



prepared by

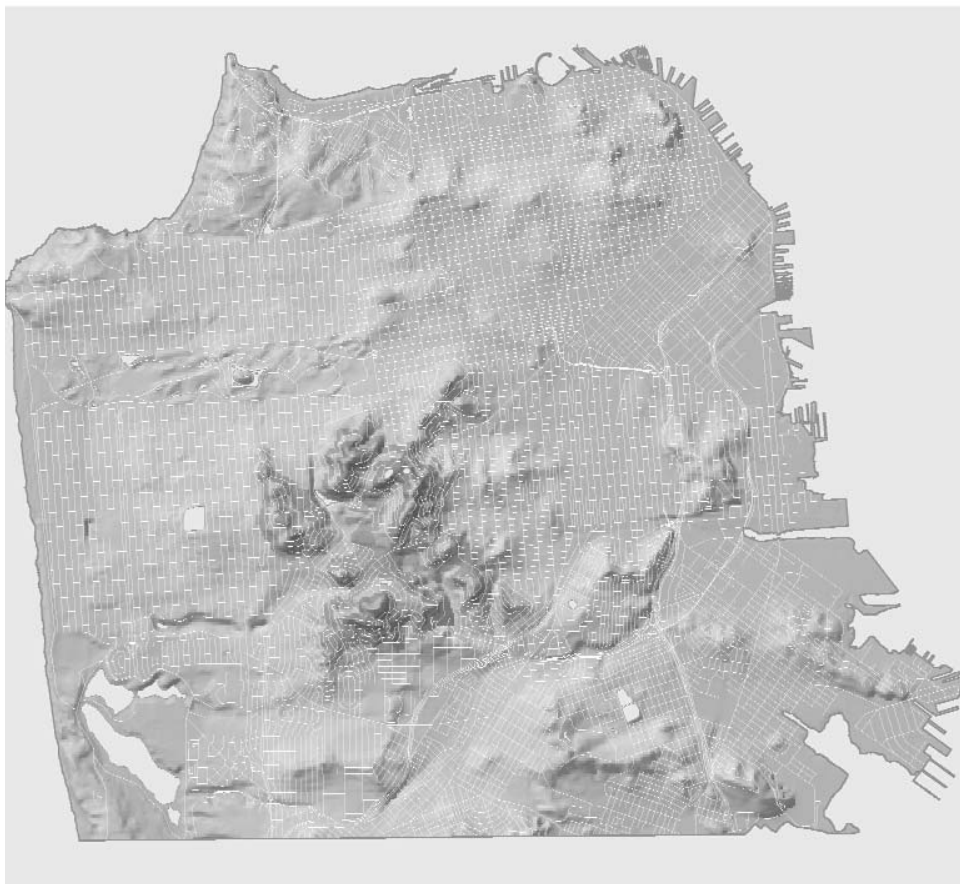
San Francisco County  
Transportation Authority

San Francisco

## PROP K STRATEGIC PLAN

# 2005

Adopted March 22, 2005





San Francisco

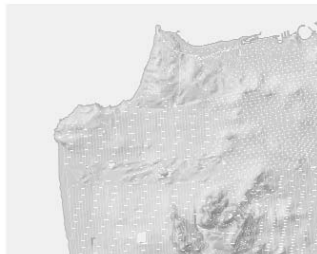
**CONGESTION  
MANAGEMENT  
PROGRAM**

**2002**

June 18, 2002

prepared by

San Francisco County  
Transportation Authority



## A. EXECUTIVE SUMMARY

The Prop K Expenditure Plan approved by the voters in November 2003 programs \$2.35 billion in local transportation sales tax revenue among a number of eligible categories, leveraging another \$9.6 billion in other sources. It does not provide any guidance as to the *timing* of allocation of those revenues over the 30-year life of the Expenditure Plan. Establishing the timing of allocation amounts and deciding on funding priority among projects are the crucially important functions of the Prop K Strategic Plan.

The Strategic Plan is a programming document that must reconcile the timing of expected revenues with the schedule for when those revenues are needed in order for sponsors to be able to deliver projects. It does so by taking into account the schedule for availability of state, federal and other funds beyond Prop K, the Authority's debt issuance capacity, the Authority's own assessment of the deliverability schedule for proposed projects, and balancing the costs associated with project escalation and debt financing.

The Strategic Plan was developed through an iterative process involving several cycles of consultation with project sponsors, followed by testing of project funding scenarios using a complex and multi-layered computerized financial analysis model developed by Authority staff, with the assistance of the Authority's on-call engineering consultant and the Authority's financial advisors. The financial programming model had to account for a number of special circumstances, such as funding commitments inherited from Prop B, and the treatment of the short term debt already issued through the Authority's current commercial paper program.

Evolving in parallel and closely coordinated with the 5-Year Prioritization Programs, currently being developed by project sponsors for adoption by the Authority Board in the Spring, the Strategic Plan provides the overall roadmap for the programming of Prop K funds, as well as a solid financial basis for the issuance of future debt. It adopts three guiding principles:

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

These principles permeate the entire document, and are crucial to understanding both the Strategic Plan policies and the specific programming recommendations by line item.

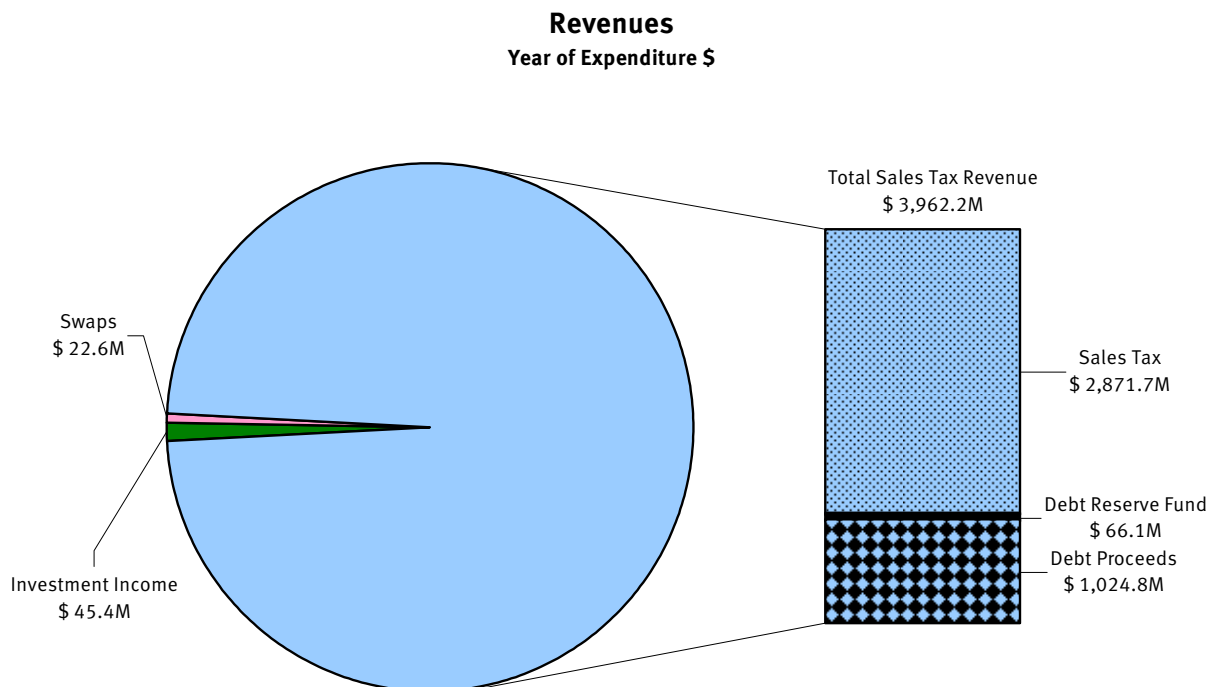
Early on in the Plan development process, it became clear that project sponsors were seeking to receive programming in the first six years, or 20% of the lifespan of Prop K, equivalent to 40% of the total of Prop K funding available over the 30-year life of the Expenditure Plan. The heightened pressure and competition for Prop K funds reflects the dire state of the State Transportation Improvement Program, which is likely to continue unabated for several years, as well as the less-than-promising evolution of the reauthorization of the federal surface transportation act (TEA 21), which is not likely to bring any major increase in revenues. The Strategic Plan comes to light at a time when local funds are expected to make up for the shortfalls at the state and federal levels. Inevitably, the Plan recommends slightly over \$1 billion in debt issuance, at a cost of about \$760 million in finance costs in year-of-expenditure dollars. This is a significant increase over the Authority's current commercial paper program, but it is spread over the 30-year lifespan of the Prop K Expenditure Plan. It must also be noted that the Plan provides for all debt principal and interest to be retired within the 30-year timeline, without jeopardizing the Authority's excellent AA-credit rating.

