

**SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY**

DIVISION: Finance

Adopting as formal policy a set of specific strategies identified in the final phase one analysis required by 2025 California Senate Bill 63 (SB 63, or Connect the Bay Area Act) and adopted by the Metropolitan Transportation Commission’s (MTC) SB 63 Financial Efficiency Review Independent Oversight Committee.

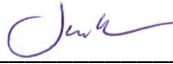

SUMMARY:

- Senate Bill 63 (SB 63), effective January 1, 2026, established the Public Transit Revenue Measure District and directed the Metropolitan Transportation Commission (MTC) to conduct an independent Financial Efficiency Review (FER) of AC Transit, BART, Caltrain, and SFMTA, as a prerequisite for the regional transit funding framework.
- The Phase One FER, prepared by Nelson\Nygaard Consulting Associates on behalf of MTC, documents cost-saving and revenue-enhancing measures undertaken by the transit agencies between Fiscal Years (FY)19-20 and 24-25, and identifies a set of early action strategies for near-term implementation that deliver comparatively high value to riders and/or the agency's bottom line while remaining feasible to implement within the next one to three years.
- The Phase One report was transmitted to the SB 63 Financial Efficiency Review Independent Oversight Committee, which adopted the final report at its meeting of May 22, 2026. SB 63 requires each subject operator to identify and formally commit to implementing specific early action strategies in the final adopted report as a policy or budget action by July 1, 2026.
- Staff recommend the Board of Directors approve the adoption of SFMTA’s recommended early action strategies in the Phase One FER as SFMTA policy.

ENCLOSURES:

1. SFMTAB Resolution

APPROVALS:

	DATE
DIRECTOR 	<u>June 11, 2026</u>
SECRETARY 	<u>June 11, 2026</u>

ASSIGNED SFMTAB CALENDAR DATE: June 16, 2026

PURPOSE

The purpose of this calendar item is to adopt as formal policy a set of specific strategies identified in the final phase one analysis required by 2025 California Senate Bill 63 (SB 63, or Connect the Bay Area Act) and adopted by the Metropolitan Transportation Commission's (MTC) SB 63 Financial Efficiency Review Independent Oversight Committee.

STRATEGIC PLAN GOALS AND TRANSIT FIRST POLICY PRINCIPLES

Approval of this resolution supports the following SFMTA Strategic Plan Goals:

- Goal 1: Create a safe and reliable multimodal transportation network.
- Goal 5: Deliver reliable and equitable transportation services.
- Goal 10: Position the agency for financial success.

Approval of this resolution supports the following Transit First policy:

1. The SFMTA shall improve the quality of transportation for all San Francisco residents and visitors, with a focus on expanding and improving Muni service, safety, and reliability.

DESCRIPTION

The Connect Bay Area Act, or Senate Bill 63 (SB 63), effective January 1, 2026, established the Public Transit Revenue Measure District and authorized a regional transportation sales tax to be placed on the November 2026 ballot across five Bay Area counties. If approved by voters, and as a condition of this regional funding framework, SB 63 requires MTC to commission an independent Financial Efficiency Review (FER) of four of the region's largest transit agencies: AC Transit, BART, Caltrain, and SFMTA.

The Phase One FER, prepared by Nelson\Nygaard Consulting Associates on behalf of MTC, fulfills the first phase of this legislative requirement. The report (1) documents cost-saving and revenue-enhancing measures undertaken by the transit agencies between FY19-20 and FY24-25; (2) identifies a set of early action strategies for near-term implementation; and (3) provides an initial inventory of real property assets and development opportunities. A second, more detailed phase of analysis will be initiated if the regional ballot measure is approved by voters in November 2026.

The Phase One report was transmitted to the SB 63 FER Independent Oversight Committee, which considered and adopted the final report at its meeting of May 22, 2026. SFMTA Board Director and former MTC Executive Director Steve Heminger serves as SFMTA's representative on the Oversight Committee. SB 63 requires that, following adoption of the final Phase One report, each subject operator identify the specific strategies applicable to it that it commits to implementing and adopt those strategies as formal policy or budget actions by July 1, 2026. As discussed below, staff recommends that the SFMTA Board adopt seven of the nine strategies applicable to the SFMTA and defer 2 early action strategies for further staff review.

FY19-20 through FY24-25 SFMTA Cost-Saving Measures

The Phase One FER documents the significant cost-saving and efficiency measures SFMTA implemented between FY19-20 and FY24-25 in response to the financial pressures created by the COVID-19 pandemic, shifts in travel demand, and the expiration of federal emergency relief funding. These actions have produced substantial structural savings, meaning they reduce ongoing costs rather than providing one-time relief.

