

Memorandum

Date: April 19, 2018
To: Transportation Authority Board
From: Anna LaForte – Deputy Director for Policy and Programming
Subject: 05/22/18 Board Meeting: Adopt the 2019 Prop K Strategic Plan Baseline

<p>RECOMMENDATION <input type="checkbox"/> Information <input checked="" type="checkbox"/> Action</p> <ul style="list-style-type: none">• Adopt the 2019 Prop K Strategic Plan Baseline. <p>SUMMARY</p> <p>At its April 10, 2018 meeting, the Transportation Authority Board recommended approval of the overall approach to the 2019 Prop K Strategic Plan and 5-Year Prioritization Program (5YPP) update. One of the first steps is to establish a Strategic Plan Baseline to determine how much Prop K revenue will be available for projects through the end of the Expenditure Plan in 2034. To that end, the baseline incorporates actual revenues and expenditures including financing costs since the 2014 Strategic Plan update through Fiscal Year 2016/17, updated revenue projections through 2034, and updated debt assumptions based on our first bond issuance in 2017 and the revolving credit facility. The baseline also includes updated Prop K policies and updates for the Prop K major capital projects and the paratransit operations category which do not have a 5YPP requirement. Compared to the 2014 Strategic Plan, the 2019 baseline has slightly lower revenue projections over the 30-year plan period (decreasing about 1% from \$3.346 billion to \$3.299 billion in year of expenditure dollars) and lower financing costs (down from \$296 million to \$278 million) due primarily to lower long term debt needs (down from \$676 million to \$577 million). The baseline also includes a reduced capital reserve (from \$406 million to \$288 million) as we are getting closer to the end of the Expenditure Plan period. The net effect is a modest amount of additional funding (\$55 million) for projects. Adoption of the Strategic Plan Baseline supports development of the 5YPPs, which will determine how Prop K funds will be spent in the programmatic categories for the 5-year period starting July 1, 2019. We are targeting adoption of the 2019 Strategic Plan and 5YPP update by November/December 2018.</p>	<ul style="list-style-type: none"><input type="checkbox"/> Fund Allocation<input checked="" type="checkbox"/> Fund Programming<input type="checkbox"/> Policy/Legislation<input type="checkbox"/> Plan/Study<input type="checkbox"/> Capital Project Oversight/Delivery<input type="checkbox"/> Budget/Finance<input type="checkbox"/> Contract/Agreement<input type="checkbox"/> Other: <hr/>
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DISCUSSION

Background.

In November 2003, nearly 75% of San Francisco voters approved Prop K, extending the existing half-

cent local transportation sales tax and adopting a new 30-year Expenditure Plan. The Prop K Expenditure Plan describes the types of projects that are eligible for funds, including both specific projects (e.g. Central Subway) and programmatic (i.e., non-project specific) categories. It also establishes limits on sales tax funding by Expenditure Plan line item and sets expectations for leveraging of sales tax funds with other federal, state and local dollars to fully fund the Expenditure Plan programs and projects. The Expenditure Plan estimates that \$2.35 billion (in 2003 \$'s) in local transportation sales tax revenue will be made available to projects over the 30-year program; however, it does not specify how much sales tax funds any given project would receive by year. The Expenditure Plan requires that the Transportation Authority develop and adopt periodic updates to the Strategic Plan and 5YPPs to guide the implementation of the program while supporting transparency and accountability.

The Prop K Strategic Plan sets policy for administration of the program to ensure prudent stewardship of taxpayer funds. It also reconciles the timing of expected sales tax revenues with the schedule for when project sponsors need those revenues, and provides a solid financial basis for the issuance of debt needed to accelerate the delivery of projects and their associated benefits to the public. The 5YPPs identify the specific projects that will be funded with Prop K.

We last updated the Strategic Plan and 5YPPs in 2014. We are currently in year four of the 2014 5YPPs, which identify projects for funding from July 1, 2014 through June 30, 2019 (Fiscal Years 2014/15 through 2018/19).

Prop K Strategic Plan Baseline.

Adoption of the 2019 Strategic Plan Baseline is the first step in the Strategic Plan and 5YPP update process. The baseline determines how much Prop K funds are available for each of the Expenditure Plan line items by fiscal year through the end of the 30-year Expenditure Plan in 2034. It includes a true-up to incorporate actual revenues and expenditures since the 2014 Strategic Plan update, as well as updating the three components of the Strategic Plan: policies, revenues, and expenditures.

Strategic Plan Policies.

