



CITIZENS OVERSIGHT COMMITTEE AUGUST 15, 2019

Strategic Plan Presentation

TIMELINE:

- Today: Initial Overview, Presentation
- August 29, 2019: Final Review

STRATEGIC PLAN = FUTURE STABILITY

- Goal: Ensure that the rail and pathway system built to date continues to serve the people of Sonoma and Marin
- Method: Assist Decision Makers by Providing....
 - » History, context and details on SMART system
 - » Financial projections with different scenarios
- Highlights:
 - » SMART has a stable path forward that can continue its current service and can operate more service, if voters approve early reauthorization of the existing sales tax in March of 2020
 - » Renewing early will secure not only current operations Larkspur to Windsor but also Healdsburg and Cloverdale operations
 - » SMART will need to continue its successful grant efforts in order to fund any additional rail and path extensions

STRATEGIC PLAN HISTORY

- 2009 Plan: Great Recession: \$6.6 million drop in revenue=\$100 million drop in revenue stream
 - » Timing crucial
 - » Reevaluation and need for phasing
- 2014 Plan: Phasing decisions meant SMART only from San Rafael to RR Square
 - » Nimble action, hard work building partnerships
 - » Additional stations Guerneville, Atherton/San Marin, Airport Boulevard
- 2019 Plan: SMART now open with 44 miles of rail service, 18.4 miles of path, reaching 80% of the population SMART was targeting for service
 - » 1.4 million passengers, 129,000 bikes, 5,100 passengers in wheelchairs
 - » Job creation
 - » Housing
 - » Retail and commercial

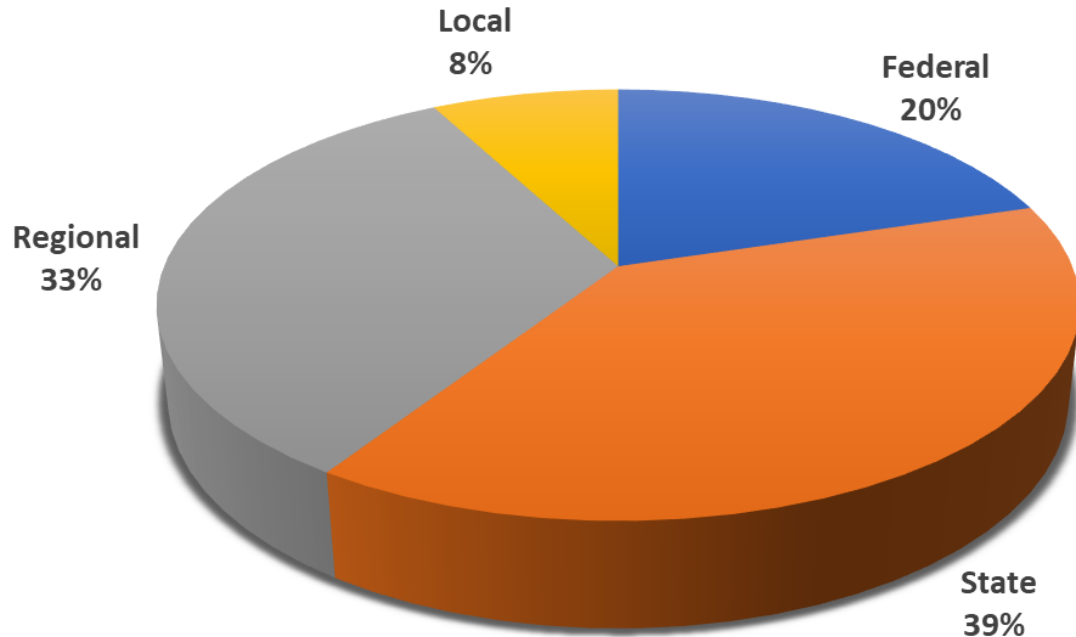
CONTINUING SUCCESS

- Progress Continues Despite Challenges
- New Capital Projects
 - » Completing Larkspur, Downtown Novato
 - » Windsor Rail and Path
 - » Petaluma Second Station
 - » Petaluma SMART Pathways
 - Payran to Southpoint
 - Payran to Lakeville
 - Southpoint to Penngrove
 - » Sonoma County Pathway Connectors
 - 2.8 miles Southwest Santa Rosa to Rohnert Park

CONTINUING SUCCESS

Sales Tax Return on Investment

- Through Fiscal Year 2018 SMART has received \$289 million in Measure Q Sales Tax
- SMART has leveraged those funds to generate **\$323 million** in outside investment to the North Bay



