Board of Directors Meeting: May 6, 2020 - Public Comments

Date	Name	5. Public Comment on Non-Agenda Items
5/5/2020	Steve Mosher	There are some on the Board that have suggested a total review of SMART's functions from top down. Now what ? Here is what I would suggest - convene a Closed Meeting to discuss management issues, conduct a Closed Meeting on a review of the Board and it's members. Some have years on the Board yet are sorely ill-informed and it shows. Perhaps all of those Agencies, Boards and Commissions they serve on are too much for one to actually be a Director. I can think of more than a few that are derelict in their duties and functions. Who to run the overview ? The only entity I would trust is a Grand Jury report with concrete recommendations that each point be voted upon by the entire Board with discussion, questions and comments. Not run by the General Manager or staff. No more ignoring their sage advice. Your situation is dire, act like it. Have an ad-hoc Grand Jury composed of members from both counties. Allow some of it to be made public. Be honest for once. Also --- it seems that the maximum capacity for SMART commuter ridership is around 2,500 daily riders. You have scant room for growth due to single tracking and platform lengths. SMART doesn't have unlimited potential and that should be acknowledged. The 'third' car situation is absurd as it doesn't allow for pass-thru between cars. What a mistake that was.
Date	**Name**	**6. Consent**
		NONE

Board of Directors Meeting: May 6, 2020 - Public Comments

Date	Name	7. Fiscal Year 2019-2020 Budget Update, Fiscal Year 2020-2021 Budget Reductions and Early Action Items
5/5/2020	Mike Arnold	"Questions and Comments on the Memo, “Fiscal Year 2019-20 Budget Update, Fiscal Year 2020-21 Budget Reductions, and Approval of Early Action Items” The staff Memo provided to the Board provides some initial but incomplete financial information for the Board to undertake “scenario analysis,” which is necessary under the current pandemic and economic challenges. There are three material uncertainties that impact SMART’s financial future. These are: • How long the pandemic lasts and social distancing is required • How long it will be before the public is willing to return to the confines of enclosed public transit vehicles • How long and deep the economic contraction be impacting the purchases of taxable goods in Marin and Sonoma counties Many questions remain for staff to answer in order to provide sufficient guidance to the Board for developing alternative operational plans. Some questions not answered are provided below. I conclude with some summary comments and recommendations for next steps. Technical Questions that Need to be Answered 1. Regarding the $6 Million Estimate of Required Expense Reductions for the Remainder of FY 2019/20. • Please provide a table detailing how you derived the estimate for the $6 million necessary this fiscal year? How does this number vary if sales tax revenues drop greater than assumed for the remainder of this fiscal year? • The table in the Memo indicates that the agency is forecasting $31.4 million for sales tax revenues for this fiscal year. This appears to be a significant underestimate of potential revenues when compared to the CDFTA allocation reports. • According to the CDFTA Report (“Local Allocation to Special District - Payments to Special Districts from the Transactions (Sales) and Use Tax”) $31.5 million has been “allocated to” SMART through March 31st. Data from this table* closely aligns with past fiscal year figures for annual sales tax revenues received and can be used to assess trends in this revenue source, even if there are differences in timing between the CDFTA report and SMART’s receipts. * For reference this table is available at www.cdtfa.ca.gov/dataportal/dataset.htm?url=MonthlyLocalAllocationSpecialDistrict It provides monthly sales tax revenue allocations beginning in July 2010. July – June data closely aligns with reported “actual” budget figures. However, there are notable timing lags in the revenues received by SMART. 2. Regarding Current and Forecast Financial Reserves • SMART Strategic Plan for projected net income for this fiscal year of -$19.2 million, with ending reserves of $24.6M.