The Strategic Plan policies, included as Attachment 1, provide Transportation Authority staff and project sponsors guidance for the efficient, day-to-day administration of the Prop K program. The policies address the allocation and expenditure of funds, and are structured around the Strategic Plan's guiding principles to optimize leveraging of sales tax funds, support timely and cost-effective project delivery, and maximize cost effectiveness of financing. Given that the policies have been refined through prior updates in 2009 and 2014, the proposed 2019 Strategic Plan policies include only minor updates for clarity purposes.

Sales Tax Revenues.

The baseline includes actual and budgeted Prop K sales tax revenues for Fiscal Year 2013/14 through Fiscal Year 2018/19. Overall, revenues are anticipated to come in about \$28 million higher than anticipated in the 2014 Strategic Plan for this 5-year period though we are seeing a slower rate of growth in recent years.

The baseline includes an updated Prop K sales tax revenue forecast through Fiscal Year 2033/34 (see Attachment 4). The sales tax revenue forecast we are proposing that the Board adopt is largely based on an economic model by our consultant, Beacon Economics, that considers population and employment growth projections for San Francisco, as well as consumer spending trends and changes at the State and Federal levels. In the near-term we are recommending a relatively conservative growth rate of 2.1% as a reflection of the slowing down in revenue growth that we have seen the last few

years. In the long term, however, the projections reflect more robust growth in revenues and are closer to the historic average of 3.5%. We prefer to err toward the conservative side to ensure that we have sufficient funds available for projects and debt.

When compared with the 2014 Strategic Plan, the 2019 Strategic Plan Baseline estimates sales tax revenue to be about 1% or \$46.7 million lower over the 30-year Expenditure Plan, for a total of \$3.30 billion versus the \$3.35 billion in the 2014 Strategic Plan. Sales tax revenues, net of program administration costs and programwide financing costs for grandfathered Prop B (the predecessor to Prop K) projects, are dedicated to project related expenses including project costs, financing costs for Prop K projects, and the capital reserve.

Prop K Expenditures.

Project Costs: As part of preparing the baseline we have incorporated actual Prop K allocations and expenditures since 2014. As we have seen in past updates, both allocations and expenditures have been slower than anticipated. Allocations as of April 2018, are \$143 million less and expenditures (reimbursements) through Fiscal Year 2016/17 are \$350 million less than assumed in the 2014 Strategic Plan. Through the 2019 Strategic Plan and 5YPP update, we will work with project sponsors and the Board to reprogram unallocated funds and update the anticipated reimbursement/expenditure schedules, with the anticipated net result being lower financing costs.

Financing Costs: Given the lower allocation and reimbursement request rates in the current 5YPP period, we just recently issued our first long-term debt (sales tax revenue bonds) resulting in lower financing costs and long-term debt needs than anticipated. In the 2014 Strategic Plan update, we anticipated the need for over \$670 million in long term debt. In the 2019 Strategic Plan Baseline, we estimate a total need of \$557 million, including the bond we issued last year. Financing costs for the remainder of the Expenditure Plan period are also lower, down from \$296 million to \$278 million.

Capital Reserve: The capital reserve serves as a contingency in case revenues are lower and/or financing costs are higher than anticipated. In the 2019 baseline, the reserve is set at 10% of annual revenues for Fiscal Year 2017/18 through the end of the Expenditure Plan period, plus the last $\frac{3}{4}$ year of Prop K in Fiscal Year 2033/34. We are gradually reducing the reserve with each Strategic Plan update. For the 2019 Strategic Plan Baseline, the capital reserve is set at \$288 million versus the prior update.

After incorporating all assumptions and information describe above, total funds available for projects in the 2019 Strategic Plan Baseline are \$2,584.9 million, or \$55.3 higher than what was adopted in the 2014 Strategic Plan. Total available funds for each category is shown in Attachment 6 in the enclosure. Attachments 8 and 9 in the enclosure show the planned amounts of Prop K funds available for each of the Expenditure Plan line items by fiscal year through the end of the 30-year Expenditure Plan in 2034.

Major Capital Project Updates

The Baseline also updates Prop K funding and cash flow for the major capital projects and the paratransit operations category which do not have the 5YPP requirement. The Prop K major capital projects include the Central Subway, Caltrain Modernization Program (including Electrification and Positive Train Control), Presidio Parkway (formerly known as the Doyle Drive Replacement Project) and the Caltrain Downtown Extension to a Rebuilt Transbay Terminal (renamed the Salesforce Transit Center). Attachment 7 in the enclosure provides a brief project update including the scope, status, schedule, cost and funding, challenges and Strategic Plan notes for each of the major capital projects.

