BOARD OF DIRECTORS MEETING
APRIL 3, 2019
Sales Tax and Strategic Plan
OVERVIEW

- Build on Success of last 11 years, proactive planning for future
- Ensure that the Train and Path continue to serve the public for future generations
  - Brief overview of sales tax
  - Importance of Sales Tax in financial picture
  - How to plan for future of sales tax
  - Recommended next steps
SALES TAX HISTORY

- SMART’s ¼ cent sales tax, enacted in 2008 by 70% of voters, is essential to everything SMART has done

- **Allowed SMART to stop debating and start delivering**

- 2008 expenditure plan estimated 20-year stream of sales tax would produce **$890 million total**

- Great Recession = dropped dramatically SMART was forced to reduce expectations and Phase the project and adjust accordingly.

- Through FY 2018, received **$289 million**, but delivered **$550 million** project, built a brand new transit agency runs 24-7, 365
SALES TAX HISTORY

- SMART Board, at a critical time had the **foresight** to move forward with a Phased approach, and capitalize on the low construction costs.

- Despite the naysayers, in 2011-12 issued bonds to provide the funds deliver a now $550 million rail transit system **(1 million passengers strong)**

- Bonds issued resulted in our current debt service of $16 million, which is 42% of $38 million in sales tax this year
SALES TAX HISTORY:

» At each decision point, staff has prepared models and projections with the goal of being sustainable for the future

» Models and projections have been incorporated into Strategic Plans and approved by SMART Board

» Prior plans and models never addressed when sales tax should be renewed

» Each model and plan stressed the importance of creating significant operating reserve because of the nature of starting a brand new system with multiple unknowns

» $17 million reserve in FY 2019 against the unknown
SALES TAX HISTORY

- Like other rail transit districts, operations rely on financial support of sales tax.
- Each prior financial plan showed sales tax supplementing fare revenues; renewal essential to long-term planning.
- Fortunately, although lower than projected in 2008, tax revenue continues to grow steadily following initial recession.
SALES TAX PLANNING

- Since testing and the start of passenger service, cost pressures have pushed expenses higher than anticipated:
  - Labor costs higher to attract and retain qualified staff; competing with BART, VTA, CalTrain
  - Additional year of operating costs prior to revenue (federal approval delays) meant $18 million in costs with no fare or state revenue
  - Increased number of operations staff to ensure public safety on trains, for managing state of the art rail system and DMU operations
  - High cost of communications and train control technology (PTC) to ensure of safety & comply with regulations
  - Safety and security staff and equipment necessary to monitor the entire right of way
SALES TAX PLANNING

- Fiscal Year 2018-19 Budget included 10 new full-time positions within operations to prepare for closing the ‘gap’ and four new train cars.
- Total operations department budget this year $26.9 million, which is almost $10 million higher than anticipated in 2014.
- FY 2018-19 Budget approved by the Board required $5 million in reserves for operations.
SALES TAX PLANNING

- Current debt service of $16 million -- this leaves only $22 million of sales tax funds for all other needs

- Other revenues:
  - Fare revenue $3.6 million
  - State Transit Assistance: $1.7 million
  - SB 1 revenues for operations: $3.9 million
  - Other state sources for capital and state of good repair

- Despite available revenues, expenses are currently bumping against revenues, and debt service grows in future years

- Potential for recession or economic slowdown would impact each and every revenue source
SALES TAX RENEWAL

- Increasing debt service payments + operating costs in early projections indicate that healthy reserve will be relied on to cover ongoing costs.
  - Ongoing maintenance of SMART’s rail cars will require $10 million additional in capital maintenance over the next three years starting with the expiration of the vehicle warranty this October

- Without a **PLAN**, SMART will draw down reserve quickly, be unable to add more service and will need to reduce costs which will lead to reduced service

- Future health of SMART system relies on addressing the need now rather than later
SALES TAX RENEWAL

- As a new, exciting alternative to the congestion and stress of commuting by car, SMART should continue to expand service and grow ridership.

- Cuts in staff in service right now would reduce revenue and make the train less useable.

- Better alternative=debt restructuring.
STRATEGIC PLAN

- Strategic Plan = Every 5 years
- 2019 Strategic Plan Kickoff last week with Citizens Oversight Committee (COC)
- COC agreed plan should show impact of Sales Tax renewal in order to show long-term planning options
- Assuming Sales Tax renewal, Plan will include:
  » Projections for operating costs
  » Revenue strategies for Healdsburg and Cloverdale
  » New Expenditure Plan

- Creation and approval of plan in conjunction with COC will provide more details to Board members on the benefit and need for sales tax renewal
SALES TAX RENEWAL

- WHY NOW?
  - We cannot plan ongoing operations and expansions with ballot box uncertainty in our fiscal future
  - Sales Tax must be renewed well before 2029 expiration
  - 10-20% swing in turnout of voters in Presidential year
    » Because of 2/3 vote requirement, must renew in a large-turnout year
    » Options for Presidential years 2020 or 2024: **2024 is too late**
  - If efforts fail, then we have more time to implement savings and revenue strategies, waiting any longer would not be fiscally prudent
  - **March 2020 Presidential Primary SMART’s best option**
TIMETABLE: STRATEGIC PLAN & TAX RENEWAL

Sales Tax Process

- April 17 direct staff on tax
- May 15 Board budget review
- June 5 Board budget approval
- October 2 Board Discussion, first chance for vote
- November 6 Final Board action submitting ballot measure
- March 2020 Ballot

Strategic Plan Process

- Initial Meeting March
- 1st Draft plan June
- 2nd Draft review July
- Final Plan approval early September 2019
RECOMMENDATION

- Staff prepare an item for discussion and vote at April 17 meeting to move forward with the targeting for a March 2020 vote on renewing the SMART sales tax.

- Once direction is given, staff can begin preparations and bring information back to Board as needed during the year. Items to be brought back would include:
  » Finalized Strategic Plan
  » Information items needed for ballot submission
  » Surveys and/or polling results
  » Actual ordinance, official ballot statement, other legal submissions