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It projected net income for FY 2020/21 of -$4.4 million, with ending reserves of $20.2M. • What is the current level of financial reserves? • What is the June 30th forecast of financial reserves and how will this vary with the range of sales tax revenues likely for the remainder of this fiscal year? • What is the forecast level of financial reserves in each of the alternative sales tax revenue scenarios at the end of FY 2020/21? 3. Regarding Operating Expenses • What are the current operating expenses for FY 2019/20? • What were the monthly expenses of providing weekend service and how much has been saved by eliminating this service earlier this year? • What is the monthly expense of operating 16 trains per weekday vs. 38 trains per weekday in FY 2019/2020? • What are the projected operating expenses associated with operating 22 train schedules for all of FY 2020/21? 4. Regarding Fare Revenues and the Fare Revenue Forecast • How much is the District currently earning in fare and parking revenues per month following the cuts in train service to 16 trains per weekday? • The Monthly Financial Report for March (provided at the April 15th Board meeting) reports fare and parking revenues to be $3 million through March. The table in the memo for this fiscal year says fare revenues will be lower than current receipts. What explains this difference? • Why are fare revenues forecast to be almost 29% higher in FY 2020/21 than FY 2019/20? 5. Regarding the Alternative Forecasts for FY 2020/21 • Why are fare revenues forecast to be almost 29% higher in FY 2020/21 than FY 2019/20? • The agency is currently operating 16 trains per weekday. What is the reasoning underlying the forecast of 22 trains per weekday? • What is the cost of adding an additional 6 trips? • What is the assumed ridership associated with the fare revenue forecast for FY 2020/21? How will ridership vary by scenario? • The range for declines in sales tax revenues for FY 2021 (relative to the FY 2020 budget figure) range from -9% (mild scenario) to -25% (deep impact). o Is -25% sufficient to provide a lower bound for the impact of the pandemic should it be present through June 2021? • What are operating expenses per rider in each of the scenarios? • What is the taxpayer subsidy per rider in each of the scenarios? 6. Regarding the Collaboration of Transit Services with Golden Gate, Marin County, and Sonoma County Transit Services • Given the significant reductions of passengers and limited reductions in SMART's current operating expenses, SMART more closely coordinate operational plans with other agencies to save taxpayer resources, while maintaining essential transit services? Comments and Recommendations for Next Steps and How Staff Can Provide a More Complete Picture of SMART's Financial Future to the Board and Public 7. The purpose of scenario analysis is to provide guidance to decision makers when future outcomes are highly uncertain and not in control of the agency. In the case of SMART, the goal should be to demonstrate the uncertainties associated with the economic future and how it impacts: • SMART's key revenue source: sales tax revenues • How, in turn, the variance in this revenue source leads to different conclusions regarding the service and staffing levels that the agency can sustain • SMART's use of financial reserves • Ridership • Relevant performance statistics such as operating costs per rider and taxpayer subsidy per rider.

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8. In order to address these issues staff needs to expand the analysis to provide scenario analysis of the next three months and the next fiscal year. In addition, given the latest information, staff should consider analyzing segregate its analysis of FY 2020/21's budget into six month time frames. The reason for this is that the outlook in January could be radically different depending on advances in the treatment of patients, the material increase in testing and tracking infrastructure, and finally the development of a vaccine. 9. Staff needs to develop a full table of SMART's complete budget with both revenues and expenses under three significantly different assumptions about our country's economic future through June 2021. How large staff reductions might be in each scenario as well as what weekday operations consistent with these different scenarios should be specified and required in all future presentations until the pandemic is resolved. 10. Technical recommendation: In the Monthly Financial Reports, there are notable differences in the timing of reported "actual" budget expenses and revenues vs. the budget. For example, as noted above, the CDFTA's monthly report provides sales tax revenue allocations at the end of the first week of the month, but these revenues aren't reflected in the budget reports. Similarly, as of December 2019, less than one-third of the budgeted administrative and operating expenses were reported as actual expenses even though half of the fiscal year had occurred. Under normal times, these differences in timing of revenues and expenses should not cause great consternation. However, in the staff Memo, these differences have distorted the forecast of the expected revenues and expenses of the agency. As noted above, one very important distortion is the forecast for sales tax revenues. For sure sales tax revenues are going to be diminished in the last quarter of this fiscal year, but they will not be zero. Future presentations on the agency's finances during the crisis need to account for these timing differences because the near term forecasts of the agency's financial position. 11. Two key measures of SMART's financial performance are operating expenses per passenger and taxpayer subsidy per passenger. Transit service in Marin-Sonoma travel corridor is an essential service. However, rail service may not be because GGT and Marin and Sonoma counties are providing bus services in the corridor and provide transit services at a far lower cost than SMART trains can. While this is not an easy issue for the Board to consider, in the current crisis it ought to consider how to best to maximize transit services."

Memo

To: SMART Board of Directors
From: Mike Arnold
Date: May 4, 2020
Subject: Questions and Comments on the Memo, "Fiscal Year 2019-20 Budget Update, Fiscal Year 2020-21 Budget Reductions, and Approval of Early Action Items"

The staff Memo provided to the Board provides some initial but incomplete financial information for the Board to undertake "scenario analysis," which is necessary under the current pandemic and economic challenges. There are three material uncertainties that impact SMART's financial future. These are:

- How long the pandemic lasts and social distancing is required
- How long it will be before the public is willing to return to the confines of enclosed public transit vehicles
- How long and deep the economic contraction be impacting the purchases of taxable goods in Marin and Sonoma counties

Many questions remain for staff to answer in order to provide sufficient guidance to the Board for developing alternative operational plans. Some questions not answered are provided below. I conclude with some summary comments and recommendations for next steps.

