

## Board of Directors Meeting: June 3, 2020 – Public Comments

Date	Name	5. Public Comment on Non-Agenda Items
5/30/2020	Fred Schouten	<p>My first comment is regarding the proposed 6-1-6 Weekday Schedule. As a daily weekday rider commuting to San Francisco I am urging the board and staff to consider adjusting the schedule so it better aligns with departure and arrival time of the Golden Gate Transit Route 101 from the San Rafael Transit Center. Especially early in the morning, taking route 101 to San Francisco is a more convenient option for those passengers working in the Civic Center area. Under the proposed 6-1-6 schedule, the train arrives at the SRTC at 6:14 AM, the 101 bust leaves at 6:15 AM. Every day I have to run to catch this bus which is not needed if the schedule is adjusted to arrive a few minutes earlier. Secondly, taking a bus into San Francisco is also more cost efficient, \$6.00 vs \$8.00 for the ferry. My second comment is regarding customer service. I am aware that the initial contact is made with a Golden Gate Transit representative from where the comment is submitted to a SMART employee. The GGT representatives are mostly responsive, however receiving feedback from a SMART representative is non-existent unless one sends an email copying the board members, which in my opinion is unacceptable. Due to the time of the board meetings, I am unable to attend in person or online. Thank you for your consideration.</p> <p>Regards, Fred Schouten</p>
Date	Name	6. Consent
		<p><b>a. Authorize the General Manager to Award a Sole Source Purchase Order to ZF North America Inc to Purchase 14 Shift Cylinders and 14 Valve Blocks in an amount of \$93,628.35</b></p>
		None
Date	Name	7. Authorize the General Manager to Award a Purchase Agreement for Portable Hydraulic Rerailing Equipment to Railquip, Inc. in the amount of \$147,721.73
		None
Date	Name	8. Review Revised Fiscal Year 2019-20 Budget and Proposed Fiscal Year 2020-21 Budget
6/2/2020	Mike Arnold	Letter attached

## Memo

To: SMART Board of Directors  
From: Mike Arnold  
Date: June 2, 2020  
Subject: Comments on Proposed Budget

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Based on review of the proposed budget, here are several items needed to make the budget discussion more transparent:

- The assumptions underlying key variables are not provided
- Relevant performance information is not provided
- There are inconsistencies in the implied assumptions about consumer behavior and the response to the COVID-19 pandemic
- Forecast sales tax revenues for the remainder of this fiscal year understate this year's revenues by several million dollars
- Rail ridership implied by the fare revenue forecast is overly optimistic given COVID-19 and the very uncertain economy
- Financial reserves are being used to maintain staff levels in place of managing the agency's core operating expenses.

Comparison of the agency's operating expenses – defined as total expenditures less capital and debt service expenses – appears to be held relatively unchanged from this fiscal year, despite unprecedented declines in ridership and rail operations. More complete information would help in this case, but the clear implication is that the budget incorporates a significant increase in the operating costs per passenger.

As the Board knows, pre-COVID operating costs per passenger exceeded \$50. By definition, if operating expenses are held constant while the number of passengers is limited by health concerns, this important performance metric will be exceedingly high.

One of the messages voters sent the Board when they rejected Measure I in March, was that it wanted the Board to exhibit more due diligence and oversight over staff as well as provide greater transparency regarding the agency's financial and operating performance. The budget as proposed fails to address these issues.

### **Specific Comments on the Proposed Budget**

#### 1. The Budget Understates Sales Tax Revenues for FY 2020

Staff claims "estimated" sales tax revenues for FY 2020 are \$33.6 M. This is a serious understatement of revenues.

- I've reported in emails to selected Board members and a memo to the COC, the CDFTA reports the agency has *already* been allocated \$34.2 million through April 2020.

- In May and June of 2019, the agency was allocated \$5.4M. Even if the agency received only half this amount in May and June, revenues would exceed \$36M this fiscal year. This means the sales tax revenue forecast is understated by at least \$3.3M if not more.

2. The Budget Overstates Potential Ridership for FY 2021

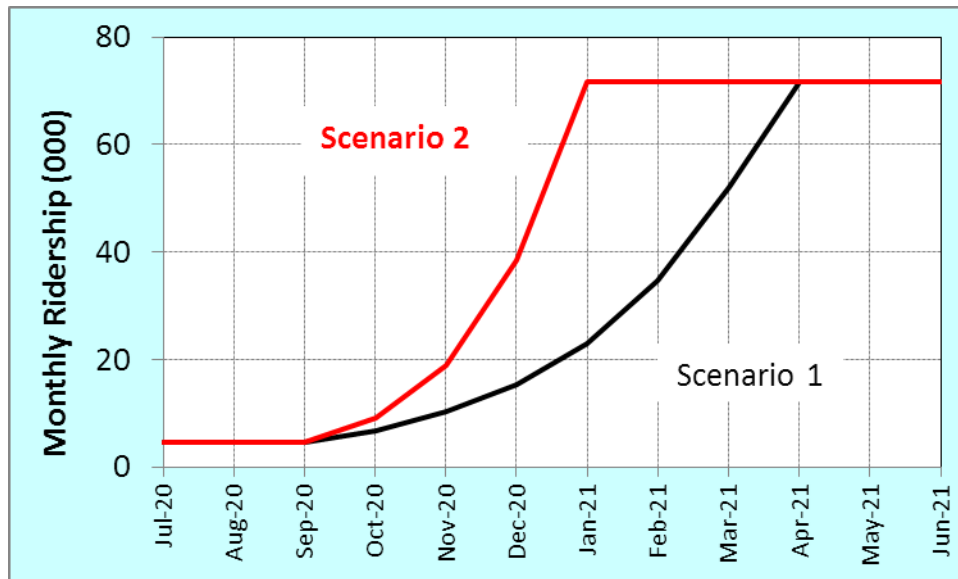
Staff doesn't provide a ridership forecast. But it can be calculated from published ridership and fare revenue data. From July 2020 – February 2021, average fare revenues were \$5.21 per passenger based on the ridership statistics and the Monthly Financial Reports. Dividing this figure into the forecast fare revenues yields an assumed ridership of 510,000 for FY 2021. Is this reasonable?