SFMTA achieved \$300 million in operating cost savings and \$389 million in capital cost savings during the reporting period. Operating savings accelerated in the final three years of the period, rising to \$145 million in FY24-25, reflecting increasingly structural cost reductions. Cost savings were driven by a combination of workforce reductions, service redesign, and deferred or scaled-back capital investments. SFMTA permanently eliminated over 500 vacant positions and restored service slowly at the pace of operator availability, matching scheduled and delivered hours for the first time and reducing service gaps. Rather than returning to pre-pandemic peak-oriented patterns, the agency reconfigured routes around a revised all-day network.

Summary of Cost Savings & Revenue Enhancements

Category	Amount	Description / Key Actions
Operating Cost Savings	\$300M	Workforce reductions (over 500 vacant positions eliminated), service redesign to an all-day network, reduced overtime and better service/operator matching
Capital Cost Savings	\$389M	Deferred or re-scoped capital projects, delayed midlife overhauls, reduced non-essential capital purchases
Revenue Enhancements	\$37M	Fare adjustments (\$17M), parking revenue increases (\$19M), taxi fees (\$1M)

Long-term capital investments in transit priority, including transit-only lanes and bus stop improvements, reduced bus travel times on key corridors by up to 20 percent, enabling delivery of more service at no additional cost and generating approximately \$10 million in annual savings beginning FY24-25. SFMTA also enhanced revenues by approximately \$37 million through fare adjustments (\$17 million), increased parking revenues (\$19 million), and taxi fees (\$1 million). These actions slowed growth in operating costs despite inflation, improved service efficiency, reduced long-term structural deficits, and positioned the agency to better manage the expiration of federal relief funds.

As described in the table below, Operating Cost Savings are generated from a combination of efficiency savings and service reductions.

Summary of Operating Cost Savings

Category of Savings		Amount	Description
Efficiencies	<i>Personnel Cost Savings</i>	\$170M	Elimination of 500+ vacant positions, reduced hiring, attrition-based workforce alignment
	<i>Transit Priority & Efficiency Investments</i>	\$30M	Travel time savings reinvested into service delivery
	<i>Other Operational Efficiencies</i>	\$14M	Professional services reductions, administrative streamlining, cost controls
Total Efficiency Savings		\$244M	
Service Reductions / Redesign		\$56M	Pandemic-era service reductions and shift to all-day network
Total Operating Savings		\$300M	

The majority of efficiency gains are structural and position the agency to address future fiscal challenges.

Early Action Strategies Identified for SFMTA

The Phase One FER identifies a set of early action strategies tailored to SFMTA's specific operating environment and constraints. Strategies were prioritized based on a structured qualitative assessment of potential value, in terms of financial impact and rider experience, and implementation effort. These strategies are identified as having met the following three criteria:

- 1) Can generally be implemented within one to three years,
- 2) Are substantially within the agencies' control, and
- 3) Are expected to deliver relatively high value compared with the level of effort required.

The early action strategies applicable to SFMTA are organized into three categories:

- 1) Enhance Revenue
- 2) Contain Costs; and
- 3) Increase Ridership and Enhance Customer Experience.

Strategies Recommended for Adoption

Staff evaluated each strategy based on alignment with existing programs and resources, and feasibility of implementation within 1 to 3 years, as suggested by the Phase One FER, and the

degree to which external stakeholders must be engaged to implement. Under these criteria, staff recommend adoption of all early action strategies recommended for SFMTA:

Enhance Revenue

- **Improve Fare Compliance and Enforcement:** Conduct a fare compliance and enforcement study to measure fare compliance; understand reasons for non-compliance; identify staffing, technology, and administrative resources required to improve fare compliance (e.g., installation of fare validators on both sides of rear and middle doors, faster mobile fare validators, enforcement officers and administrative staff for processing); and develop a funding and implementation plan.
- **Enhance parking revenue:** Enhance parking revenue through measures like expanded days or hours of paid parking, rate adjustments, increased enforcement, and leasing or permitting parking at under-utilized facilities.

Contain Costs

- **Evaluate Zero-Emission Bus (ZEB) Transition program for Cost Efficiency:** Coordinate with peer agencies in the Bay Area to seek deferral of ZEB transition requirements.
- **Offer incentives to improve attendance:** Offer incentives for attendance for high-priority routes.
- **Examine Schedules for Efficiencies:** Identify and enact scheduling efficiencies that do not impact service to the rider. These may include, but are not necessarily limited to, adjusting how operator shifts are structured and/or balancing scheduling practices to maintain reliability while controlling operating costs.
- **Improve Speed and Reliability of Service:**
 - 1) Conduct a bus stop optimization study to identify where stop spacing or location contributes to slow or unreliable service, identify opportunities to improve bus stop spacing; quantify the benefits of optimizing bus stop location and spacing; and develop a funding and implementation plan.
 - 2) Continue reinvestment of transit priority savings into service.
- **Right-Size Fleet to Match Demand:** Identify more opportunities to run shorter trains during lower-demand periods to better match the cost of delivering service to the fare revenue generated at different periods.
- **Identify and Capture Cost Savings in Larger Contract Renewals:** Conduct a review of high-spend contracts to determine whether the services can be provided at lower costs.

