SMART
Your train has arrived.

PRELIMINARY BUDGET PROCESS
FISCAL YEAR 2020-21
FEBRUARY 19, 2020
FISCAL YEAR 2020-21

BUDGET PROCESS TIMING:

JAN-APRIL: Staff work preparing options and projections
APRIL: Preliminary Board/Citizens’ Oversight Public Meetings
MAY: Board & Public Preliminary Review
JUNE: Board Approval in Public Meeting
JULY 1: Start of New Fiscal Year
TWO BUDGET PATHS

Scenario 1: Approval of the Sales Tax extension (Measure I Approved)

» Review our current level of service and staffing
» Review fare structure and corresponding revenue
» Discussion of patterns of ridership, optimization of resources based on patterns
» Outline capital projects strategies
  ➢ Completion of Windsor extension,
  ➢ Progress/needs for new pathway projects in Sonoma
  ➢ Petaluma second station
  ➢ Grants strategy and opportunities for future expansions to Healdsburg, Cloverdale and pathway extensions.
TWO BUDGET PATHS

Scenario 2: No Sales Tax Extension (Measure I Defeated)

» Without early tax extension, construction bond debt reduction of $12 million annually not available as a solution

» Doing nothing is not an option

» Strategic Plan and Board presentations outlined the need for reduction of expenses of up to $9 million to avoid using reserves
## HYPOTHETICAL "DO-NOTHING" SCENARIO

No sales tax extension, No budget cuts, No revenue changes

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>PRIOR YEARS</th>
<th>CURRENT</th>
<th>PROJECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations Revenue</td>
<td>$47.2</td>
<td>$54.5</td>
<td>$51.0</td>
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<tr>
<td>Operations Expense</td>
<td>-$25.3</td>
<td>-$38.3</td>
<td>-$41.3</td>
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<tr>
<td>Debt Service</td>
<td>-$14.2</td>
<td>-$16.1</td>
<td>-$16.7</td>
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<tr>
<td>Capital Expenses Not Covered by Grants</td>
<td>-$9.1</td>
<td>-$13.6</td>
<td>-$12.2</td>
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<tr>
<td>Subtotal (Needs Reserves/Annual Deficit)</td>
<td>-$1.4</td>
<td>-$13.5</td>
<td>-$19.2</td>
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<tr>
<td>Starting Unrestricted Reserves</td>
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<td>$40.0</td>
<td>$26.5</td>
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<tr>
<td>Ending Unrestricted Reserves/Cumulative Deficit</td>
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<td>$26.5</td>
<td>$7.3</td>
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<tr>
<td>Agency Reserve</td>
<td>$17.0</td>
<td>$17.0</td>
<td>$17.0</td>
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</table>

**Dimishing Reserves**
Budget Composed of Three Different Parts: Capital + Administration + Operations
CAPITAL BUDGET

- FY20 current budget of $51 million

- Almost entirely grant funded, one time in nature
ADMINISTRATION AND OPERATIONS

In evaluating future budget decisions, these recurring expenditures will be the focus

➢ FY20 Expenditures are $61 million
SCENARIO #1: EXTENSION APPROVED

NEXT STEPS

Identify significant budget policy choices available using the 2020 Expenditure Plan as a guide. That Board-approved plan outlines the following three priorities:

1. Provide for Ongoing Operation, Maintenance and Financing of Current Operations

2. Prioritize Safety, Education and Community outreach

3. Capital Projects and Rolling Stock

➢ Ability to reduce debt payments allows the budget process to focus on maintaining current service and planning for the opening of Windsor, new pathways in the next 2 years
SCENARIO #2: EXTENSION DEFEATED

NEXT STEPS

Again, the 2020 Expenditure Plan provides our guiding principles:

1. Provide for Ongoing Operation, Maintenance and Financing of Current Operations

2. Prioritize Safety, Education and Community outreach

3. Capital Projects and Rolling Stock

- FY 2020-21 budget will begin the process of addressing the future $9 million shortfall
PROCESS AND OPTIONS

As part of the timeline prior to budget passage outlined earlier, process will include:

1. Identify SMART’s “discretionary” budget
   » Determine expenses that are one-time or ongoing
   » Discuss mandatory vs. discretionary
      – Examples of mandatory: Debt service, dispatch, PTC, insurance
      – “Discretionary”: WiFi, number of service runs, matching funds

2. Review changes that could be made to discretionary expenses and revenue
ADMINISTRATION EXPENSES FY 2019-20
$29 MILLION

- Debt Service: 58%
- Salaries and Benefits: 18% (31 FTE)
- Services and Supplies: 24% (Insurance, IT, rent)
OPERATIONS EXPENSES FY 2019-20
$32 MILLION

- Services and Supplies: 36% (Uniforms, PTC equipment, PGE)
- Operations Equipment: 10% (Wheel press, utility trucks)
- Salaries and Benefits: 54% (107 FTE)
BUDGETED REVENUE

- **Sales Tax (Restricted):** $40 million --Reliable revenue source
  - Amount cannot be increased by policy

- **Fare Revenue (Discretionary):** Currently $4 million
  - Current year amounts hindered by PGE/Fires
  - Opening of Larkspur, Novato, new schedule: Fare revenues up but would be impacted by service cuts
  - Fare revenue review would include existing discounts

- **Other revenues $7 million** (combination of restricted and discretionary)
  - State assistance: Currently maximizing state support by putting out more trains than required by Measure Q, tied to service levels
  - Advertising, leases, permits discretionary but limited
RESERVES

➢ Status Quo ("Do Nothing") budget would mean dipping into reserves for operations

➢ Budget Process will include a discussion about establishing a policy for minimum reserves

➢ Develop Board policy about how much to tap into reserves in the coming years
NEXT STEPS

▪ Conduct public workshops in April/May to identify policy choices for the next two fiscal years with a goal of long-term sustainability

▪ Specific policy discussions will depend on the outcome of the March election

▪ Continue to work toward the future as we have always done