Paratransit

We are recommending an increase in the annual amount of funds in the Paratransit category to continue recent funding levels of about \$10.2 million through Fiscal Year 2024/25. This amount was increased from \$9.67 million in Fiscal Year 2015/16 to cover the cost of reducing customer wait times for group van services. We are also recommending fully funding the Shopper Shuttle and Ramp Taxi Incentive projects with \$600,000 in Prop K funds spread over the next three years, which we are recommending for inclusion on the Lifeline Transportation Program contingency list, which is the subject of a separate agenda item. If additional Lifeline funds become available, the Prop K funds will be deobligated and returned to the Paratransit category for reprogramming. The last year of Prop K funding for the paratransit operations category, Fiscal Year 2025/26, is a partial year of funding. SFMTA concurs with the proposed programming.

Next Steps.

Adoption of the Strategic Plan Baseline will establish how much unallocated Prop K funds are available by Fiscal Year through 2034 for each Expenditure Plan line item (e.g. project or programmatic category) and allows us to initiate the 5YPP updates. As we work with Board members, sponsors, the public and other interested stakeholders to identify the projects to be funded in the next five years along with their Prop K cash flow needs, we will make corresponding changes to the Strategic Plan Baseline expenditures and financing assumptions. Then in fall 2018, the Board will be asked to concurrently adopt the final 2019 Strategic Plan and 5YPP updates.

FINANCIAL IMPACT

There are no impacts to the Transportation Authority's adopted or proposed amended Fiscal Year 2017/18 budget associated with the recommendation action. However, the Prop K Strategic Plan is an important long-range financial planning tool for the Transportation Authority as it forecasts sales tax revenues and expenditures, and estimates financing needs to ensure that sufficient funds are available when needed to deliver projects. Both the Strategic Plan and the 5YPPs will program funds to specific projects by fiscal year; however, actual allocation of funds is subject to separate approval action by the Board.

SUPPLEMENTAL MATERIALS

Attachment 1 – Draft 2019 Strategic Plan Baseline Presentation

Enclosure 1:

Attachment 1 – Draft 2019 Prop K Strategic Plan Policies

Attachment 2 – Prop K Expenditure Plan Summary

Attachment 3 – Prop K Expenditure Plan Line Items

Attachment 4 – Prop K Sales Tax Revenue Forecast

Attachment 5 – Available Funds and Priority 1 Funding Level Comparison (2003 \$s)

Attachment 6 – Available Funds by Expenditure Plan Line Item (YOE \$s)

Attachment 7 – Major Capital Projects Update

Attachment 8 – Planned Allocations and Financing Costs by Expenditure Plan Line Item (YOE \$s)

Attachment 9 – Planned Cash Flow and Financing Costs by Expenditure Plan Line Item (YOE \$s)

2019 Prop K Strategic Plan Baseline

Citizens Advisory Committee



SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

April 25, 2018

2019 Strategic Plan Baseline Presentation Overview



- ▶ **2019 Strategic Plan/5YPP Update**
 - ▶ Why is it important?
 - ▶ What is the process?

- ▶ **2019 Strategic Plan Baseline**
 - ▶ True-up revenues and expenditures
 - ▶ Update revenue forecast and debt assumptions
 - ▶ Update Strategic Plan Policies
 - ▶ Update 5-year project delivery plan for Major Capital Projects & Paratransit



2019 Strategic Plan/5YPP Update

Why is it important? Why now?



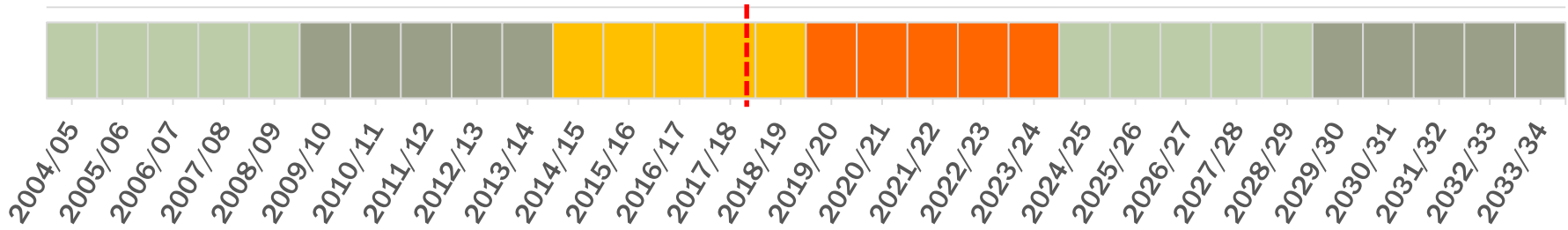
- ▶ Determines which projects will receive funding over next five years
- ▶ Respond to current context
 - ▶ Board interests, agency priorities, changing funding landscape
- ▶ Helps ensure funds are available to support project delivery
- ▶ Support transparency and accountability
 - ▶ Board, sponsor, public engagement
- ▶ Needed now to program funds for 5-year period starting July 1, 2019