Increase Ridership and Customer Experience

- **Expand Clipper BayPass with Institutions and Employers:** In consultation with MTC, identify internal resource requirements and supportive policies required or

desired to adopt or expand pass programs like Clipper BayPass to more institutions and employers.

STAKEHOLDER ENGAGEMENT

SFMTA staff participated in the Phase One FER process, providing agency data, engaging with the Nelson\Nygaard consultant team, and reviewing draft findings. The SB 63 Independent Oversight Committee held public meetings to receive input on the draft report, and members of the public submitted written comments through the process administered by MTC. SFMTA Director Steve Heminger represented the agency on the Oversight Committee throughout the Phase One process. The Board of Directors received a preview of the Phase One FER and the early action strategies applicable to SFMTA at its May 19, 2026 meeting.

ALTERNATIVES CONSIDERED

The alternative is to not approve the adoption of the early action strategies identified in the Phase One FER. This approach is not recommended. Adoption is required by SB 63 by July 1, 2026, and failure to adopt could affect SFMTA's eligibility for regional funding contingent on compliance with the FER requirements. The early action strategies identified for SFMTA are consistent with the agency's existing financial sustainability priorities and represent near-term steps the agency is already positioned to take.

Approval of this resolution and implementation of the early action strategies identified in the Phase One FER are expected to have a positive impact on transit service over the near and medium term. The strategies to improve speed and reliability, right-size fleet deployment, and expand pass programs will directly improve the rider experience. The cost containment strategies — including fare compliance improvements, scheduling efficiencies, attendance incentives, and contract reviews — will help the agency deliver more service per dollar spent, supporting long-term service stability.

FUNDING IMPACT

The early action strategies approved by this resolution are expected to generate cost savings and revenue enhancements for SFMTA over the near and medium term. The specific financial impacts of each strategy will be developed as part of implementation planning and incorporated into future operating budgets and the agency's multi-year financial plan as applicable. Certain strategies — including the fare compliance study, bus stop optimization study, and BayPass expansion analysis — are primarily analytical in nature and are expected to have minimal near-term cost impact. Funding for implementation of individual strategies will be identified through the annual budget process.

ENVIRONMENTAL REVIEW

On May 21, 2026, the SFMTA, under authority delegated by the Planning Department, determined that adoption of early action strategies pursuant to the SB 63 Financial Efficiency Review is not a "project" under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations Sections 15060(c) and 15378(b), as it involves policy, administrative, and financial planning actions with no direct physical impact on the

environment. Any individual strategy that may constitute a project under CEQA will be subject to appropriate environmental review at the time of implementation.

A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors and is incorporated herein by reference.

OTHER APPROVALS RECEIVED OR STILL REQUIRED

Authorization from the SFMTA Board of Directors is required to formally adopt the early action strategies identified in the Phase One FER as applicable to SFMTA and recommended for adoption, as required by SB 63 by July 1, 2026. The Phase One FER was adopted by the SB 63 Financial Efficiency Review Independent Oversight Committee on May 22, 2026. MTC will transmit the adopted report to the Legislature, the transit agencies, and the public following Oversight Committee adoption. The City Attorney's Office has reviewed this calendar item.

RECOMMENDATION

Staff recommends that the SFMTA Board of Directors adopt as formal policy a set of specific strategies identified in the final phase one analysis required by 2025 California Senate Bill 63 (SB 63, or Connect the Bay Area Act) and adopted by the Metropolitan Transportation Commission's (MTC) SB 63 Financial Efficiency Review Independent Oversight Committee.

**SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS**

RESOLUTION No. _____

WHEREAS, The San Francisco Municipal Transportation Agency (SFMTA) is a department of the City and County of San Francisco responsible for the management, operations, and planning of the City's transportation network; and,

WHEREAS, Senate Bill 63 (SB 63), effective January 1, 2026, established the Public Transit Revenue Measure District and authorized a regional transportation sales tax to be placed on the November 2026 ballot across five Bay Area counties, and as a condition of this regional funding framework directed the Metropolitan Transportation Commission (MTC) to commission an independent Financial Efficiency Review (FER) of four of the region's largest transit agencies: AC Transit, BART, Caltrain, and SFMTA; and,