SALES TAX FORECAST

- Sales Tax Historically Stable Revenue Source in District
- Great Recession: Unprecedented impact, unfortunate timing
 - » 23% revenue loss over three years
 - » 2008 measure projected \$890 million, 2009 plan \$845 million, current estimates over \$100 million less
 - » Revenue stream now recovering, but impact affected ability to bond, reduced project revenues
- Growth projection of 3% going forward reasonable
 - » 20-year history, INCLUDING unprecedented recession, 3%
 - » Since recession 5.6% annually
 - » 30 year history, no other recession reduced revenue more than 5%

OTHER REVENUES

- Fare Revenue: \$7.4 million in last two years, \$4.1 million this year
 - » 56% of riders have some form of discount
 - » Average fare per trip is \$5.74, average length 2-3 zones or estimated 24 miles per trip
 - » Projections forward assume increase for Windsor opening and stable 3% growth thereafter
- Other revenues: \$8.6 million includes
 - » Miscellaneous: Lease, advertising, reimbursements
 - » State Revenues: Rail Assistance, Transit Assistance, others due to SB1
 - » Federal Revenues: FTA funding for operations, capital

EXPENDITURES

- Expenditures in Fiscal Year 2019-20 budget basis for forecast, \$58 million
- Major Expenditure Categories :
 - » Labor costs
 - » Debt service
 - » Safety and security
 - » State of Good Repair
 - » Risk Management
 - » Passenger Amenities
 - » Fuel and Utilities
 - » Pathway and Right of Way Maintenance

EXPENDITURES : SIX-YEAR VIEW IF NO CHANGES

- **Background:**

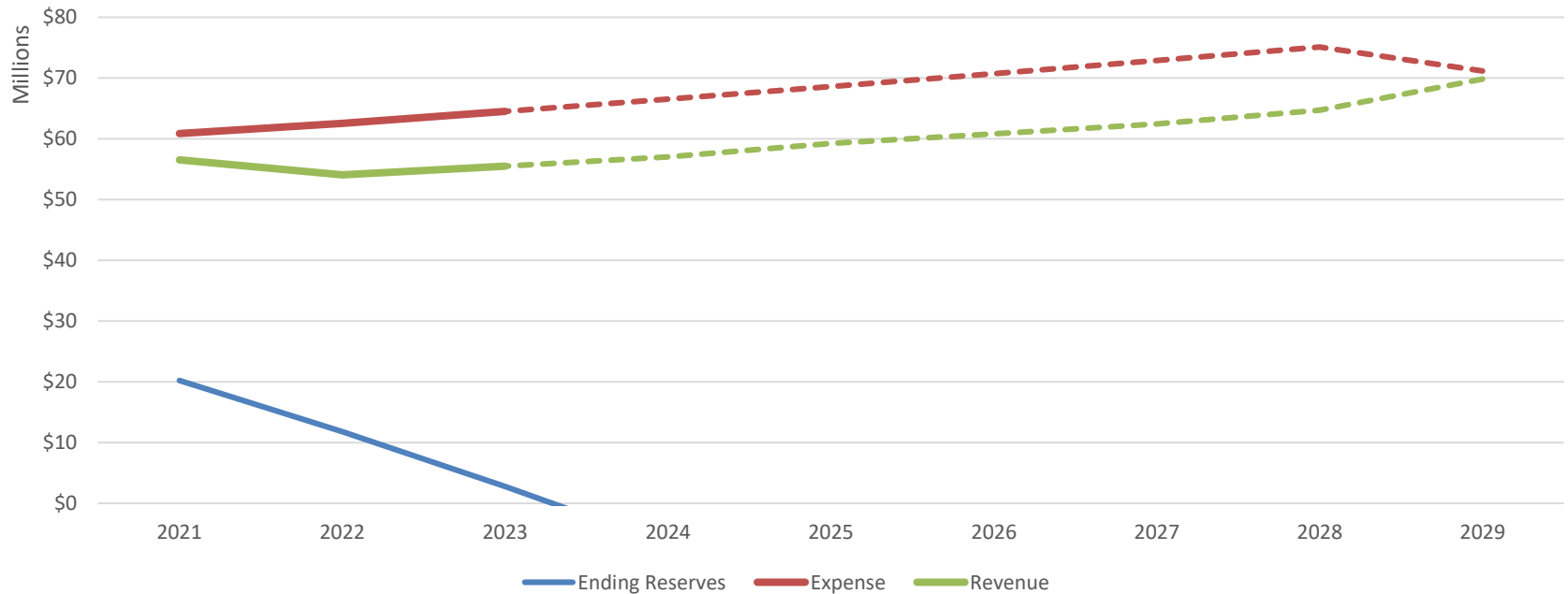
- » Before completion of Phase 1, reserved funds were planned and used for capital projects and for creating operating reserve
- » Based on FY20 budget and escalating debt service schedule, costs would exceed revenues and deplete available reserves if NO changes are made in expenditures.