The imperative to advance funds through financing means that over the 30-years of the Expenditure Plan fewer dollars will be available for projects and programs because of the need to pay interest. The trade-off is the ability to deliver projects early on, for the benefit of San Franciscans today. Prudence dictates that we strike a balance between accelerated delivery and financing costs. The Strategic Plan achieves this balance by adhering to the three guiding principles discussed earlier, but it also introduces several important tenets, summarized as follows:

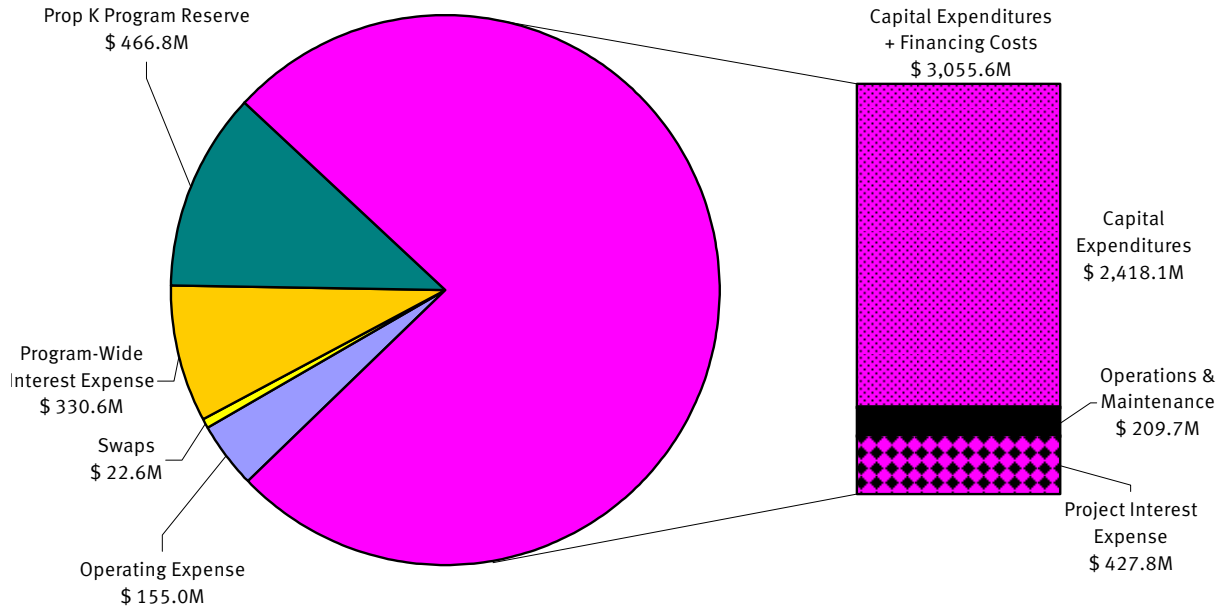
- Individual programs within the Expenditure Plan must retain at least 20-years worth of funding, after accounting for debt service;
- Projects and programs should not trigger debt costs higher than 10% of the overall Prop K cap for the respective Expenditure Plan line item;
- Overall borrowing is held at about \$1 billion, particularly because it is so hard to accurately forecast revenue levels so early in the 30-year process; and
- Where feasible, non-Prop K funds will be used first, and high priority will be given to matching federal funds

The Plan makes provisions for the expenses associated with Board of Equalization sales tax collection fees as well as for project management oversight and administration, and overhead necessary to oversee a program of this complexity and with this level of borrowing. The Plan also accounts for the necessary reserves that take into account that the Authority is entering Prop K already \$150 million in debt from the existing commercial paper program, and will be entering into additional debt over the life of the program.

The result is a Strategic Plan that minimizes debt financing costs, maximizes the capture of outside funds, maintains financial discipline by charging debt costs back to the projects that trigger borrowing, and optimizes project delivery schedules in relationship to the availability of funding. The following graphs provide an overall view of the forecast revenues and estimated expenditures for the Prop K Strategic Plan.



**Expenditures**  
Year of Expenditure \$



## B. CONTEXT AND PURPOSE OF THE STRATEGIC PLAN

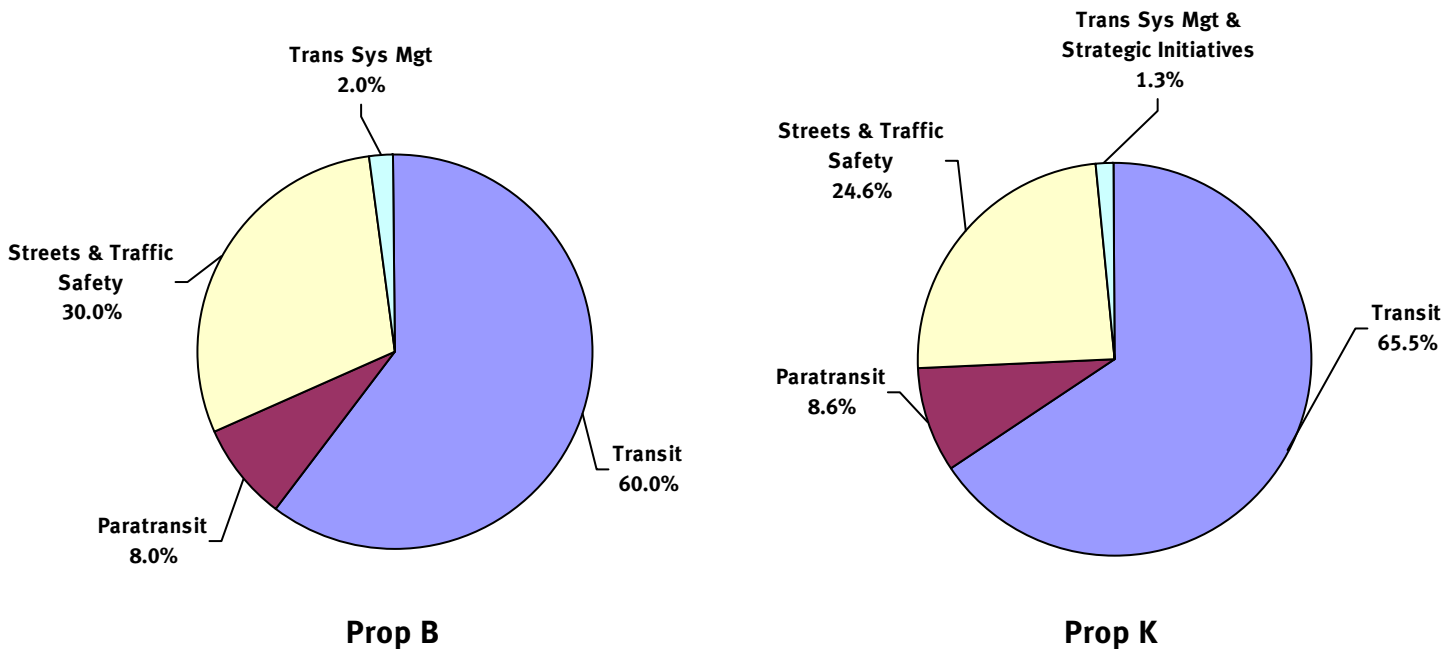
The half-cent sales tax authorized by Prop K in November 2003 began collection on April 1, 2004. Prop K designates the Authority as the administrator of the tax. The first full year of revenue will generate approximately \$67 million. Prop K is forecast to generate \$2.35 billion in revenue over 30 years and it is expected to leverage close to \$10 billion in federal, state, and other local funds to fully fund the projects and programs in the Expenditure Plan. The sales tax generated is invested in projects and programs contained in four major categories: Transit, Paratransit, Streets and Traffic Safety, and Transportation Systems Management/Strategic Initiatives, as outlined in the voter approved Expenditure Plan. The Expenditure Plan lists transportation projects and programs that are eligible for sales tax funds and establishes the maximum amount of sales tax funds that can be allocated to each category over the 30-year life of the Expenditure Plan. The Expenditure Plan, however, does not guide the pace at which those funds are allocated. The Prop K Strategic Plan is the financial tool that guides the timing of allocation of Prop K revenues. The Strategic Plan also sets policy and provides guidance for the administration of the program, ensuring prudent stewardship of the funds. The Revenue and Expenditure Element of the Strategic Plan is an expression of policy intent by the Board that allows Authority staff to plan for debt issuance, optimize leveraging of state and federal funds, and give project sponsors a sense of certainty about when Prop K revenues can be expected to be available to their projects.

Over the last 8 months, the Authority gathered detailed information on the projects and programs eligible for sales tax funding per the Expenditure Plan. Programming has been prioritized to meet the Strategic Plan Priority Principles: optimize the leveraging of other funds, support timely and cost-effective project delivery, and maximize the cost-effectiveness of financing. The Strategic Plan

development process has resulted in a comprehensive listing of sales tax programming over the next 30 years that ensures delivery of the transportation improvements envisioned in the Expenditure Plan, while maintaining a cost-effective strategy for advancing sales tax funds to meet immediate needs. The advancing of funds through debt financing is being proposed under the most cost-effective strategy available. The proposed allocation strategy and cash flow management will ensure that only those projects ready to be reimbursed with sales tax funds will trigger any need to issue debt.

## C. COMPARISON OF PROP K TO PROP B

San Francisco voters approved Prop B in 1989, with a specific set of projects and programs that addressed the mobility needs of San Francisco residents, businesses, and visitors. The Transportation Authority was created in 1990 as a special purpose agency to administer the sales tax revenues. In November 2003, the passage of Prop K reauthorized the half-cent sales tax for transportation and approved a new 30-Year Expenditure Plan, ratifying the Authority's role as administrator of the Prop K program and funds. Prop K continued the major categories of funding developed under Prop B.