WHEREAS, The Phase One FER was prepared by Nelson\Nygaard Consulting Associates on behalf of MTC and documents cost-saving and revenue-enhancing measures undertaken by the subject transit agencies between Fiscal Years 2019-20 and 2024-25, identifies a set of early action strategies for near-term implementation, and provides an initial inventory of real property assets and development opportunities; and,

WHEREAS, The Phase One FER finds that SFMTA achieved approximately \$300 million in operating cost savings and \$389 million in capital cost savings during the reporting period, driven by a combination of workforce reductions, service redesign, transit priority investments, and deferred or scaled-back capital investments, and also enhanced revenues by approximately \$37 million through fare adjustments, parking revenue increases, and taxi fees; and,

WHEREAS, The Phase One FER identifies a set of early action strategies applicable to SFMTA, organized into three categories — Enhance Revenue, Contain Costs, and Increase Ridership and Enhance Customer Experience — each selected because it delivers comparatively high value to riders and/or the agency's bottom line and is feasible to implement within the next one to three years, or constitutes an important initial step toward a longer-term approach; and,

WHEREAS, The Phase One FER was transmitted to the SB 63 Financial Efficiency Review Independent Oversight Committee, which considered and adopted the final report at its meeting of May 22, 2026; and,

WHEREAS, SB 63 requires that, following adoption of the final Phase One report, each subject operator identify the specific strategies in the adopted report applicable to it and that it commits to implementing and formally adopt those strategies as policy or budget actions on or before July 1, 2026; and,

WHEREAS, The final Phase One report of the SB63 Financial Efficiency Review identified the following Recommended Early Action Strategies:

- A. Improve Fare Compliance and Enforcement: Conduct a fare compliance and enforcement study to measure fare compliance; understand reasons for non-compliance; identify staffing, technology, and administrative resources required to improve fare compliance (e.g., installation of fare validators on both sides of rear and middle doors, faster mobile fare validators, enforcement officers and administrative staff for processing); and develop a funding and implementation plan.
- B. Enhance parking revenue: Enhance parking revenue through measures like expanded days or hours of paid parking, rate adjustments, increased enforcement, and leasing or permitting parking at under-utilized facilities.
- C. Evaluate Zero-Emission Bus (ZEB) Transition program for Cost Efficiency: Coordinate with peer agencies in the Bay Area to seek deferral of ZEB transition requirements.
- D. Examine Schedules for Efficiencies: Identify and enact scheduling efficiencies that do not impact service to the rider. These may include, but are not necessarily limited to, adjusting how operator shifts are structured and/or balancing scheduling practices to maintain reliability while controlling operating costs.
- E. Offer incentives to improve attendance: Offer incentives for attendance for high-priority routes.
- F. Improve Speed and Reliability of Service: Conduct a bus stop optimization study to identify where stop spacing or location contributes to slow or unreliable service, identify opportunities to improve bus stop spacing; quantify the benefits of optimizing bus stop location and spacing; and develop a funding and implementation plan.
- G. Improve Speed and Reliability of Service: Continue reinvestment of transit priority savings into service.
- H. Right-Size Fleet to Match Demand: Identify more opportunities to run shorter trains during lower-demand periods to better match the cost of delivering service to the fare revenue generated at different periods.
- I. Identify and Capture Cost Savings in Larger Contract Renewals: Conduct a review of high-spend contracts to determine whether the services can be provided at lower costs.
- J. Expand Clipper BayPass with Institutions and Employers: In consultation with MTC, identify internal resource requirements and supportive policies required or desired to adopt or expand pass programs like Clipper BayPass to more institutions and employers; and,

WHEREAS, The SFMTA and the San Francisco Planning Department have determined that adoption of early action strategies pursuant to the SB 63 Financial Efficiency Review is not a "project" under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations Sections 15060(c) and 15378(b), as it involves policy, administrative, and financial planning actions with no direct physical impact on the

environment, and that any individual strategy that may constitute a project under CEQA will be subject to appropriate environmental review at the time of implementation; and,

WHEREAS, A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors, and is incorporated herein by reference; and, now therefore be it

RESOLVED, That the SFMTA Board of Directors adopts the Recommended Early Action Strategies as SFMTA policy and directs staff to pursue them; and, be it further

RESOLVED, That the SFMTA Board of Directors hereby affirms that adoption of this resolution does not constitute adoption of the Phase 1 Financial Efficiency Review report in its entirety and does not authorize any specific expenditure or capital investment. Should staff identify the need for additional funds beyond those included in the Fiscal Year 2026-2027 & 2027-2028 budget, such request shall follow applicable budget policies and procedures.

I certify that the foregoing resolution was adopted by the San Francisco Municipal Transportation Agency Board of Directors at its meeting of June 16, 2026.

Secretary to the Board of Directors
San Francisco Municipal Transportation Agency