30-Year Prop K
Expenditure Plan

2009 SP/5YPP
Update

2014 SP/5YPP
Update

2019 SP/5YPP
Update



Current 5-Year Period

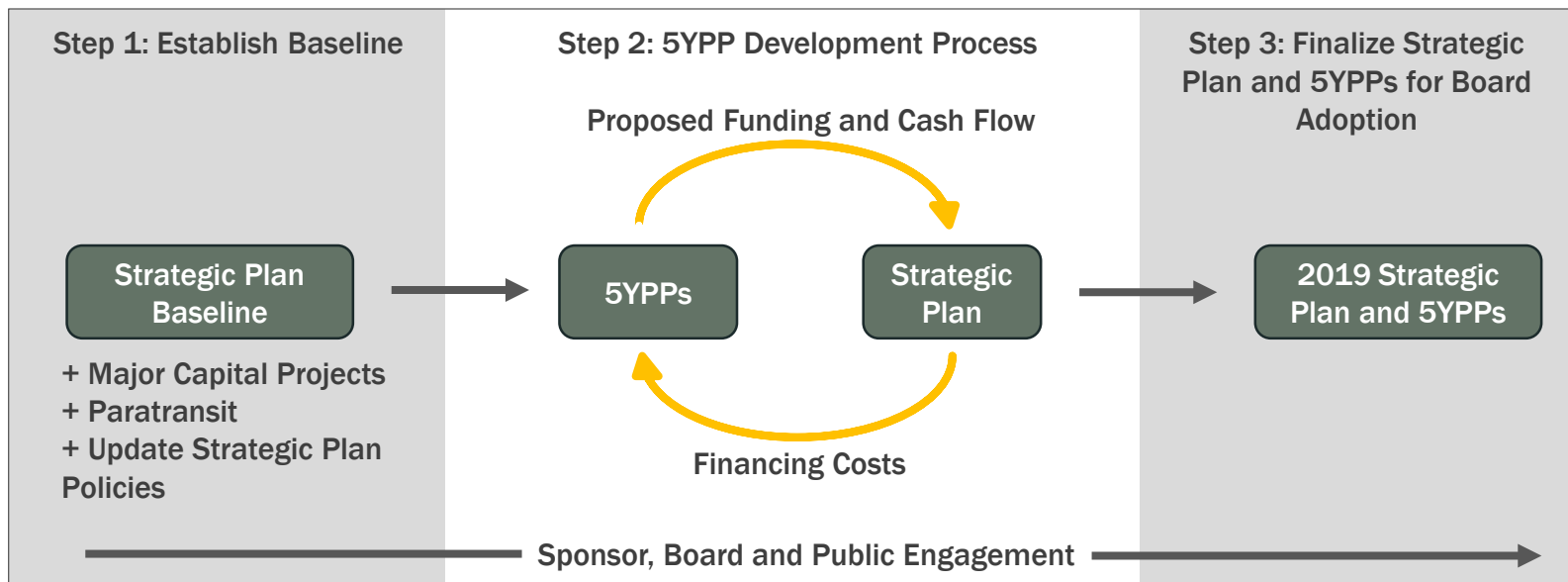
2019 SP/5YPP Update

2019 Strategic Plan/5YPP Update

What is the process?



- ▶ Iterative process requiring extensive communication between SFCTA and project sponsors
- ▶ Strategic Plan and 5YPPs evolve in parallel and are closely coordinated



2019 Strategic Plan/5YPP Update

Step 1: Establish Strategic Plan Baseline



For each Expenditure Plan category, the Strategic Plan Baseline determines how much Prop K funds are available by year through 2034.