The four categories contain many of the same ongoing programs that were included in Prop B such as transit vehicle rehabilitation and replacement, street resurfacing, and paratransit, as well as grandfathered Prop B projects that had not been completed at the time of approval of Prop K such as the Initial Operating Segment of the 3rd Street Light Rail Project. Prop K also includes new

projects and programs that reflect the changing needs of the city's transportation system since the approval of Prop B.

The Third Street Light Rail Project, Prop B's largest capital project, was scheduled for implementation relatively late in the Prop B program. This, combined with the relatively slower pace of delivery of Prop B projects in the initial years of the program, resulted in the accumulation of major sales tax revenue reserves. These reserves, along with a \$126 million grant from the state's Traffic Congestion Relief Program (TCRP) in 2001, enabled the Authority to manage Prop B as a pay-as-you-go program. This meant that the Authority never allocated more funds than the combined total of its available reserves plus annual receipts. The program functioned without incurring any debt until March 2004, when the Authority Board approved a \$200 million short-term commercial paper program. This action, which was anticipated in the 2003 Strategic Plan, was triggered to a large extent by the cash flow needs of the Third Street Light Rail Project, which had entered the construction phase.

In contrast to Prop B, Prop K has a larger number of capital projects which are intended to be delivered early in the Prop K program, such as the New Central Subway, Caltrain Downtown Extension to the Transbay Terminal, and the Doyle Drive replacement project. In addition, a number of equally significant but less costly projects will require Prop K sales tax funding early, such as Muni's hybrid bus replacement projects, the Muni Islais Creek Maintenance facility, and implementation of Bus Rapid Transit on the Geary and Van Ness Corridors. As the costs of these projects are expected to outpace the forecast revenue streams, projects with demonstrated urgent funding requirements will be advanced the necessary moneys through debt financing. Strategic Plan policies reflect the need for strategic prioritization of revenues and effective management of the projects and programs so as to effectively manage a program that is relying on a higher level of debt financing.

## **1. KEY DIFFERENCES IN PROP K**

Prop K introduced a number of changes, including new projects, new sponsors, new programs, and modifications to the size of programs that were carried over from Prop K. The main differences are highlighted in the sections that follow.

### **i. Sponsors**

The Prop K Expenditure Plan expanded the list of eligible project sponsors beyond City departments, to include BART, Caltrain, Caltrans, Golden Gate Transit, and the Authority itself. This change helps Prop K address multimodal transportation issues at several different levels: from the system planning and operations perspective, it acknowledges that the regional transportation network plays a crucial role in maintaining and enhancing San Francisco's connectivity; from the funding perspective, it recognizes the inescapable fact that in order to influence capital project priorities at the regional level, the City must have the leverage afforded by local funds, whether they are used as a local match or as a way to expedite projects that the region is not able to prioritize.

### **ii. Projects and Programs**

Prop B funded a number of important capital projects, most of which have been completed, as shown below.

<b>Prop B Major Capital Projects</b>	<b>Status</b>
F-Line Streetcar	Completed
Embarcadero Roadway	Completed
Muni Metro Turnback	Completed
Muni Metro Extension to Caltrain	Completed
Muni Metro Signal System	Completed
Light Rail Expansion (Third Street Light Rail)	Under Construction
Metro East LRV Maintenance Facility (Third Street Light Rail)	Under Construction

Prop K completes the Prop B projects that are still under development and makes a significant investment in a new set of major projects:

- Citywide Bus Rapid Transit and Transit Preferential Street Network
- Central Subway
- Transbay Terminal and Caltrain Downtown Extension
- Doyle Drive Replacement, and
- Caltrain Electrification.

In addition to financing these new major capital projects and continuing the programs created under Prop B, Prop K has added several new programs, and significantly expanded some programs that were carried over from Prop B. The new Prop K programs are:

- Bike Circulation and Safety,
- Pedestrian Circulation and Safety,
- Traffic Calming,
- Advanced Technology and Information Systems (SFGo),
- Curb Ramps, and
- Transportation/Land Use Coordination.

The programs that are expanded in Prop K from their original Prop B funding levels are:

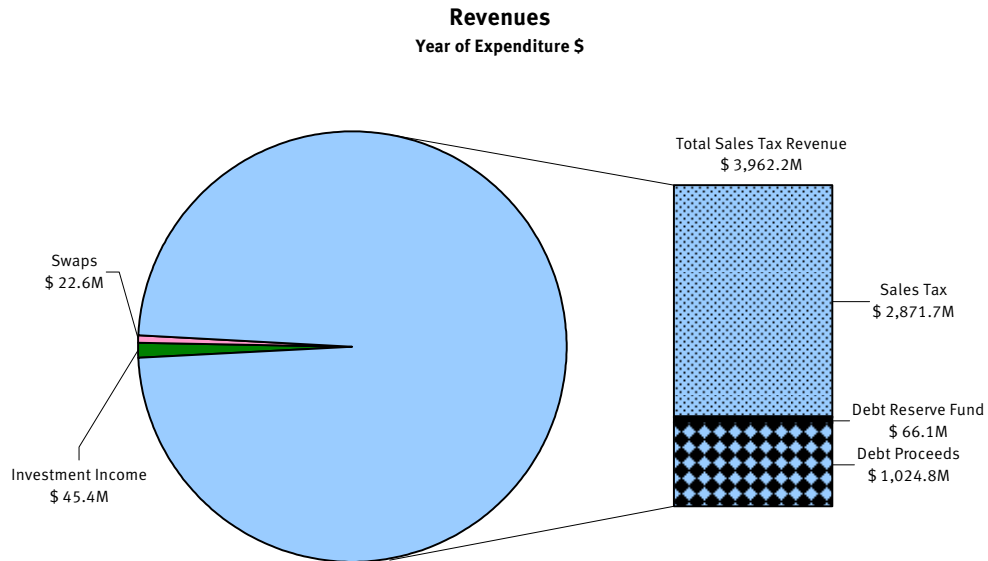
- Vehicles,
- Guideways,
- New Signs and Signals, and
- Tree Planting and Maintenance.

## **D. REVENUES AND EXPENDITURES**

The 2005 Prop K Strategic Plan provides a 30-year outlook for how the local transportation sales tax will be spent. While strategic plans have been prepared biennially since the Authority's inception, the 2005 SP is particularly important because the Authority has begun to issue debt. A reasonable Strategic Plan will present to the financial community and Authority's stakeholders at large a clear sense of the agency's strategy in managing its revenues and expenditures responsibly and cost effectively. The Revenues and Expenditures Element is crucial to that goal. It provides the best available understanding of when revenue will be available and how that revenue will be spent. The Revenue and Expenditure Element is the result of a complex iterative analysis and modeling of revenue capacity, matched to project costs and project delivery schedules. Computerized modeling enabled a number of expenditure scenarios to be examined, and the results to be assessed for

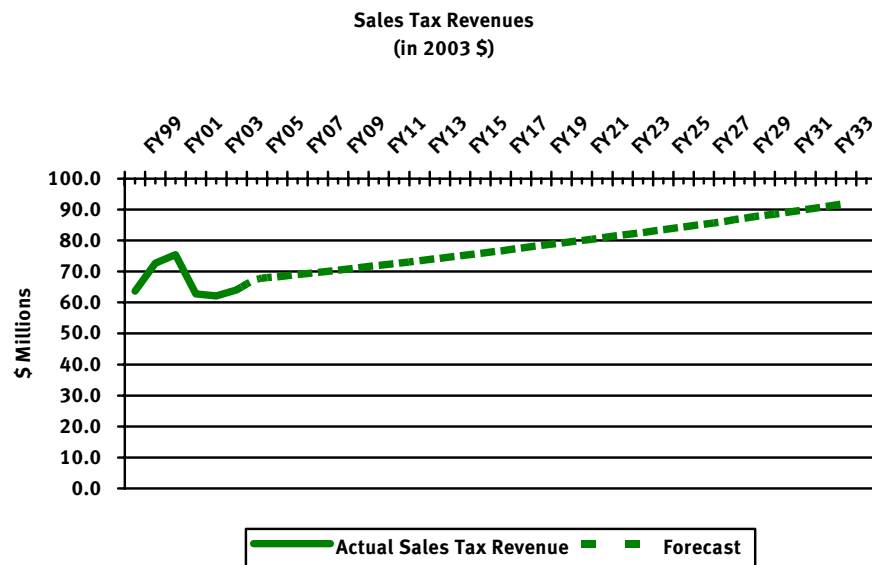


financial viability. The resulting assignment of dollars to programs and projects does not constitute a final funding commitment. Commitments are secured through actual allocation actions by the Authority Board to specific programs and projects.



## 1. REVENUE ELEMENT

The 2005 Strategic Plan comes at a time when the Bay Area economy is still recovering from the downturn of 2002 and 2003. While real sales tax revenues have declined annually for several years, we are now seeing modest growth, consistent with the growth rate forecast in the Countywide Transportation Plan and meeting the assumptions in the Prop K Expenditure Plan for the Priority 1 funding levels.



While sales tax revenue over the next five years is relatively predictable, there is great uncertainty about the levels of federal and state revenue that can reasonably be expected. This is significant given the \$10 billion that the sales tax needs to leverage in order to fully fund the EP programs and projects. There are a number of changes on the horizon that will influence the use of sales tax in the future. The reauthorization of the federal surface transportation act, TEA-21, is currently being debated in Congress. While TEA-21 in 1998 and ISTEA in 1992 yielded significant increases in federal revenues for transportation, the federal budget deficit makes it highly unlikely that such significant increases will occur again with TEA-3.