	Fiscal Year 2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Operations Revenue	\$47.2	\$54.5	\$51.0	\$56.5	\$54.1	\$55.5
Operations Expense	-\$25.3	-\$38.3	-\$41.3	-\$43.2	-\$44.5	-\$45.8
Debt Service	-\$14.2	-\$16.1	-\$16.7	-\$17.4	-\$18.1	-\$18.7
Capital Expenses Not Covered by Grants	-\$9.1	-\$13.6	-\$12.2	-\$0.3	\$0.0	\$0.0
Subtotal (Needs Reserves)	-\$1.4	-\$13.5	-\$19.2	-\$4.4	-\$8.5	-\$9.0
Starting Unrestricted Reserves	\$41.5	\$40.0	\$26.5	\$7.3	\$2.9	\$0.0
Ending Unrestricted Reserves	\$40.0	\$26.5	\$7.3	\$2.9	-\$5.5	-\$9.0
Operating Reserve	\$17.0	\$17.0	\$17.0	\$17.0	\$11.5	\$2.5

Diminishing Reserves

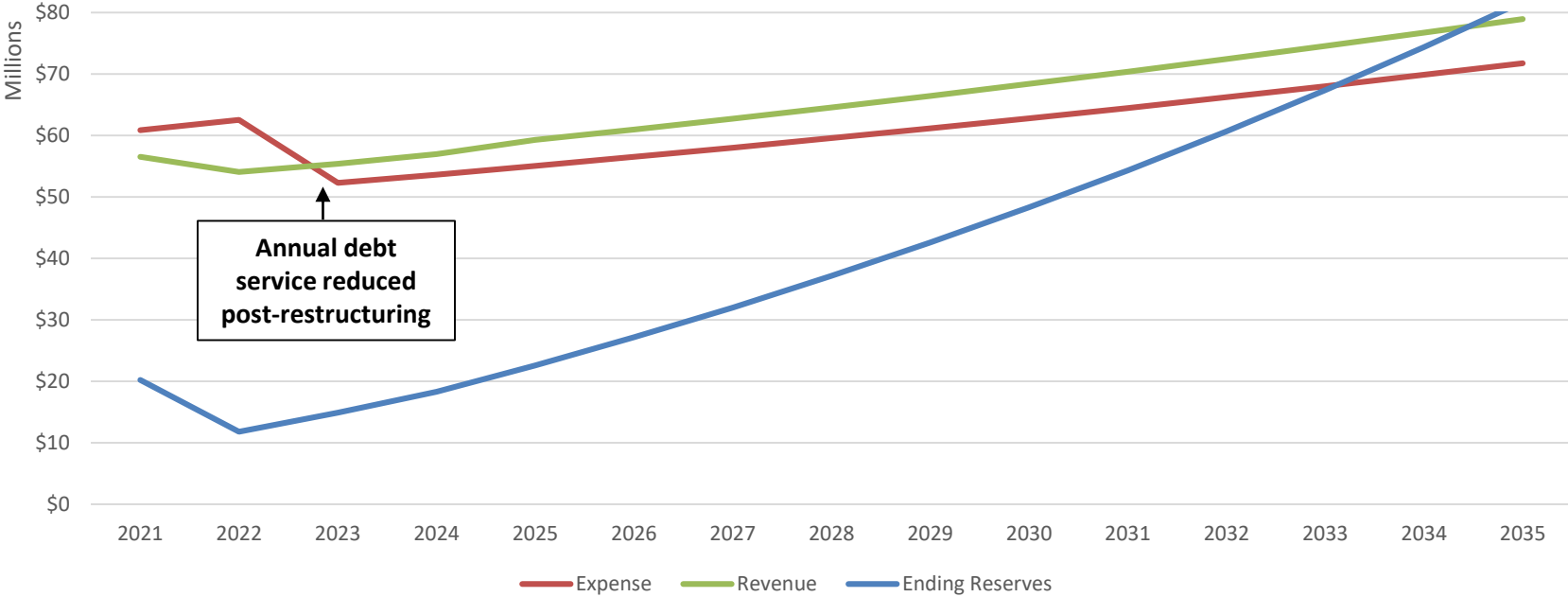
NO MARCH 2020 SALES TAX RENEWAL SCENARIO

- If no changes to the District's budget, expenses would continue to exceed revenues every year through FY 2029
 - » Reductions of \$9 million needed to bring future picture into balance
- With no other changes, reserves projected to be fully depleted during FY2024
 - » Balanced budget cannot be achieved without cost reductions