This analysis was posted in non-memo format to the *surveymonkey* portal now provided to the public for comments.

Technical Questions that Need to be Answered

1. Regarding the $6 Million Estimate of Required Expense Reductions for the Remainder of FY 2019/20.
    - Please provide a table detailing how you derived the estimate for the $6 million necessary this fiscal year? How does this number vary if sales tax revenues drop greater than assumed for the remainder of this fiscal year?
    - The table in the Memo indicates that the agency is forecasting $31.4 million for sales tax revenues for this fiscal year. This appears to be a significant underestimate of potential revenues when compared to the CDFTA allocation reports.
    - According to the CDFTA Report ("Local Allocation to Special District - Payments to Special Districts from the Transactions (Sales) and Use Tax") $31.5 million has been "allocated to" SMART through March 31st. Data from this table* closely aligns with past fiscal year figures for annual sales tax revenues received and can be used to assess trends in this revenue source, even if there are differences in timing between the CDFTA report and SMART's receipts.

* For reference this table is available at

www.cdtfa.ca.gov/dataportal/dataset.htm?url=MonthlyLocalAllocationSpecialDistrict

It provides monthly sales tax revenue **allocations** beginning in July 2010. July – June data closely aligns with reported "actual" budget figures. However, there are notable timing lags in the revenues **received by SMART.** See graph in the Appendix

2. Regarding Current and Forecast Financial Reserves
   - SMART Strategic Plan for projected net income for this fiscal year of -$19.2 million, with ending reserves of $24.6M. It projected net income for FY 2020/21 of -$4.4 million, with ending reserves of $20.2M.
   - What is the current level of financial reserves?
   - What is the June 30th forecast of financial reserves and how will this vary with the range of sales tax revenues likely for the remainder of this fiscal year?
   - What is the forecast level of financial reserves in each of the alternative sales tax revenue scenarios at the end of FY 2020/21?
3. Regarding Operating Expenses
   - What are the current operating expenses for FY 2019/20?
   - What were the monthly expenses of providing weekend service and how much has been saved by eliminating this service earlier this year?
   - What is the monthly expense of operating 16 trains per weekday vs. 38 trains per weekday in FY 2019/2020?
   - What are the projected operating expenses associated with operating 22 train schedules for all of FY 2020/21?
4. Regarding Fare Revenues and the Fare Revenue Forecast
   - How much is the District currently earning in fare and parking revenues per month following the cuts in train service to 16 trains per weekday?
   - The Monthly Financial Report for March (provided at the April 15th Board meeting) reports fare and parking revenues to be $3 million through March. The table in the memo for this fiscal year says fare revenues will be lower than current receipts. What explains this difference?
   - Why are fare revenues forecast to be almost 29% higher in FY 2020/21 than FY 2019/20?
5. Regarding the Alternative Forecasts for FY 2020/21
   - Why are fare revenues forecast to be almost 29% higher in FY 2020/21 than FY 2019/20?
   - The agency is currently operating 16 trains per weekday. What is the reasoning underlying the forecast of 22 trains per weekday?

- What is the cost of adding an additional 6 trips?
- What is the assumed ridership associated with the fare revenue forecast for FY 2020/21? How will ridership vary by scenario?
- The range for declines in sales tax revenues for FY 2021 (relative to the FY 2020 budget figure) range from -9% (mild scenario) to -25% (deep impact).
    - Is -25% sufficient to provide a lower bound for the impact of the pandemic should it be present through June 2021?
- What are operating expenses per rider in each of the scenarios?
- What is the taxpayer subsidy per rider in each of the scenarios?

6. Regarding the Collaboration of Transit Services with Golden Gate, Marin County, and Sonoma County Transit Services
    - Given the significant reductions of passengers and limited reductions in SMART's current operating expenses, SMART more closely coordinate operational plans with other agencies to save taxpayer resources, while maintaining essential transit services?