For the past several years, the State of California has been facing significant challenges in addressing its own budget, and transportation has taken a back seat to priorities such as health care and education. Loans outstanding from the State Highway Account to bolster the State Budget are slated for repayment over a long period of time, and the need to fund existing commitments has prevented any but the most urgent allocations of State funds from happening over the past two years. The California Transportation Commission, faced with the worst financial crisis in three decades, is considering de-programming projects as part of the 2006 State Transportation Improvement Program (STIP). These uncertainties have focused project and program sponsors on local transportation sales taxes such as Prop K as a priority source of revenue to meet their needs. The adoption of TEA-21 Reauthorization and the approval of the State budget will clarify the availability of transportation revenues to San Francisco. This will shed further light on the role of Prop K funds. Future updates to the Strategic Plan, envisioned as a triennial process, will adjust Prop K funding commitments to reflect both federal and state funding availability.

The Strategic Plan enables the programming of \$2.35 billion in revenues over the next 30 years. Revenues become available as they are collected over a 30-year period, causing a critical need to balance revenues against planned expenditures. While significant in its magnitude, the Revenue and Expenditure Element of the plan must contain sufficient financial discipline to assure sponsors that funds actually will be available when they need them.

#### **i. Priority 1, 2, and 3 Funding Levels**

The approved Prop K Expenditure Plan set priority levels on the basis of different levels of sales tax revenue expected to be collected. The Prop K Strategic Plan assumes only Priority 1 funding levels will be available, as this is Year 2 of a 30-year revenue stream and because sales tax revenue trends estimate a conservative, 1.4% real sales tax growth rate at this time. Future Strategic Plans will revisit revenue projections, using actual sales tax receipts to forecast future collections, and may recommend the programming of Priority 2 and/or Priority 3 funds if warranted.

There are a number of additional financial assumptions that govern the detailed programming of revenues and help determine the net revenues available to program to EP programs and projects. These are consistent with the Authority's adopted Fiscal, Debt and Investment Policies:

- 1- In order to allow for fluctuations in sales tax revenues, project delivery and variable financing requirements, the program will hold an appropriate reserve at

the very end of the 30-year period. This amounts to approximately one to two years of Prop K revenue.

- 2- The Authority's Fiscal Policy requires that the program maintain an operating reserve between 5% and 15% of annual sales tax revenues. The Strategic Plan pegs the operating reserve at 10% of annual sales tax revenues, which is set aside in Year 1 and maintained at that level throughout the 30-year Program.
- 3- Costs to allocate, administer, and oversee the Prop K program as required by the Expenditure Plan, are identified as a cost to the overall program. The annualized cost of revenue collection by the State Board of Equalization also will be funded from the overall program. Collectively, these costs are 5.25% of annual revenue.
- 4- The Prop K Program entered into Year 1 with debt outstanding from the issuance of \$150 million in commercial paper in 2004. Debt service for that outstanding obligation is included in the Strategic Plan.

Due to these requirements and particularly the existing debt, the Revenue and Expenditure Element will program up to 90% of Priority 1 funding levels, and assign the remaining 10% to program costs and reserve requirements.

## **2. LEVERAGING NON-PROP K FUNDS**

The half-cent sales tax is expected to generate \$2.35 billion over the 30 years of the program. The ability to deliver the entire list of Expenditure Plan programs and projects will depend on extensive leveraging of Prop K revenues to provide full funding for all sales tax projects and programs. Specifically, the \$2.35 billion in Prop K is expected to leverage about \$9.6 billion in federal, state, and other local funding. Key state and federal sources include Federal Transit Administration formula funds (Section 5307 and 5309), the Surface Transportation Program (STP), Congestion Management and Air Quality (CMAQ) funds, the State's Interregional Transportation Improvement Program (ITIP), the State Transportation Improvement Program (STIP), Transportation Enhancement Activities (TEA) funds, and the Transportation Fund for Clean Air (TFCA).

The Expenditure Plan also details the amount of non-Prop K funds that are expected to be leveraged by individual project and programs. The amount and type of funds to be leveraged were developed as part of the Prop K Expenditure Plan process and were based on MTC's forecasts for the Regional Transportation Plan, as well as a \$230 million BART General Obligation bond and approximately \$199 million from Regional Measure 2. Both of these sources are fully available to support project needs. The Expenditure Plan also projects that nearly 40% of funds used to deliver projects and programs come from project sponsors' own budgets and other local fund sources. The amount of leveraging by line item varies and is a reflection of eligibility for other fund sources, as well as competitiveness of San Francisco projects for those fund sources.

To optimize the Prop K programs and projects leveraging of outside fund sources, enabling the delivery of the Expenditure Plan, all Prop K funded projects and programs are consistent with the Metropolitan Transportation Commission's (MTC's) Regional Transportation Plan (RTP). Additionally, allocation requests for Prop K must include funding plans with appropriate leveraging of other funds.

### **3. GUIDING PRINCIPLES**

Since the inception of the Prop K program in April 2004, the Authority has gathered information from sponsors regarding their funding needs. In order to help structure the development of the Strategic Plan and guide discussions with project sponsors, the Authority established three guiding principles pertaining to the Revenue and Expenditure Element of the Strategic Plan, focused on the fundamental requirement to ensure implementation of the entire Expenditure Plan as approved by the voters. The three principles are:

#### **Optimize leveraging of sales tax funds**

In order to fully fund its projects and programs, the Expenditure Plan assumes that the \$2.35 billion in sales tax revenues forecast to be available over the 30-year Expenditure Plan period will leverage about \$9.6 billion in other federal, state, and local funds. Programming recommendations gave priority to aggressively leveraging funds in order to deliver the entire Expenditure Plan approved by voters.

#### **Maximize cost effectiveness of financing**

The programming recommendations seek to minimize debt issuance and service costs. These costs ultimately reduce the amount of funds available for projects. The Strategic Plan provides for the financing necessary to move Expenditure Plan programs and projects into implementation, as they become ready for delivery, while establishing detailed cash flow distribution schedule that will make funds available only when they are needed.

#### **Support timely and cost-effective project delivery**

This principle has impacts in all functional areas of the Authority from programming to project delivery oversight to debt management. For instance, timely delivery of projects enables the public to enjoy the benefits of the Expenditure Plan projects sooner, is typically more cost effective, and helps project sponsors avoid loss of matching state or federal funds leveraged by sales tax dollars, since these external fund sources increasingly come with strict timely-use-of-funds. The importance of timely and cost effective project delivery is further highlighted when the cost of debt issuance is considered.

Currently, the dearth of state revenues and the flat trend in federal revenues have focused needs on sales tax revenues as the most available and reliable source of funding for the projects and programs in the Expenditure Plan. Over the long term, it is envisioned that state and federal revenues will recover. Revenue assumptions consistent with regional revenue growth in state and federal funds have been built into the Strategic Plan programming recommendations. The timing and availability of state and federal funds was considered when making programming recommendations for specific EP projects and programs.

With limited funding available through the Prop K sales tax, and the need to address all of the Expenditure Plan needs, the Strategic Plan is built on a strategy of fund distribution that ultimately enables all needs to be met. A baseline of funding is assumed for each project or program equal to that project's or program's pro-rata share of the annual Prop K revenue stream. Sponsors can request more funding than their pro-rata share of the annual revenue, but financing must be agreed to by the Authority. The costs of debt financing for that

project or program must be borne by that particular project or program. Funds obtained through debt financing are not new sales tax revenue. They are future revenues, which are advanced at a cost. Those costs, which include interest and issuance expenses, must be contained within Prop K funding caps for that project or program. This means that the total programming commitment to the project includes the net available for direct project expenditures plus the debt cost triggered by the advancement of funds.

Given these considerations, the Revenue and Expenditure Element necessitated a complex iterative analysis of revenue capacity matched to the estimated costs and schedules of projects and programs. A number of expenditure scenarios were examined utilizing a complex computerized model, and the results were assessed for financial viability. The assignment of dollars to programs and projects in the Revenue and Expenditure Element of the SP provides a reasonable funding strategy, intended to ensure that the Prop K program is delivered efficiently while optimizing financing costs. It does not constitute a final commitment of funds to any individual program or project. Funding commitments are made through actual allocation actions by the Authority Board to specific programs and projects.

#### **4. PRIOR PROP B COMMITMENTS**

Commitments made under Prop B have been continued under Prop K. The new and expanded programs are enabling necessary transportation services in the city to continue. In addition, there are four projects that had pre-existing commitments entered into under Prop B that must be honored under Prop K. They are the Third Street Light Rail, the New Central Subway, the Illinois Street Bridge, and the Bernal Heights project. The Strategic Plan recognizes the commitment made and incorporates funding accordingly:

##### **Third Street Light Rail**

The Authority Board adopted Resolution 03-06 on July 15, 2002, approving a budget and funding plan for the Third Street Light Rail Project. In this budget, the Authority committed to providing the project with a total of \$275.33 million in sales tax funds. The \$70 million allocation limit established in Expenditure Plan was based upon the anticipated amount remaining to be allocated after Prop K began. Not all of the anticipated Prop B allocations were needed prior to the start of Prop K. These allocations are therefore included in the programming of Third Street in the Strategic Plan, meeting the total sales tax funding commitment per Resolution 03-06, with no finance costs assigned to the project.