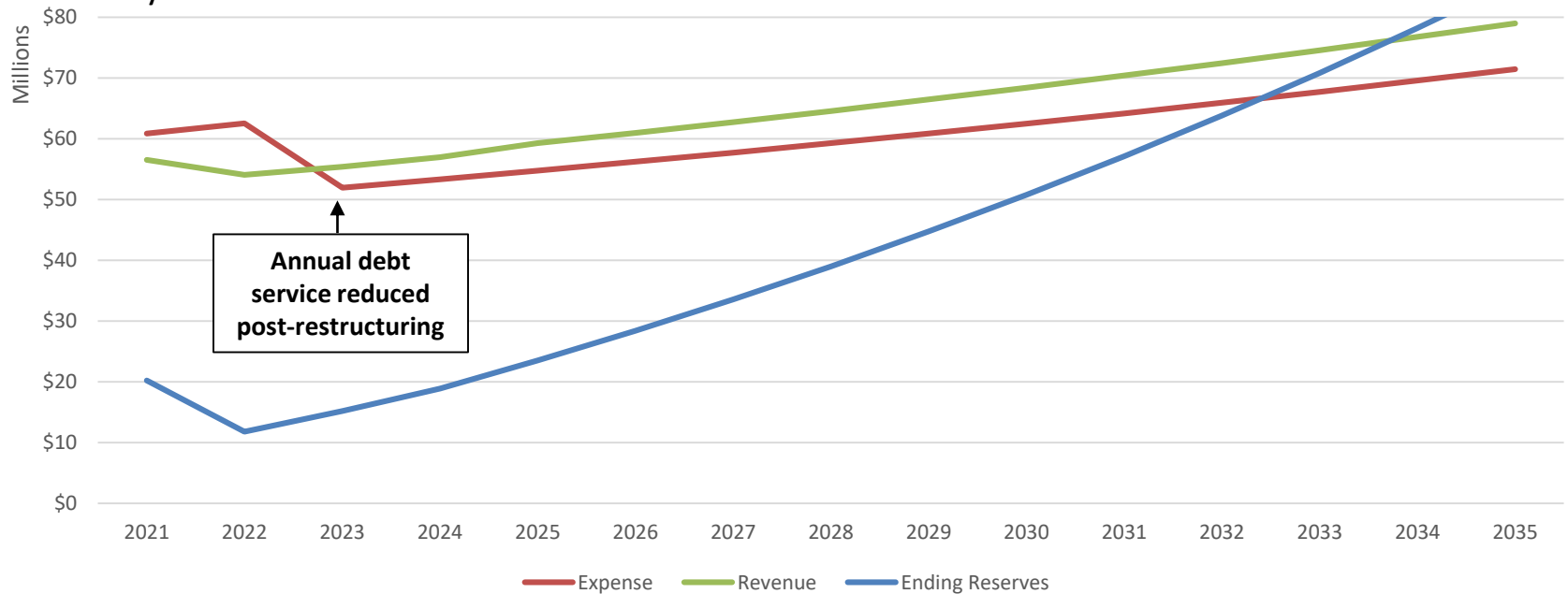
20-YEAR SALES TAX & DEBT EXTENSION SCENARIO

- 20-year extension of the sales tax would enable SMART to restructure outstanding debt
 - » Extending final maturity to FY2049 reduces annual payments by \$12.2 million, providing capacity for operations
- Expenses exceed revenues annually until debt is restructured in FY2022
- From FY2023 forward, net revenue and reserves remain **positive** through end of tax
- Net revenue estimated at \$3.1 million in FY2023 and forecast to grow annually thereafter, which could be used to fund additional operating costs related to Healdsburg and Cloverdale
- Net revenue would not provide sufficient capital for construction of rail extensions



30-YEAR SALES TAX AND DEBT EXTENSION SCENARIO

- Restructuring outstanding debt with a final maturity to FY2052 (30 years) reduces annual payments by \$12.5 million, providing capacity for operations
- Expenses exceed revenues annually until debt is restructured in FY2022
- From FY2023 forward, net revenue and reserves remain **positive** through end of tax
- Net revenue estimated at \$3.4 million in FY2023 and forecast to grow annually thereafter, which could be used to fund additional operating costs related to Healdsburg and Cloverdale
- Additional years provide more flexibility to explore capital funding options with additional net revenue in later years



SYSTEM EXPANSION

- Financial forecasts DO provide sufficient revenue to operate additional rail extensions and pathway.
 - » Estimated for operating to Healdsburg: \$1.5 million
 - » Additional for operating to Cloverdale: \$3.2 million
- This provides the groundwork for grant applications which will require SMART to demonstrate the ability to operate extensions if given funds to build projects

SYSTEM EXPANSION

- Construction Costs are higher than available revenue. SMART will continue to seek grants for:
 - » Pathway: Completion of Path between Larkspur and Windsor estimated to be \$34.5 million
 - » Rail:
 - Windsor to Healdsburg: \$125 million
 - Rail Vehicle Expansion: \$44 million
 - Rail Yard Capacity Expansion: \$25 million
 - Healdsburg to Cloverdale: \$170 million

NEXT STEPS

- Receive input from Committee
- Make any necessary changes
- Final Review in Two Weeks
- Board Approval in Sept/October timeframe