Two “what if” ridership scenarios are graphed in Figure 1 below in order to explore this question.

- In Scenario 1 (black line) I assumed ridership remains constant for three months then grows at a 50 percent rate each month until the January 2020 actual ridership is reached. It is then held constant at this high level for the remainder of the FY 2021. Total ridership in this scenario is 319,000.
- In Scenario 2 (red line) I assumed ridership over the next fiscal year is 510,000 and then backed into the growth rate required to obtain it. After holding ridership constant for the next three months, obtaining 510,000 requires ridership double *every month* until the January 2021, when I cap ridership at the high level of January 2020. Total ridership is that underlying the budget number of 510,000 by construction.

Is it reasonable to think that ridership doubles every month beginning in October? The Board should address this question and this assumption in light of the uncertainty regarding the economy recovery as scientists currently claim.

**Figure 1**  
**Two Ridership Scenarios**



### 3. The Budget Presents No Information About:

- How long the SMART will operate 16 trains per weekday
- When the Agency will initiate 26 trains per weekday and restart the 10 trains per weekend day.

The budget discussion states that the agency will begin operating 26 trains per weekday and 10 trains per weekend day when the “Sheltering in Place” rules are lifted. The staff makes explicit operating cost estimates but makes no claim when train schedule changes are going to occur. An explicit statement of assumptions is necessary to inform the public what the financial forecast is based on.

Staff needs to be asked, what the operating expenses per month would be for 16 weekday trains, 22 weekday trains and 26 weekday trains – as well as the operating expense per month for weekend service.

### 4. The Proposed Budget Makes Insignificant Cuts in Operating Expenses

Table 1 (next page) compares key summary line items in the Strategic Plan, the FY 2020 adopted budget, estimates year-end for this fiscal year, and the proposed FY2021 budget. Comparing operating expenses – excluding debt service and capital expenses – for this and next year indicates staff is proposing **no significant changes in the core operating expenses** of the agency despite a significant decline in forecast sales tax revenues.

### 5. Staff Proposes to Use the Agency’s Financial Reserves “Minimum” Policy as a “Target”

The forecast of a negative value for “Net Income” in Table 1 demonstrates staff is proposing to continue to deplete SMART’s financial reserves, while holding operating expenses (as defined above) relatively unchanged. In the budget planning memo (page 58 of 102), the memo states,

*Going forward, your Board had made the policy decision to set aside a minimum of \$10 million as its Agency Reserve, an amount that was developed to match 25% of SMART’s operating expenses. This proposed budget achieves that minimum balance through the end of Fiscal Year 2020-21.*

The Board Policy is a “limit” policy, designed to provide the agency reserves to address uncertain events. It is not intended to rationalize the lack of control over the agency’s operating expenses. Significant uncertainty exists about the economy and the response of potential passengers to health concerns that could negatively impact the agency’s assumed revenues next year. Given such uncertainty, prudent management requires that financial reserves be preserved, not depleted. The budget as proposed has clearly adopted the opposite approach, by advocating a planned decrease in reserves **rather than** undertaking difficult–but necessary– staff furloughs and other reductions needed to manage reduced passenger demand with the appropriate number of scheduled trains.

**Table 1**  
**Budget Revenues and Expenditures Compared (\$M)**

Budget Item	FY 2020			FY 2021	
	Strategic Plan	Adopted Budget	Estimated Actuals	Strategic Plan	Proposed Budget
Measure Q	38.3	39.3	33.6	39.5	33.0
Fare Revenues	4.1	4.2	3.2	4.3	2.7
Other Revenues	8.6	31.6	50.2	12.8	35.5
Federal Funding	NA	4.7	13.5	NA	13.5
State Funding	NA	21.4	29.1	NA	16.0
<b>Total Revenues</b>	<b>51.0</b>	<b>75.1</b>	<b>87.0</b>	<b>56.6</b>	<b>71.2</b>
Memo: Total Revenues ex State and Federal Sources	51.0	49.1	44.4	56.6	41.7
Operating Expenses ex Debt Service	41.3	44.9	42.2	43.2	43.2
Debt Service	16.7	16.7	16.8	17.4	16.4
Capital Expenditures	12.2	33.7	42.6	0.3	19.1
<b>Total Expenditures</b>	<b>70.2</b>	<b>95.3</b>	<b>101.6</b>	<b>60.9</b>	<b>78.7</b>
<b>Net Income</b>	(19.2)	(20.2)	(14.6)	(4.3)	(7.5)

6. The Agency Should Disclose Performance Statistics in its Budget Discussion

With the significant decline in ridership that has occurred and is expected to continue and virtually no material cuts in the agency's operating expenses, two important performance measures are operating costs per rider and taxpayer subsidy per rider. These measures have materially deteriorated, not just for SMART but for all transit agencies, but they are important to disclose in order to provide full and transparent information to the public.

Based on the provided information, the two performance measures can easily be calculated and are:

- Operating Expenses per Rider = \$84.62
- Taxpayer Subsidy per Rider = \$79.42

Both of these numbers will increase further, the longer ridership is limited by potential rider concerns about their exposures to COVID-19 while only limited reductions are made to the agency's core operating expenses.