##### **Central Subway**

The Authority entered into an agreement with the State of California on November 30, 2001 exchanging \$126 million in State TCRP funding programmed for the New Central Subway for a like amount of sales tax funding for the Third Street Light Rail project, as authorized by Resolution 01-37. This funding swap saved the Authority about \$20-30 million in interest costs by putting off the need for the Authority to issue debt for almost three years later, and enabled the Authority to redirect the moneys saved from debt service to the Third Street Light Rail Project. The State has delivered all \$126 million to the Third Street Light Rail Project.

The Strategic Plan programs the full \$126 million to the New Central Subway, regardless of year of expenditure, and with no attendant finance costs assigned to the project.

### **Illinois Street Bridge**

The construction of the new Illinois Street Bridge was a necessary part of the construction of the Third Street Light Rail Project. It provides a shorter freight spur track for Union Pacific Railroad to access Pier 80, eliminating the existing track along 3<sup>rd</sup> Street, and eliminating the need for an additional at-grade crossing of the Third Street Light Rail line near the intersection of 3<sup>rd</sup> Street and 16<sup>th</sup> Street. If left in place, this freight route along the 3<sup>rd</sup> Street corridor would have continued to affect residences and businesses. The new access to Pier 80 eliminates negative impacts along the former route and makes the Port's Cargo Facility more competitive. The project was, in effect, a mitigation for the Third Street Light Rail Project, providing for improved bicycle and pedestrian access along the corridor. The new access takes trucks off 3<sup>rd</sup> Street as well, providing truck access along Illinois Street instead. The project was ready for construction in 2003, and received a full allocation of its entire Prop K funding in June of 2004. Construction is currently underway.

As a related component to the Third Street Light Rail Project's budget commitment made by the Authority, the Strategic Plan fully programs the \$2 million allocated to the Port of San Francisco for the project, with no related finance costs assigned to the project.

### **Bernal Heights**

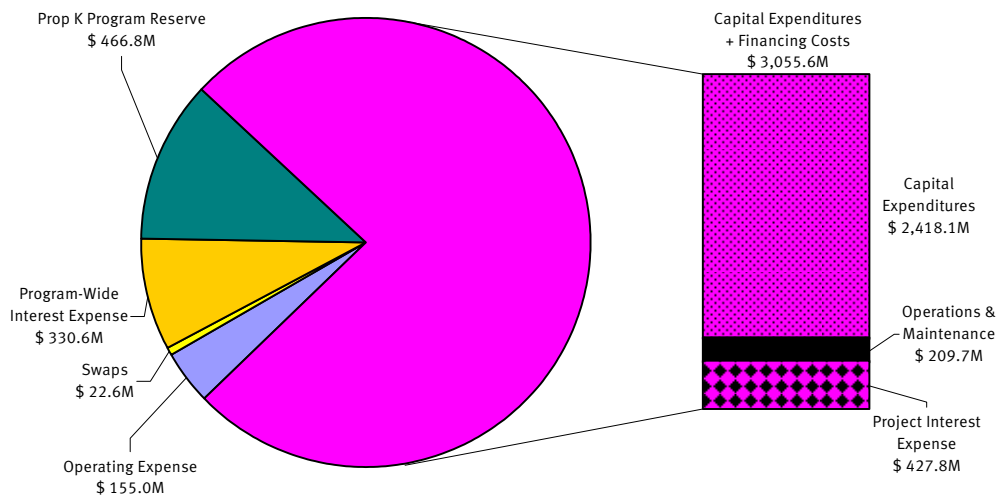
The Authority adopted the Prop B 2003 Strategic Plan Update in April 2003. The 2003 Prop B Strategic Plan Update included \$2.42 million for allocations to be made to this project. The \$1.415 million shown in the Expenditure Plan was an estimate of the allocations that would be needed under Prop K. Because of delays due to utility work on the project, none of the anticipated \$2.42 million in allocations has been made. At the time of completion of the Strategic Plan, the Department of Public Works was preparing to advertise this project, with a project budget based upon the total Prop B allocation level committed to in the 2003 SPU.

In order to fulfill the commitment made in the 2003 Prop B Strategic Plan Update, the full \$2.42 million is programmed in the Prop K Strategic Plan, with no related finance costs assigned to the project.

## **5. EXPENDITURE ELEMENT**

The Expenditure Element is the listing of programmed sales tax funds to each Expenditure Plan line item, for each of the 30 years of the program. The programming decisions resulted from extensive interaction with Expenditure Plan sponsors and iterative modeling and analysis of options. The process and the results are described below.

**Expenditures**  
Year of Expenditure 5



**i. Expenditure Element Development**

The Revenue and Expenditure Element is the result of an iterative process spanning a number of months. Sponsors of major projects were asked to submit detailed information regarding their projects to enable the Authority to adequately assess the need for funding in light of project schedules and the availability of other complementary fund sources. The initial snapshot afforded by sponsor submittals served as a starting point for discussions regarding the levels and timing of Prop K funding that sponsors could reasonably expect.

The information submitted was carefully reviewed with sponsors to ascertain whether projects could really be delivered according to the project schedules recommended. This involved an evaluation of many factors such as whether the project has completed the necessary environmental clearances, and the project sponsor's track record in project delivery. For each project, complementary sources included in the project's funding plan were also reviewed to determine if they were planned and programmed as well as whether they could be expended prior to spending Prop K funds. Simultaneous to this effort, financial modeling was conducted according to the Authority's Debt, Fiscal and Investment Policies. This financial analysis used the capital expenditures being developed with the sponsors to determine if borrowing was feasible to meet sponsor needs, and established any resultant debt finance cost.

**ii. Relationship to 5-Year Prioritization Programs**

The Expenditure Plan requires that each programmatic category (i.e. not project-specific) develop a 5-Year Prioritization Program (5YPP) as a requirement prior to receiving Prop K allocations. This requirement applies to over 20 programs such as

street resurfacing, new signals and signs, traffic calming, and transit enhancements. The 5YPPs provide a stronger link between project selection and expected project performance, and support on-time, on-budget project delivery, and timely and competitive use of state and federal matching funds. Specifically, the purpose of these programs is to:

- Establish a clear set of criteria for prioritizing projects,
- Improve agency coordination at the earlier stages of the planning process,
- Allow and ensure public input early and through the planning process, and
- Establish performance measures.

In order to enable sponsors to prioritize the funding needs of the twenty-one programs outlined in the Expenditure Plan, the Authority Board approved an allocation of \$699,600 in Prop K funds to assist project sponsors with the development of twenty-one 5-Year Prioritization Programs. Draft Prioritization Programs were submitted to the Authority in early February 2005. They were developed by focusing project selection on performance criteria recommended by the Authority and applied by the lead sponsor to all projects eligible within the EP Line Item. The 5-Year Prioritization Programs provide input to the Strategic Plan, which aggregates all projects and programs for purposes of overall financial management of the sales tax revenue.

The Authority held numerous meetings with project sponsors to further refine their project and program funding needs and to estimate debt cost. Sponsors were made aware of the need to include debt cost as an expense to the project, to be contained within the overall project or program Prop K funding cap. This resulted in only fully funded projects with specific Prop K funding contributions of funding being considered for programming. These projects were further refined to establish realistic schedules as to when projects would begin the various phases of work. Finally, project cash flow needs were established to provide detailed information on when Prop K funds would be needed.

The intended outcome of the 5YPPs is the establishment of a steady stream of grant-ready transportation projects that can be advanced as soon as funds (including Prop K, federal, state, and other funds) are available, to help deliver the Expenditure Plan in a timely and cost effective manner. The first round of 5YPPs covers the five-year period from FY 2004/05 through FY 2008/09. The Prioritization Programs will be updated every three years, in concert with triennial updates of the Prop K Strategic Plan.

The Expenditure Plan established limits on funding and described the types of projects that are eligible for each of the 20 programmatic categories, but did not detail specific projects for funding within each category. While the Strategic Plan provides the long-term road map for managing Prop K revenue, the 5YPPs ensure that the Authority Board, project sponsors and the public have a clear understanding of how projects are prioritized for funding within each particular programmatic category.

All eligible project sponsors for each programmatic category assisted in developing the 5YPPs, coordinating with the designated lead agency for that category. Utilizing



5YPP Guidance prepared by the Authority, project sponsors developed draft programs through inter-agency collaboration and public input. The draft 5YPPs are subject to Authority Board review and approval. The adoption of the 5YPP's may be accompanied by minor adjustments to programming in the Strategic Plan.

Allocation requests from programmatic categories must be consistent with the applicable 5YPP in addition to the Strategic Plan. If not, project sponsors must provide a justification for the inconsistency, which may involve amending the 5-Year Prioritization Program or the Strategic Plan.

### iii. Expenditures

The Authority applied the Strategic Plan's guiding principles in programming the Revenue and Expenditure element. The resultant programming recommendation for each Expenditure Plan line item, capturing the consensus we have reached with sponsors, is highlighted in Table 1.

