BOARD OF DIRECTORS PRESENTATION
SEPTEMBER 18, 2019

Strategic Plan
ACTION TODAY

- Consideration and approval of Strategic Plan
STRATEGIC PLAN = FUTURE STABILITY

Goal:

▪ Ensure that the rail and pathway system built to date continues to serve the people of Sonoma and Marin into the future

▪ Document SMART progress to date and provide financial roadmap for the future

▪ Strategic Plan is high level planning document, not a detailed operations, financial or capital project plan
DISCUSSION OF CHANGES

- Revision and expansion of Appendix B which discusses Sales Tax history and forecasting

- Added to further clarify the analysis of SMART’s sales tax history and planning for future
SALES TAX FORECASTING

RECENT HISTORY: As part of forecasting effort, SMART looks to history of SMART District over the past 20 years. This is a time period that is useful for the following reasons:

- This 20-year period includes the time period during which SMART was considered and created
- The amount of time is long enough to capture two business cycle downturns or recessions
- One of the recessions captured in this 20 year time period was the “Great Recession”, an unprecedented financial event in modern financial history
- Some argue that including a “normal” and “great” recession in our trend analysis is too conservative
SALES TAX FORECASTING

- In the full 20 year history, from 1998 and 2018, sales tax averaged 2.9% growth capturing two recessions, one of which was considered unprecedented.

Strategic Plan projections are planning tools, not operating budgets for an Agency.

- SMART Strategic Plan utilizes a simple 3% growth rate as a planning tool
- Reasonably assumes that the future will hold some recessions, some of them big
WHAT IF GROWTH IS LOWER....2.5%?

- These annual loses would not be ignored by the Board
- Annual budget process would involve decisions to either raise other revenue, make expenditure cuts, use reserves or some combination of both

<table>
<thead>
<tr>
<th>Sales Tax Projection Percent</th>
<th>Fiscal Year</th>
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<tbody>
<tr>
<td>--------------------------------</td>
<td>-------------</td>
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<tr>
<td>Scenario One 3%</td>
<td>$38,303,193</td>
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<tr>
<td>Scenario Two 2.5%</td>
<td>39,260,773</td>
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<tr>
<td>AMOUNT TO REDUCE EXPENSES FOR BALANCE</td>
<td>(191,516)</td>
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WHAT IF GROWTH IS HIGHER...3.5%?

- Additional $3 million in revenue would be available over 5 years, and $10 million over 10 years

- Board could fund operations, reserves or capital with additional funds
PLANNING FOR RECESSION

- **When will recession occur??** No one knows.
- Recessions do happen, however, and we should plan and we are planning for them

- **Strategic Plan is not a budget document**

- If recession occurs in the next 1, 2 or 5 years, SMART would be required to reduce expenses accordingly and utilize other revenue or reserves as necessary

- Our job is to manage our cashflow during however many years of downturn

- Renewing the sales tax gives SMART the greatest ability to manage the impact of a recession

- Renewing sales tax, as shown in plan, provides greatest ability to lower debt and therefore lower costs because it reduces payments from $18 million to $6 million.
PLANNING FOR RECESSION

▪ What if we do not extend the sales tax and a recession does occur in the next two years?
  ➢ SMART would take steps to balance the budget, like every other transit district and government agency
  ➢ SMART budget process will begin in April 2020

▪ What if there is only a mild recession or no recession?
  ➢ SMART could have additional funds available if we have refinanced our debt and thus reduced expenses
SMART’S FINANCIAL OUTLOOK

▪ Last week, Federal Reserve chair, Jerome H. Powell said that “the most likely outlook for our economy remains a favorable one with moderate growth” and “our main expectation is not at all that there will be a recession”

▪ Governor Gavin Newsom, in his 2019 Budget, reports “California's economy and revenues are assumed to continue growing throughout the forecast” (through 2023)

▪ Beacon Economics who provided a forecast specifically to SMART, reports there is no sign of a negative downturn in the near-term:
  » “The outlook for the local economy in the short run calls for steady growth, with nothing on the immediate horizon that would signal a reversal of the positive trends in the latest data.”
SMART’S FINANCIAL OUTLOOK

- Although there is a lack of evidence for any immediate crises, SMART will continue to plan for reasonable downturn at some point, lasting a reasonable number of years
  - Every year during annual budget deliberations, the Board of Directors will adjust expenditures and revenues based on the latest information available at that time

- The best step we take now is to proceed with a sales tax extension without changing the rate on March 2020

- Extension will allow us to
  - Refinance our construction debt by mid-2022
  - Reduce annual debt payments from $18 million to $6 million
  - Continue to provide stable level of service to be expanded with the opening of Larkspur and Downtown Novato

- Extension provides very limited funds available for new capital projects therefore leveraging current success and limited dollars going forward is the best way to maximize our local sales tax.

- Expenditure plan reflects these principles and goals
CONCLUSION

- We have examined and reflected on lessons from the last 20 years

- We have examined and presented scenarios better and worse

- This plan identifies a path forward to remain a strong and dependable transit agency

- That is why we, our financial consultants PFM, and a unanimous vote of your Citizens’ Oversight Committee, recommend that you adopt this planning tool, the 2019 Strategic Plan
QUESTIONS

- Questions?