Step 1: Establish Baseline

Strategic Plan
Baseline



- ▶ True-up to incorporate actual revenues and expenditures since 2014 Strategic Plan update
- ▶ Update revenue forecast and debt assumptions
- ▶ Update Strategic Plan Policies
- ▶ Update funding plan and project delivery plan for Major Capital Projects and Paratransit

Components of the Strategic Plan



POLICIES

REVENUES

EXPENDITURES

Sales Tax

Investment Income

Operating Expenditures

Capital Reserve

Project Costs

Financing Costs

2019 Prop K Strategic Plan Baseline

Prop K Policies



- ▶ Provides guidance to both Transportation Authority staff and project sponsors for program administration
- ▶ 2019: Minor updates for clarity purposes

Strategic Plan Guiding Principles:

1. Optimize leveraging of sales tax funds
2. Support timely and cost-effective project delivery
3. Maximize cost effectiveness of financing

Components of the Strategic Plan



POLICIES

REVENUES

EXPENDITURES

Sales Tax

Operating Expenditures

Capital Reserve

Project Costs

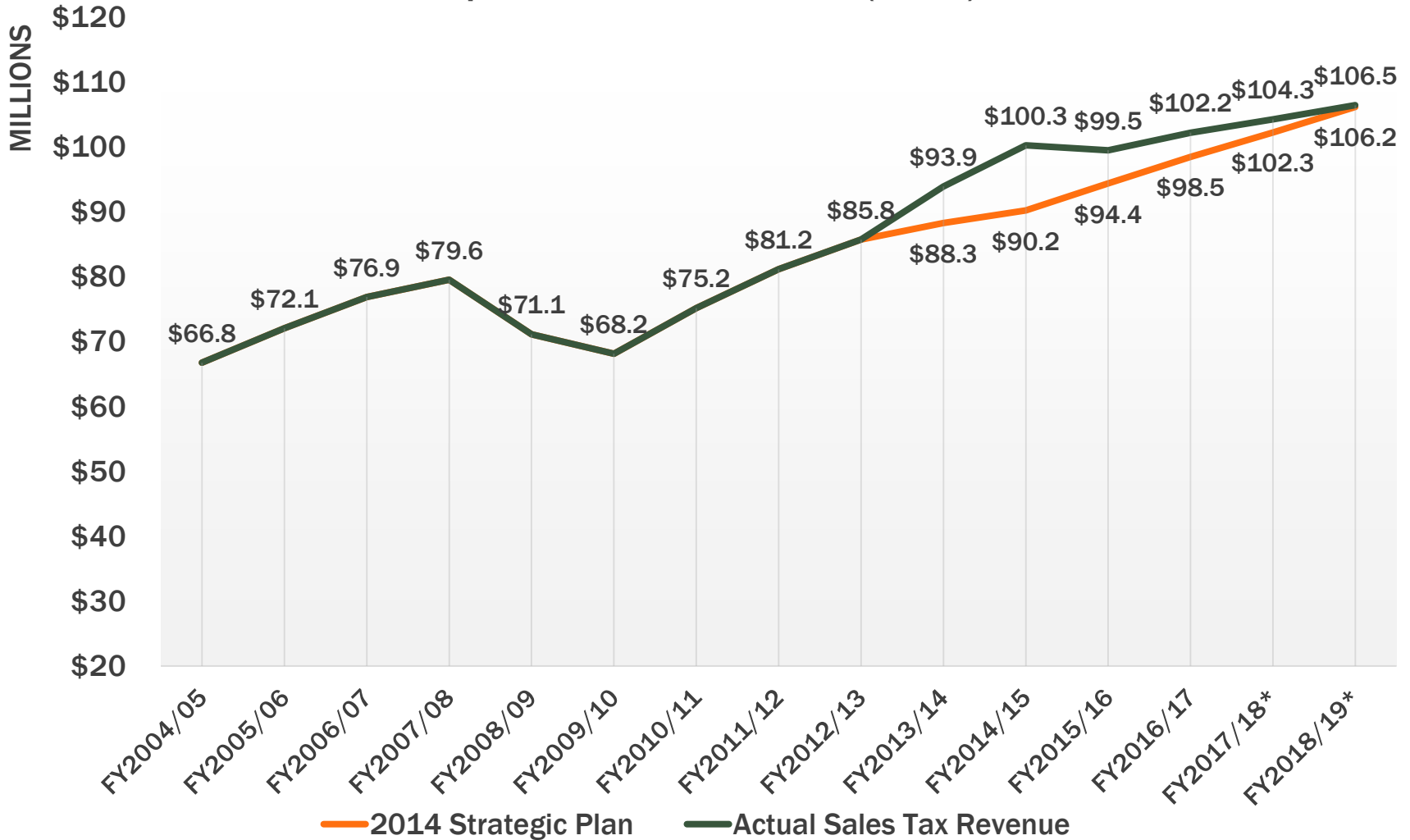
Investment Income

Financing Costs

2019 Strategic Plan Baseline Revenues



Prop K Sales Tax Revenue (YOE\$)