A number of basic tenets guided the Authority's development of the final programming strategy. The Authority held to these tenets, which are consistent with the guiding principles. The tenets were used in discussions with sponsors to finalize programming within the Strategic Plan, maintaining a level playing field for the many elements under consideration. The basic tenets are as follows:

- A certain amount of borrowing is acceptable in order to accelerate implementation of transportation improvements, but Prop K funding for programmatic (recurring) activities needs to last at least 20 years. Because finance costs associated with accelerating sales tax funding beyond a program's annual pro-rata share count against the Prop K funding cap for that line item, sponsors are not permitted to accelerate their funding to such a degree that finance costs would result in less than the necessary Prop K funding to keep that program in place until FY 2023/24.
- Prop K funding for major projects should be spread out as far as possible, while still maintaining the Prop K commitment and ensuring progress on the project in accordance with a realistic project schedule. Projects by their nature need funding all at once. Each major project that would likely trigger debt cost was closely examined in concert with the project sponsor, to determine when sales tax funds would be needed, and whether other funds could be used instead, so as to minimize debt costs.
- Projects and programs should not trigger debt costs beyond 10% of the overall capped amount. The Authority made every effort to keep debt costs at only 10% of the overall capped amount for each line item.
- Overall borrowing was held to slightly over \$1 billion, at a cost of \$760 million in interest. The Expenditure Plan authorizes borrowing of up to \$1.88 billion, but the Authority must exercise caution in proposing a debt issuance strategy so early in the 30-year implementation time frame of the EP.

- Other fund sources are expected to be available in addition to the Prop K funds. For many of the Expenditure Plan line items, the Authority assigned highest priority to the use of Prop K funds to match federal funds and leverage state or regional funds. Programming reflects the use of these fund sources first, where feasible, so as to minimize financing costs. .

The resulting programming, documented in the *Program Summary* on the following page, optimizes the use of sales tax funds by maximizing the ability of Prop K to leverage other funds and minimizing the use of Prop K funds to finance debt costs.

## Programming Summary

(2003\$) in \$1,000's

	Priority 1 Limit	90% Priority 1	Rec. Programming A+B	Net to Project A	Finance Cost B
<b>A. TRANSIT</b>					
<b>i. Major Capital Projects</b>	<b>\$ 586,900</b>	<b>\$ 528,210</b>	<b>\$ 546,558</b>	<b>\$ 437,955</b>	<b>\$ 108,603</b>
MUNI <sup>a</sup>	295,200	265,680	283,718	261,865	21,853
Caltrain	278,100	250,290	250,588	165,918	84,670
BART Station Access, Safety and Capacity	9,200	8,280	8,311	6,927	1,385
Ferry	4,400	3,960	3,940	3,245	695
<b>ii. Transit Enhancements</b>	<b>\$ 43,000</b>	<b>\$ 38,700</b>	<b>\$ 38,819</b>	<b>\$ 37,071</b>	<b>\$ 1,748</b>
<b>iii. System Maintenance and Renovation</b>	<b>\$ 915,170</b>	<b>\$ 823,653</b>	<b>\$ 802,335</b>	<b>\$ 746,640</b>	<b>\$ 55,695</b>
a. Vehicles <sup>b</sup>	503,020	452,718	464,450	455,632	8,818
b. Facilities <sup>b</sup>	101,900	91,710	95,168	70,598	24,569
c. Guideways <sup>b</sup>	310,250	279,225	242,717	220,409	22,308
<b>TOTAL TRANSIT</b>	<b>\$ 1,545,070</b>	<b>\$ 1,390,563</b>	<b>\$ 1,387,711</b>	<b>\$ 1,221,665</b>	<b>\$ 166,046</b>
<b>B. PARATRANSIT</b>	<b>\$ 201,900</b>	<b>\$ 181,710</b>	<b>\$ 182,554</b>	<b>\$ 139,342</b>	<b>\$ 43,212</b>
<b>C. STREETS AND TRAFFIC SAFETY</b>					
<b>i. Major Capital Projects</b>	<b>\$ 103,400</b>	<b>\$ 93,060</b>	<b>\$ 94,660</b>	<b>\$ 74,552</b>	<b>\$ 20,109</b>
a. Doyle Drive	79,200	71,280	71,581	54,072	17,509
b. New and Upgraded Street <sup>a</sup>	24,200	21,780	23,080	20,480	2,600
<b>ii. System Operations, Efficiency and Safety</b>	<b>\$ 53,400</b>	<b>\$ 48,060</b>	<b>\$ 47,853</b>	<b>\$ 47,841</b>	<b>\$ 11</b>
a. New Signals and Signs	36,100	32,490	32,360	32,360	-
b. Adv Tech and Information Systems (SFgo)	17,300	15,570	15,492	15,481	11
<b>iii. System Maintenance and Renovation</b>	<b>\$ 248,600</b>	<b>\$ 223,740</b>	<b>\$ 223,895</b>	<b>\$ 183,489</b>	<b>\$ 40,406</b>
a. Signals and Signs	87,900	79,110	79,260	68,386	10,874
b. Street Resurfacing, Rehabilitation, and Maint.	143,300	128,970	128,943	99,987	28,956
c. Pedestrian and Bicycle Facility Maintenance	17,400	15,660	15,692	15,115	577
<b>iv. Bicycle and Pedestrian Improvements</b>	<b>\$ 168,600</b>	<b>\$ 151,740</b>	<b>\$ 151,527</b>	<b>\$ 151,502</b>	<b>\$ 25</b>
a. Traffic Calming	60,800	54,720	54,638	54,638	-
b. Bicycle Circulation/Safety	27,600	24,840	24,761	24,761	-
c. Pedestrian Circulation/Safety	23,800	21,420	21,414	21,393	20
d. Curb Ramps	23,600	21,240	21,220	21,220	-
e. Tree Planting and Maintenance	32,800	29,520	29,494	29,489	5
<b>TOTAL STREETS AND TRAFFIC SAFETY</b>	<b>\$ 574,000</b>	<b>\$ 516,600</b>	<b>\$ 517,935</b>	<b>\$ 457,383</b>	<b>\$ 60,552</b>
<b>D. TSM/STRATEGIC INITIATIVES</b>					
i. Trans. Demand Management/Parking Management	11,600	10,440	10,439	10,080	360
ii. Trans./Land Use Coordination	17,600	15,840	15,838	15,838	-
<b>TOTAL TSM/STRATEGIC INITIATIVES</b>	<b>\$ 29,200</b>	<b>\$ 26,280</b>	<b>\$ 26,278</b>	<b>\$ 25,918</b>	<b>\$ 360</b>
<b>TOTAL STRATEGIC PLAN</b>	<b>\$ 2,350,170</b>	<b>\$ 2,115,153</b>	<b>\$ 2,114,478</b>	<b>\$ 1,844,308</b>	<b>\$ 270,170</b>
A - See Information regarding exceptions to 90% programming policy for 3rd Street IOS, Central Subway, Bernal Heights, and Illinois Street Bridge B - See information regarding aggregation of MUNI programming for Vehicles, Facilities and Guideways C - This \$270,169,733 represents the finance costs assigned to projects, expressed in 2003 dollars. Conversion to Year of Expenditure dollars yields \$425,742,363. Please refer to the Sources and Uses Chart for more information					

## E. FINANCE

While administering the Prop B Program, the Authority was able to take an almost completely cash or “pay-as-you-go” approach because the timing of major capital expenses allowed sufficient reserves to be built up in the early years. In contrast, the Prop K portfolio of projects is expected to be developed and put into service much sooner in the 30-year timeline of the program. Capital expenditure requirements for Prop K projects outpace revenue collections in Fiscal Year 2 of the Prop K Strategic Plan, and revenues are not expected to catch up with expenses until Fiscal Year 26. While the development of the Prop K Strategic Plan included a thorough exploration and evaluation of alternate sources of capital funding to optimize the leveraging of sales tax funds, reliance on uncertain federal and state funds, or opting to follow a pay-as-you-go approach could force the beneficiaries of Prop K projects to forego many needed improvements. The risk of inflation is also a concern when deferring or extending the schedule of any given project. In short, the Prop K Strategic Plan will require a significant amount of financing to support a cost-effective and timely delivery of the Prop K portfolio of projects.

The Authority has already issued \$150 million in short-term debt through its Board-approved \$200 million commercial paper program; however, the anticipated debt levels of the Prop K Strategic Plan are well beyond the capacity of this short-term financing program. As part of the Authority’s sweeping review of its policies and procedures over the past 10 months, the Authority adopted a comprehensive framework for evaluating financing options, and to control the types and levels of its outstanding obligations, putting into effect updated Fiscal and Investment Policies and an inaugural Debt Policy. The Authority’s debt management program, which incorporates the tenets contained in the Debt, Fiscal and Investment Policies and is well-integrated with the guiding principles of the Prop K Strategic Plan, contemplates debt financing only in those cases where public policy, equity and economic efficiency favor debt over cash financing.

While the proposed Strategic Plan forecasts the issuance of debt on the order of \$1.0 billion over the 30-year life of the Prop K Expenditure Plan, the Authority will evaluate each and any financing option in context. Each potential debt issuance will be considered, in coordination with Prop K project sponsors, and in light of Strategic Plan prioritization guidelines and Debt Policy’s standards for the use of debt financing, while conforming to the primary objectives of maintaining cost-effective access to the capital markets through prudent yet flexible policies, keeping debt service payments to a minimum through effective planning and cash management, and achieving the highest practical credit ratings.