Comments and Recommendations for Next Steps and How Staff Can Provide a More Complete Picture of SMART's Financial Future to the Board and Public

7. The purpose of scenario analysis is to provide guidance to decision makers when future outcomes are highly uncertain and not in control of the agency. In the case of SMART, the goal should be to demonstrate the uncertainties associated with the economic future and how it impacts:
    - SMART's key revenue source: sales tax revenues
    - How, in turn, the variance in this revenue source leads to different conclusions regarding the service and staffing levels that the agency can sustain
    - SMART's use of financial reserves
    - Ridership
    - Relevant performance statistics such as operating costs per rider and taxpayer subsidy per rider.
8. In order to address these issues staff needs to expand the analysis to provide scenario analysis of the next three months and the next fiscal year. In addition, given the latest information, staff should consider analyzing segregate its analysis of FY 2020/21's budget into six month time frames. The reason for this is that the outlook in January could be radically different depending on advances in the treatment of patients, the material increase in testing and tracking infrastructure, and finally the development of a vaccine.
9. Staff needs to develop a full table of SMART's complete budget with both revenues and expenses under three significantly different assumptions about our country's economic future through June 2021. How large staff reductions might be in each scenario as well as what weekday operations consistent with these different scenarios should be specified and required in all future presentations until the pandemic is resolved.

10. *Technical recommendation*: In the Monthly Financial Reports, there are notable differences in the timing of reported "actual" budget expenses and revenues vs. the budget. For example, as noted above, the CDFTA's monthly report provides sales tax revenue allocations at the end of the first week of the month, but these revenues aren't reflected in the budget reports.

    Similarly, as of December 2019, less than one-third of the budgeted administrative and operating expenses were reported as actual expenses even though half of the fiscal year had occurred.

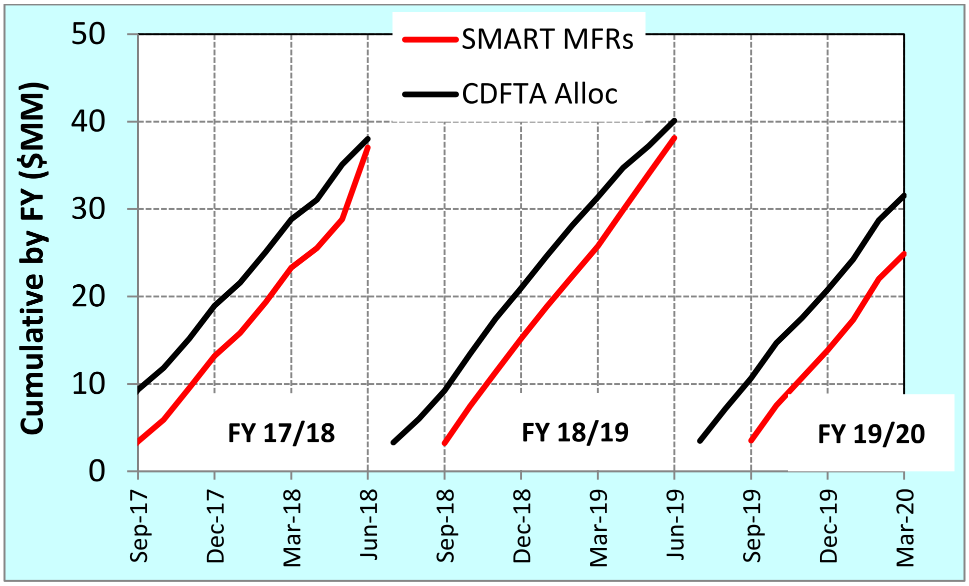
    Under normal times, these differences in timing of revenues and expenses should not cause great consternation. However, in the staff Memo, these differences have distorted the forecast of the expected revenues and expenses of the agency. As noted above, one very important distortion is the forecast for sales tax revenues. For sure sales tax revenues are going to be diminished in the last quarter of this fiscal year, but they will not be zero.

    Future presentations on the agency's finances during the crisis need to account for these timing differences because the near term forecasts of the agency's financial position.

11. Two key measures of SMART's financial performance are operating expenses per passenger and taxpayer subsidy per passenger. Transit service in Marin-Sonoma travel corridor is an essential service. However, rail service may not be because GGT and Marin and Sonoma counties are providing bus services in the corridor and provide transit services at a far lower cost than SMART trains can. While this is not an easy issue for the Board to consider, in the current crisis it ought to consider how to best to maximize transit services.

Appendix
Comparison of CDFTA Allocations and Monthly Finance Report Sales Tax Revenues

Cumulative Sales Tax Revenues by Fiscal Year



In the graph above, the black line is the cumulative sales tax revenues reported in the CDFTA data portal in the ¼ cent allocation reports. Revenues are cumulated separately for each fiscal year

The red line is from SMART's "Monthly Financial Reports" (MFRs) and reported to the SMART BOD by its CFO for most months (some months have not been presented). June values are from the year end budget report that includes the proposed budget for the subsequent fiscal year.

Note that by the June 30th the numbers are very close. Also, they appear to get closer by month as the fiscal year progresses.