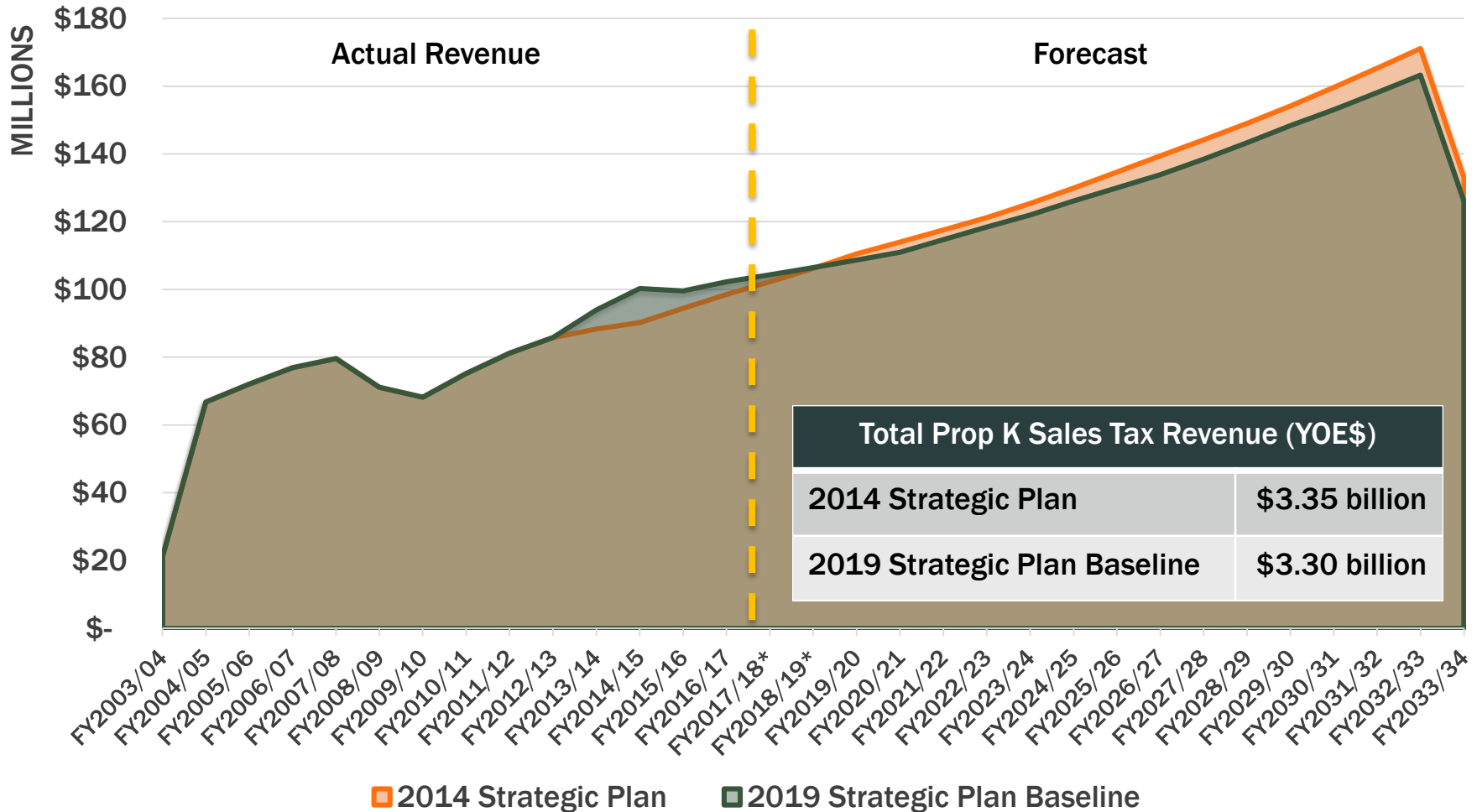


* Sales tax revenue for Fiscal Years 2017/18 and 2018/19 are projections

2019 Strategic Plan Baseline Revenues



Prop K Sales Tax Revenue (YOE\$)