Adoption of the Strategic Plan or Annual Budget by the Authority Board does not, in and of itself, constitute authorization for debt issuance for any capital projects. The Debt Policy requires that the Board specifically authorize each debt financing. Each financing will be presented to the Board in the context of and consistent with the Strategic Plan and applicable Annual Budget.

## F. POLICIES

The Strategic Plan policies and procedures provide guidance to both Authority staff and project sponsors on the various aspects of managing a program as large and complex as Prop K. The Strategic Plan policies and procedures highlighted here address the allocation and expenditure of funds, in the policy context of the Authority’s overall debt management structure, as well as clarifying the Authority’s expectations of sponsors to deliver their projects. Many of the policies will

be carried over from the Prop B Strategic Plan, but the transition to a new Strategic Plan provides the opportunity to update and improve upon prior policies, in addition to requiring the development of new policies to meet the new requirements and challenges of a new Expenditure Plan, which is not deliverable under the old pay-as-you-go approach.

In order to help structure our efforts and our discussions, we used the three guiding principles that are the foundation for managing the program and the project. These three guiding principles are fundamental in assuring implementation of the Expenditure Plan as approved by the voter:

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

The full set of detailed policies and procedures guiding the Authority and sponsors are as follows:

#### **Optimizing the Leveraging of Sales Tax Funds**

- Prop K funds will not substitute for another fund source that has been programmed or allocated previously to the project or program.
- Prop K funds will be programmed and allocated to phases of projects emphasizing the leveraging of other fund sources. The sponsor will provide certification at the time of an allocation request that all complementary fund sources are committed to the project. Funding is considered “committed” if it is included specifically in a programming document adopted by the governing board or council responsible for the administration of the funding and recognized by the Authority as available for the phase at the time the funds are needed.
- Other fund sources committed to the project or program will be used in conjunction with Prop K funds. To the maximum extent practicable, other fund sources will be spent down prior to Prop K funds. Otherwise, Prop K funds will be spent down at a rate relatively proportional to the Prop K share of the total funds programmed to that project phase or program.
- In establishing priorities in the Strategic Plan Updates and annual allocation actions, the Authority will take into consideration the need for Prop K funds to be available for matching federal, state, or regional fund sources for the project or program requesting the allocation or for other projects in the EP.
- Projects with complimentary funds from other sources will be given priority for allocation if there are timely use of funds requirements outside of the Authority’s jurisdiction applied to the other fund sources.

#### **Support Timely and Cost-Effective Project Delivery**

- Prop K funds will be allocated one project phase at a time, except for smaller projects, where the Authority may consider exceptions to approve multi-phase allocations. Phases eligible for an allocation:

Planning/Conceptual Engineering  
Preliminary Engineering/ Environmental Studies (PA&ED)  
Design Engineering (PS&E)  
Right of Way Support/Acquisition Construction  
Procurement (e.g. rolling stock)

## Incremental Operating and Maintenance

- Under the approved Authority Fiscal Policy, Cash Flow Distribution Schedules are adopted simultaneous to the allocation action. The allocation resolution will spell out the maximum reimbursement level per year, and only the reimbursement amount authorized in the year of allocation will count against the Capital Expenditures line item for that budget year. The Capital Expenditures line item for subsequent year annual budgets will reflect the maximum reimbursement schedule amounts committed through the original and any subsequent allocation actions. The Authority will not guarantee reimbursement levels higher than those adopted in the original and any subsequent allocation actions.
- Retroactive expenses are ineligible. No expenses will be reimbursed that are incurred prior to Board approval of the sales tax allocation for a particular project or program. The Authority will not reimburse expenses incurred prior to fully executing a Standard Grant Agreement.
- Indirect expenses are ineligible. Reimbursable expenses will include only those expenses directly attributable to the delivery of the products for that phase of the project or program receiving a Prop K allocation.
- After a multi-year allocation of funds has been made to a project phase, the release of funds in any subsequent fiscal year will be subject to the submittal and acceptance by the Authority's Executive Director of a complete Progress Report meeting the requirements for progress reports as adopted by the Authority Board.
- Prior to allocation of any Prop K funds, the lead agency will submit a 5-Year Prioritization Program which includes clearly defined budgets, scopes and schedules for individual projects within the program, or a 5-year project delivery plan (for capital projects) which includes a clearly defined budget, scope and schedule consistent with the Strategic Plan for use of Prop K funds, for review and adoption by the Authority Board as provided for in the EP. Allocations may be made simultaneous to approval of the program of projects or plans, contingent on consistency with the Strategic Plan.
- Project phases for which Prop K funds will be allocated will be expected to result in a complete work product or deliverable. Table 2 demonstrates the products expected to accompany allocations. Prop K funds will be allocated prior to the advertising for any equipment or services necessitating the expenditure of Prop K funds.
- Prop K funds will be allocated to phases of a project or to a program based on demonstrated readiness to begin the work and ability to complete the product. Any impediments to completing the project phase or program will be taken into consideration, including any pending or threatened litigation. The Authority will take into consideration any incomplete aspects of the previous phase of work prior to allocating the next phase.
- Allocations of Prop K funds for specific project phases will be contingent on the prerequisite milestones shown in Table 3. Exceptions will be considered on a case-by-case basis. Allocation requests will be made prior to advertising for services which will utilize Prop K funds.
- Prop K allocations for right-of-way and construction will be contingent on a completed environmental document. Consideration will be given to right-of-way acquisition prior to environmental document completion to respond to owner hardship, or to avoid significant cost increases due to impending development of the site. Allocations in these

situations may be granted if the risk associated with the exception can be mitigated to an acceptable level and the exception is consistent with a cost-effective approach to delivering the project or program as required in the Expenditure Plan.

- Allocations of Prop K funds will be based on an application package prepared and submitted by the lead agency for the program or project. The package will be in accordance with application guidelines and formats as outlined in Attachment C, with the final application submittal to include sufficient detail and supporting documentation to facilitate a determination that the applicable conditions of this policy have been satisfied.
- Prop K funds may be allocated for operations and maintenance only as provided for in the Expenditure Plan. The amount of funding for incremental operating and maintenance costs for eligible facilities and services will decrease linearly from 100% for the first year of operation to 0% for the tenth year. The first year amount of Prop K funds for incremental operating and maintenance costs for facilities and services that received Prop B funding will be equal to the Prop B amount shown in the 2003 Strategic Plan Update for FY 2003/04.
- Timely-use-of-funds requirements will be applied to all Prop K allocations to help avoid situations where Prop K funds sit unused for prolonged periods of time, especially when the Authority is issuing debt in order to make those allocations. Annual allocations that are unspent may be deducted from the following year's allocation, to avoid the unnecessary accumulation of unspent revenue, and the untimely delivery of a product to the public. On the occasion of each Strategic Plan update or major amendment, envisioned no less frequently than every three years, the ability of sponsors to deliver their committed projects and programs will be taken into consideration when updating the programming of funds.
- Under a multi-year allocation to a project phase, prior to subsequent fiscal year funds being made available to the sponsor for reimbursement, the Authority will take into consideration any unused funds from the previous fiscal year.
- Unexpended portions of allocated amounts remaining after final reimbursement for that phase will be returned to the project's programmed balance.
- Prop K allocations for construction capital and equipment purchase must be encumbered by the award of a contract within 12 months of the date of allocation. At the end of the project, Prop K allocations for the construction, construction engineering and equipment purchase phases must be drawn down within 12 months of the date of contract acceptance.
- Upon completion of the expected work product shown in Table 2, the Authority will deem that any remaining programmed balance for the project is available for programming to another capital project or Annual Activity within the same category as listed in the EP. Prop K funds will be expended for right of way capital and support only if the project has identified and committed construction capital funds. The Authority will consider exceptions whereupon investment in right of way can be recovered if the project does not go forward.
- It is imperative to the success of the Prop K Program that project sponsors of Prop K-funded projects work with Authority representatives in a cooperative process. It is the project sponsor's responsibility to keep the Authority apprised of significant issues affecting project delivery and costs. Ongoing communication resolves issues, facilitates

compliance with Authority policies and contributes greatly toward ensuring that adequate funds will be available when they are needed.

### **Maximize the cost-effectiveness of financing**

- Allocations of Prop K funds for capital projects or annual activities will not exceed the total amount for the given program or project established in the Expenditure Plan as Priority 1 until such time as the latest Prop K Strategic Plan Update cash flow analysis includes revenue forecasts that exceed the Priority 1 levels. At such time as the revenue forecasts exceed the Priority 1 levels, the Authority may allocate Priority 2 revenues within a given subcategory up to the lesser amount of either the category percentage cap, or the program or project dollar amount caps established in the EP for Priority 2.
- The baseline of funding that any program or project can expect from Prop K cannot exceed the pro-rata share of that project or program's amount relative to the total amount of Prop K revenue in any given year. If the project sponsor wants more funding earlier than the corresponding pro-rata share, then debt financing must be agreed to by the Authority, and the costs of debt financing for that project or program must be borne by that particular project or program.
- The amount of funds that can be advanced is finite, reflecting the Authority's limited borrowing capacity. The Authority must optimize debt service burden through effective planning and project cash management, in coordination with Authority project sponsors, and preserve the highest practical credit ratings in order to minimize the cost of borrowing.
- Debt issuance and service costs will be allocated to individual projects and programs in proportion to the amount of debt issuance they trigger. The interest assigned to the project will be considered a cost to the project. Total cost, including that interest, will not exceed the Priority 1 funding caps as outlined in the Expenditure Plan.

