributions to the reserve, which would have been $9 million in FY 2026-27 and $19 million in FY 2027-28.