Components of the Strategic Plan



POLICIES

REVENUES

EXPENDITURES

Sales Tax

Operating Expenditures

Capital Reserve

Interest Income

Project Costs

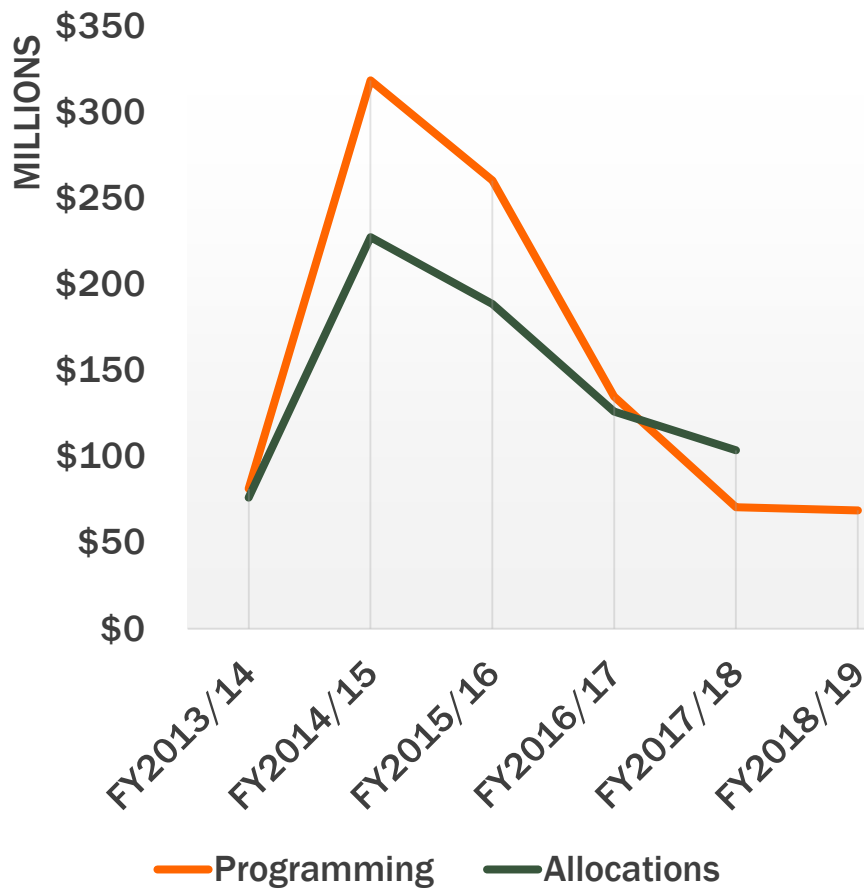
Financing Costs

2014 Strategic Plan Update

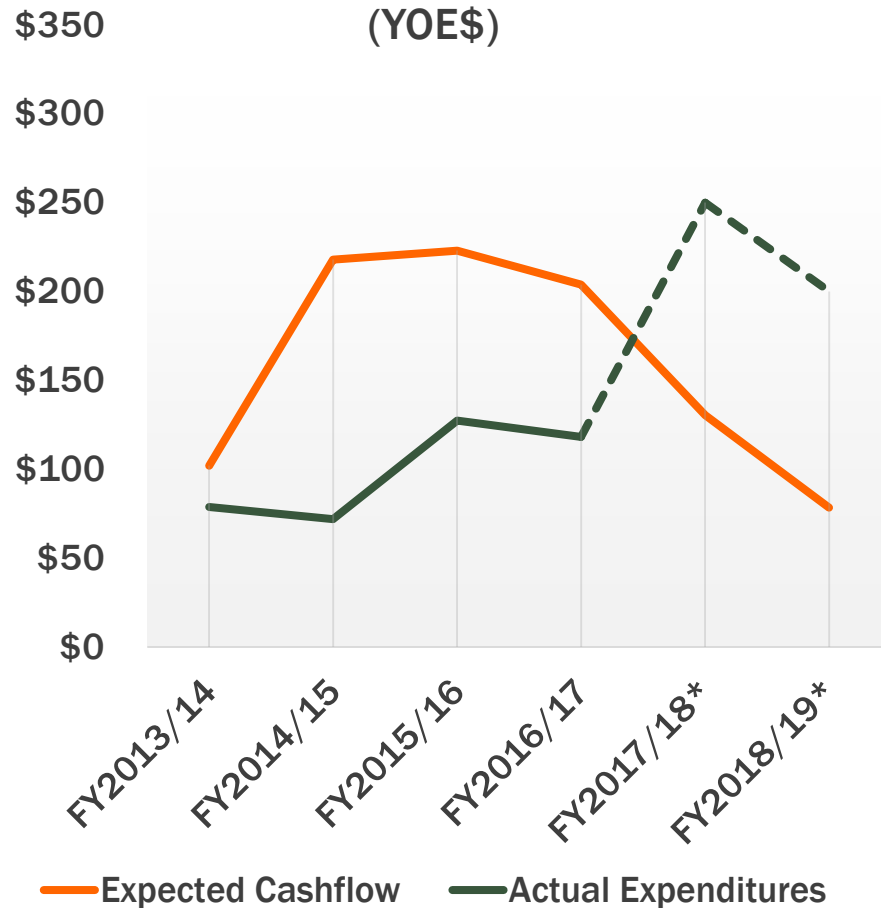
Project Costs



Programming vs Allocations (YOE\$)