## **G. PROGRAM ADMINISTRATION AND MANAGEMENT**

The Authority is responsible for ensuring that Prop K funds are being spent in accordance with the intent of the voter-approved sales tax initiative. Authority representatives will work with project sponsors at every stage of the project, seeking to leverage other fund sources coming to the project, resolving issues that may arise throughout the various phases of project delivery, and otherwise championing the projects and programs in the Prop K Expenditure Plan.

Administration of the Prop K program includes the tasks necessary for effectively carrying out Authority initiatives, policies and mandates. The Authority will conduct project management oversight of the projects funded in whole or in part with Prop K funds. The purpose of the oversight is threefold:

- To review the components of the project , so as to identify, if possible, more cost-effective alternatives or enhancements
- To review major cost components of the project
- To review the objectives and purpose of the project to determine if the project is consistent with the original purpose of the project in the Expenditure Plan.

It is imperative to the success of the Prop K Program that sponsors of Prop K funded projects work with Authority representatives in a cooperative fashion. It is the project sponsor's responsibility to



keep the Authority apprised of significant issues affecting project delivery and costs. Ongoing communication resolves issues, facilitates compliance with Authority policies and contributes greatly toward ensuring that adequate funds will be available when they are needed.

The sponsor is wholly responsible for the direct delivery of the project phases. The Authority, however, has the responsibility to suggest, where it appears warranted, cost effective solutions to issues that will enable projects and programs to be delivered on time and within budget.

The Authority reimburses the State Board of Equalization for providing sales tax collection services. This amounts to 1.25% of the annual revenue collected. Pursuant to state statutes, the Authority reserves 1% of annual collection for salaries and benefits associated with administration of the program. The Authority reserves 1% of annual proceeds for overhead, and 2% of annual proceeds for project management oversight, which includes planning, programming, and project delivery support. The Authority anticipates, and the Revenue and Expenditure Element reflects, that a number of projects are anticipating allocations well beyond the project's annual pro-rata share of revenue. The 2% reservation of proceeds for project management oversight will capture the fluctuations in allocations caused when projects or programs receive allocations which exceed their pro-rata share of funds.

## H. ACCESS TO PROP K FUNDS

### 1. ALLOCATION REQUEST PROCESS

In order to initiate a request for allocation of Prop K funds, a project sponsor must complete a Prop K Allocation Request Form, which is available in its most current form on the Authority's website, [www.sfcta.org](http://www.sfcta.org), under *Funding Opportunities* and submit it to the Authority by the first business day of the month. Consistent with the emphasis on deliverability, funding applications will include information that details the full funding plan to match the cost of the activity or project proposed, and supports application of Strategic Plan policies. Allocation requests must also be consistent with any applicable 5-Year Prioritization Programs. Project sponsors must provide justification for inconsistency with 5- Year Prioritization Programs, which may involve amending the Strategic Plan or 5-Year Prioritization Program. As has always been the practice at the Authority, the actual funding amount recommended will depend on the justification provided by the sponsor, and it may be below the Strategic Plan amount, depending largely on the sponsor's ability to demonstrate program needs and ability to deliver the project.

Generally, allocations requests that are complete, with reasonable budgets, scopes and schedules and that are consistent with the Strategic Plan and 5-Year Prioritization Program, will be calendared for the regular meeting of the Authority's Citizen Advisory Committee on the fourth Wednesday of the same month when the request is received, and for the Plans and Programs Committee and Authority Board for approval the following month. Following Board approval of the allocation, the Executive Director will impose, as a condition of this authorization for expenditure, such terms and conditions as are necessary for the project sponsors to comply with applicable law and adopted Authority policies and execute Standard Grant Agreements to that effect. Standard Grant Agreements set the "start date" after which Prop K expenses can be incurred against the allocation, as well as contains the other terms and conditions related to the use of the Prop K funds.

Many project sponsors need to know about the level of Prop K funding in order to inform their budget processes and to have the staff and other resources in place at the beginning of the fiscal year. Thus, the Authority issues an annual call for projects each spring, with the intent of bringing as many of the programmatic and other individual capital project allocations to the Board for approval in June. This ensures that sales tax funding is in place by the start of the fiscal year (July 1). Nevertheless, sponsors may initiate allocation requests at anytime during the fiscal year.

## **2. AMENDMENTS TO ALLOCATIONS**

When the Authority allocates Prop K funds to a project or program, it is for a specific scope, schedule, and budget. Following Board approval, this information is incorporated into the Standard Grant Agreement (SGA) for that allocation. The project sponsor is expected to deliver the project or program as approved by the Board. If a project sponsor anticipates that any of these factors (i.e., scope, schedule or budget) will change, the sponsor must submit a written request to the Authority describing the proposed change and the rationale for the change, and request an allocation amendment. The Authority reviews the request to determine whether the amendment can be approved administratively at the discretion of the Executive Director or whether it involves significant enough changes to require policy-level action by the Authority Board. Work performed by project sponsors which is not consistent with the original allocation is not reimbursable by Prop K unless an SGA amendment reflecting such changes has been executed prior to incurring the expenses associated with those changes

An administrative amendment addresses changes such as minor scope, schedule and budget adjustments which do not change the nature of the original Authority-approved allocation. In contrast, policy-level amendments include changes such as a significant increase in cost where the sponsor is requesting that the Authority allocate or program other non-sales tax funds to help cover the cost increase, a significant change in scope, or major delay of any project phase. Policy-level amendments must follow the standard allocation approval process involving review and action by the CAC, the Plans & Programs Committee, and the Authority Board.

Authority staff will review all amendment requests for consistency with the Strategic Plan and, if applicable, the approved 5-Year Prioritization Program. This information, along with the sponsor's justification for the proposed amendment will be considered when the Authority makes a recommendation whether or not the amendment should be approved.

## **3. STANDARD GRANT AGREEMENT (SGA)**

The execution of the SGA represents the transition from the programming phase to the implementation phase of a Prop K grant. It is only after the execution of the SGA by both the Authority and project sponsor that the sponsor may start expending the funds and the Authority may allow for their reimbursement. The SGA was developed during the early years of the Authority for the Prop B sales tax program.

The SGA generally addresses contractual issues between the Authority and its sponsors. A unique SGA is executed for each grant. The following are the key elements of the SGA:

1. Proposition K Sales Tax Program Allocation Request Form – This attachment to the SGA is one of the essential elements of the SGA. This form establishes the scope of the grant, the schedule, budget, reimbursement schedule, deliverables, special conditions and any other grant specific information.
2. Sections 1 and 2 of the SGA establish the legal relationship between the Authority and the sponsor. Some of the key elements that are addressed are cost eligibility, the Authority's rights to review project records, the relationship between the sponsor's Project Manager and the Authority's Project Oversight team, Attribution and Signage, how costs are to be documented, how costs are reimbursed, reporting requirements on an ongoing basis and end of project reporting requirements.,

By July 1 of each year, heads of agencies that are eligible project sponsors will provide the Authority with an official written communication specifying the name and title of the individuals authorized to execute Standard Grant Agreements, and bearing those individuals' signatures, unless they are to be executed exclusively by the head of the agency. The names and titles of the individuals that are authorized to submit requests for reimbursement of Prop K funds will also be included. Sponsors will communicate to the Authority any changes to authorized signatures within 30 days of the change. The sponsor will execute the SGA, and return it to the Authority for signature by the Executive Director. The sponsor will provide verification that any sponsor board actions necessary for the execution of the SGA have been completed and will attach the appropriate budget and/or resolution. This verification requirement will not apply to departments of the City and County of San Francisco. Project sponsors may start incurring Prop K-reimbursable costs only upon receipt of an original SGA executed by the Authority's Executive Director. A sample of the most current SGA format is available on the Authority's website, at [www.sfcta.org](http://www.sfcta.org).

## Appendices

**Appendix A - EP Line Items.** This is a listing of every Expenditure Plan commitment. Each commitment, or EP element, is assigned an “EP Line Item”. It is a key to reading the various revenue and expenditure spreadsheets.

**Appendix B - 90% Priority 1 Cap Baseline (2003\$).** This is the baseline amount of what each Expenditure Plan element, projects and programs can expect in each of the thirty years of the Strategic Plan. This assumes we are programming to 90% of Priority 1 caps, and assigns each Expenditure Plan element its share of revenue annually.

**Appendix C- Summary of Planned Allocations (2003\$).** This depicts what each Expenditure Plan category and subcategory can ultimately expect from Priority 1, 2, and 3 levels of funding. It also exhibits the recommended programming levels for each EP category and subcategory.

**Appendix D- Planned Allocations and Financing Costs by EP Line Item (2003\$).** This spreadsheet depicts exactly what each category can expect in programming over the thirty years of Prop K. It is based on the 90% Priority 1 levels of funding and assigns debt costs to EP Line Items if advancement of funds occurs beyond the 90% Priority 1 baseline.

**Appendix E- Planned Allocations by EP Line Item by Sponsor (Year of Expenditure).** This spreadsheet depicts exactly what each sponsor can expect in programming over the thirty years of Prop K in year of expenditure dollars. It is based on the 90% Priority 1 levels of funding.