



SMART

Your train has arrived.

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

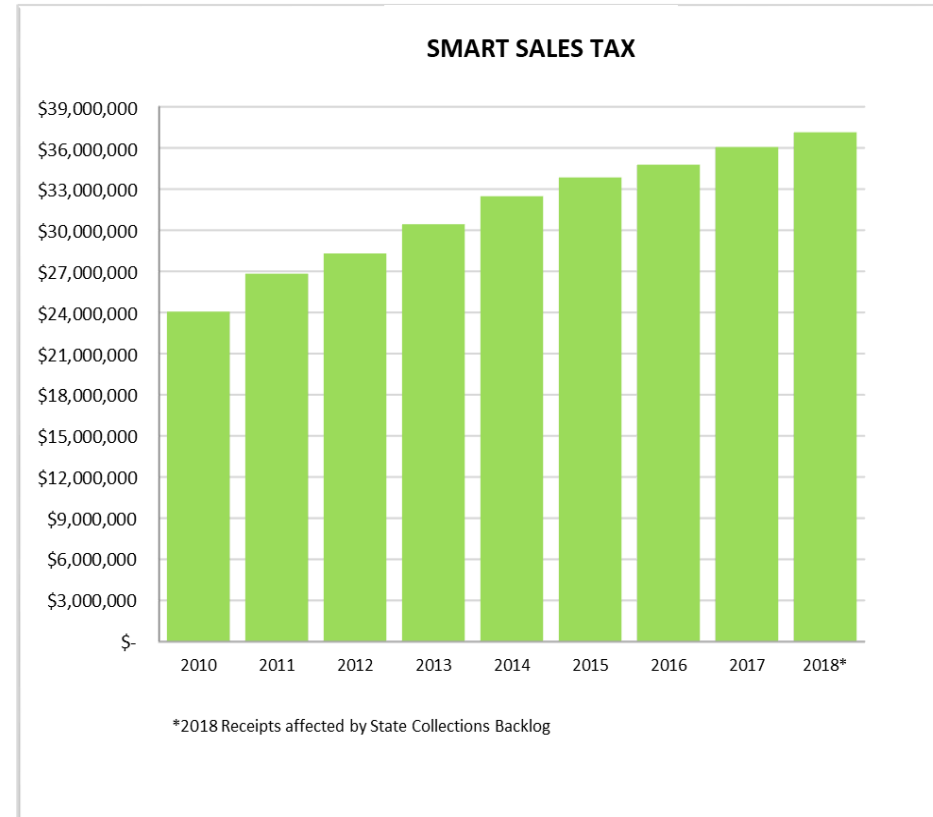


SALES TAX HISTORY:

- » 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

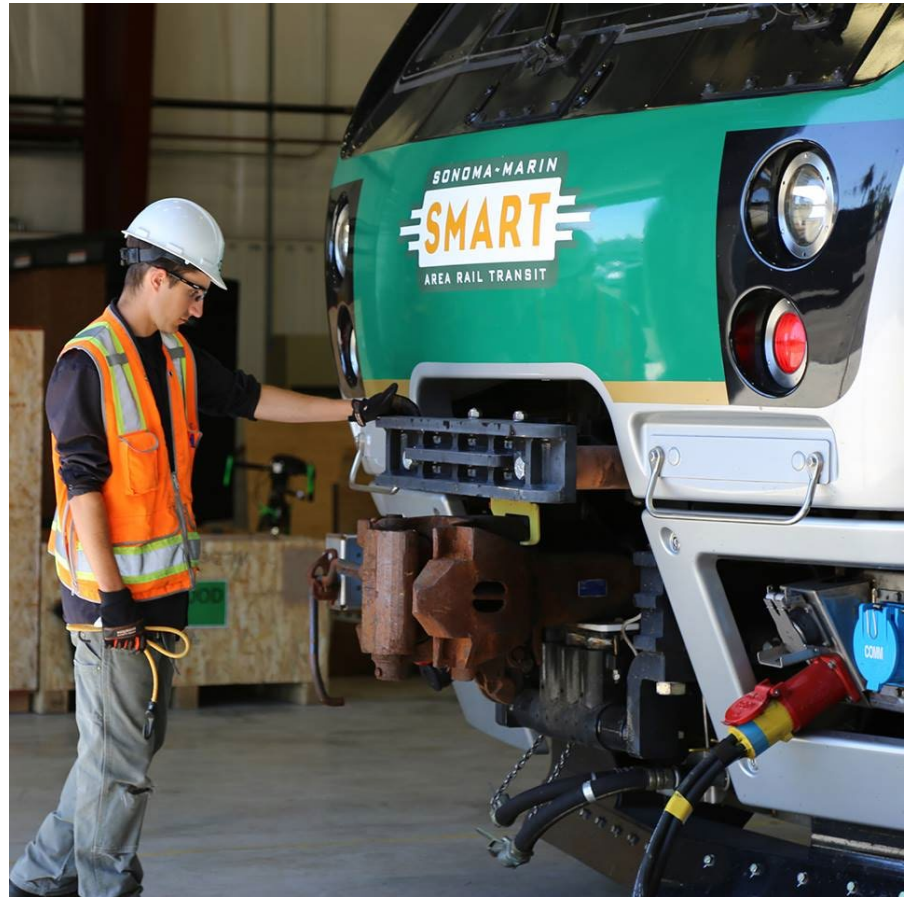


SALES TAX PLANNING

- 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

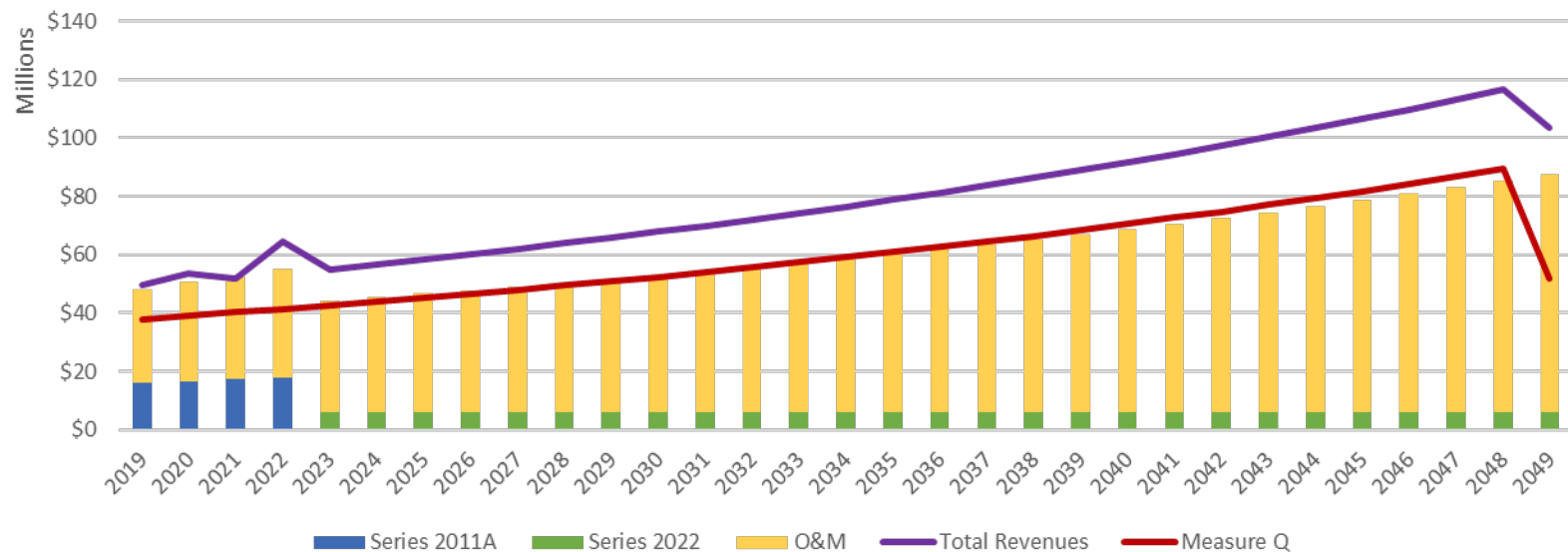
- Current debt service of \$16 million -- this leaves only \$22 million of sales tax funds for all other needs
- Other revenues :
 - » Fare revenue \$3.6 million
 - » State Transit Assistance: \$1.7 million
 - » SB 1 revenues for operations: \$3.9 million
 - » Other state sources for capital and state 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**



Sonoma-Marín Area Rail Transit District
Strategic Plan 2014

BOARD OF DIRECTORS APPROVED DECEMBER 17, 2014



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