



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%?

Sales Tax Projection Percent	Fiscal Year					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Scenario One 3%	\$ 38,303,193	39,452,289	40,635,858	41,854,934	43,110,582	44,403,899
Scenario Two 2.5%		39,260,773	40,242,293	41,248,350	42,279,559	43,336,548
AMOUNT TO REDUCE EXPENSES FOR BALANCE		(191,516)	(393,565)	(606,584)	(831,023)	\$ (1,067,351)

- 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

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?