Expected vs Actual Expenditures (YOE\$)



* Allocations as of April 24, 2018 Board Meeting

* Expenditures for Fiscal Years 2017/18 and 2018/19 are projections

2019 Strategic Plan Baseline Revenues and Expenditures Comparison



Revenues (YOE\$)	2019 Strategic Plan Baseline	2014 Strategic Plan	Δ
Sales Tax Revenue	\$ 3,299.7	\$ 3,346.4	\$ -46.7
Investment Income	\$ 45.3	\$ 80.7	\$ -35.4
Loans	\$ 19.6	\$ 19.6	
Long Term Bond Proceeds	\$ 557.4	\$ 676.2	\$ -118.8
TOTAL	\$ 3,922.0	\$ 4,122.9	\$ -200.9

Expenditures (YOE\$)	2019 Strategic Plan Baseline	2014 Strategic Plan	Δ
Program Administration	\$ 194.5	\$ 196.0	\$ -1.5
Loans	\$ 19.0	\$ 19.0	
Funds Available for Projects	\$ 2,584.9	\$ 2,529.6	\$ 55.3
Financing Costs	\$ 277.7	\$ 295.7	\$ -17.9
Capital Reserve	\$ 288.4	\$ 406.4	\$ -118.0
Long Term Bond Debt Service	\$ 557.4	\$ 676.2	\$ -118.8
TOTAL	\$ 3,922.0	\$ 4,122.9	\$ -200.9

2019 Strategic Plan Baseline Funds Available for Projects



Attachment 8

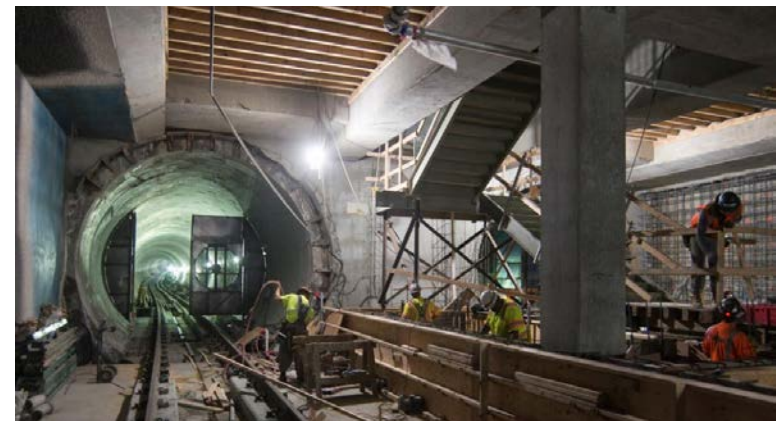
EP No.	EP Line Item	Total Available Funds	Percent of Available Funds Spent on Financing	Total Programming & Finance Costs	
TRANSIT					
1	Rapid Bus Network including Real Time Transit Information	\$ 118,835,058	15.13%	Programming	\$ 99,966,295
				Finance Costs	\$ 17,984,799
				Total	\$ 117,951,094
2	3rd Street Light Rail (Phase 1)	\$ 96,852,085	0.00%	Programming	\$ 96,095,276
				Finance Costs	\$ -
				Total	\$ 96,095,276
3	Central Subway (3rd St. LRT Phase 2)	\$ 126,000,000	0.00%	Programming	\$ 126,000,000
				Finance Costs	\$ -
				Total	\$ 126,000,000
4	Geary LRT	\$ -		Programming	\$ -
				Finance Costs	\$ -
				Total	\$ -
5	Downtown Extension to a Rebuilt Transbay Terminal	\$ 284,748,925	9.43%	Programming	\$ 196,211,115
				Finance Costs	\$ 26,844,485
				Total	\$ 223,055,600

2019 Strategic Plan Baseline

Major Capital Projects & Paratransit



- ▶ **Central Subway**
- ▶ **Electrification**
- ▶ **Presidio Parkway**
- ▶ **Transbay Transit Center / Caltrain Downtown Extension**
- ▶ **Paratransit**



Questions?



SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY