

**2019 PROP K STRATEGIC PLAN POLICIES**  
**Approved 05.31.2018**

The Strategic Plan policies provide guidance to both Transportation Authority staff and project sponsors on the various aspects of managing a program as large and complex as Prop K. The policies address the programming, allocation, and expenditure of funds, in the policy context of the Transportation Authority's overall Prop K debt management structure, as well as clarifying the Transportation Authority's expectations of sponsors to deliver their projects in fulfillment of the voter approved Expenditure Plan.

The Strategic Plan policies have been updated twice previously, each time incorporating lessons learned from the preceding five years. As part of this third Strategic Plan update, we have carried forward the policies from the prior update, with some minor refinements drawing from lessons learned over the last five years and clarifying text, as needed.

**Guiding Principles**

To help structure our efforts, we used three guiding principles that are fundamental in ensuring implementation of the Expenditure Plan as approved by the voters:

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

The full set of policies guiding the Transportation Authority and project sponsors are detailed below.

**1. OPTIMIZING THE LEVERAGING OF SALES TAX FUNDS**

**1.1. | NO SUBSTITUTION**

Prop K funds will not substitute for another local fund source that has been previously programmed or allocated to a project or program.

**1.2. | CERTIFICATION OF COMMITTED FUNDS**

Prop K funds will be programmed and allocated to phases of projects emphasizing the leveraging of other fund sources. At the time of a Prop K allocation request, the project sponsor will provide certification that all complementary fund sources required to fully fund the requested phase or phases 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 Transportation Authority as available for the phase at the time the funds are needed.

**1.3. | REQUIRED MATCH CONSIDERATION**

In establishing priorities in the Strategic Plan updates, 5-Year Prioritization Program (5YPP) updates, and annual allocation actions, the Transportation 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 Expenditure Plan.

**1.4. | PRIORITY FOR PROJECTS LEVERAGING FUNDS WITH TIMELY USE OF FUNDS REQUIREMENTS**

Projects with complementary funds from other sources will be given priority for allocation if there are timely use of funds requirements outside of the Transportation Authority's jurisdiction applied to the other fund sources.

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#### **1.5. | REGIONAL TRANSPORTATION PLAN CONSISTENCY**

Projects shall be consistent with the Regional Transportation Plan.

#### **2. SUPPORT TIMELY AND COST-EFFECTIVE PROJECT DELIVERY**

##### **2.1. | 5-YEAR PRIORITIZATION PROGRAM OR 5-YEAR PROJECT DELIVERY PLAN APPROVAL**

Transportation Authority Board approval of a 5-Year Prioritization Program (5YPP) is a prerequisite for allocation of funds from the 21 programmatic (i.e., non-project specific) Expenditure Plan categories (See Section XX, Table XX). The 5YPPs are developed by the lead agency for the programmatic categories, working in close collaboration with other eligible sponsors for the relevant category and Transportation Authority staff. The 5YPP must include clearly defined budgets, scopes and schedules for individual projects within the program as well as other requirements specified in the Expenditure Plan and 5YPP guidance issued by Transportation Authority staff.

For non-programmatic categories such as a named major capital project, Transportation Authority Board approval of a 5-year project delivery plan which includes a clearly defined budget, scope and schedule is a prerequisite for allocation of funds. These plans, which are developed by the project sponsor in concert with Transportation Authority staff, are incorporated into the Strategic Plan (See Appendix X).

Allocations may be made simultaneous to approval of the 5YPP or 5-year project delivery plan, contingent on consistency with the Strategic Plan.

##### **2.2. | ALLOCATION BY PHASE**

Prop K funds will be allocated one project phase at a time, except for smaller, less complex projects, where the Transportation Authority may consider exceptions to approve multi-phase allocations. The Transportation Authority will also consider multi-phase exceptions for a project using Prop K as a local match for certain federal funds, where the administering agency combines planning, environmental, and design work into a one-phase allocation. Phases eligible for an allocation are as follows:

- Planning/Conceptual Engineering
- Preliminary Engineering/ Environmental Studies (PA&ED)
- Design Engineering (PS&E)
- Right of Way Support/Acquisition
- Construction (includes procurement)
- Incremental Operating and Maintenance
- Operations (i.e. paratransit operating support)

##### **2.3. | OPERATIONS AND MAINTENANCE**

Prop K funds may be allocated for operations and maintenance only as provided 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 operation 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 Fiscal Year 2003/04.

##### **2.4. | PREREQUISITE MILESTONES FOR ALLOCATION**

Allocations of Prop K funds for specific project phases will be contingent on the prerequisite milestones shown in Table 1. 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.

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- 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.
- Prop K funds will be allocated for right of way capital and support only if the project has identified and committed construction capital funds. The Transportation Authority will consider exceptions whereupon investment in right of way can be recovered if the project does not go forward.

#### **2.5. | PROJECT READINESS**

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 Transportation Authority will take into consideration any incomplete aspects of the previous phase of work prior to allocating the next phase.

#### **2.6. | WORK PRODUCTS AND DELIVERABLES**

Project phases for which Prop K funds will be allocated will be expected to result in a complete work product or deliverable. Table 2 located in the following section lists 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.

#### **2.7. | ALLOCATION REQUEST PACKAGE**

Allocations of Prop K funds will be based on an application package prepared and submitted by an eligible project sponsor. The package will be in accordance with application guidelines and formats as outlined in the Transportation Authority's allocation request procedures. The final application submittal must include sufficient detail and supporting documentation to facilitate a determination that the applicable Strategic Plan policies have been satisfied. The allocation request procedures are located on the Transportation Authority's website at [www.sfcta.org](http://www.sfcta.org).

#### **2.8. | RETROACTIVE REIMBURSEMENTS NOT ALLOWED**

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 Transportation Authority will not reimburse expenses incurred prior to fully executing a Standard Grant Agreement. Exceptions to this policy may be granted under the following conditions:

- Where the Transportation Authority has previously approved the scope of a project and that scope has incurred increased costs; and
- Capital costs of a multi-year project to which the Transportation Authority has made a formal commitment in a resolution for out-year costs, although the funds have not been allocated.

While these costs shall be eligible for reimbursement in the situations cited above, the timing and amount of reimbursement will be subject to a Transportation Authority allocation, based on available revenues, other anticipated project requests, and project category and subcategory limits established in the Expenditure Plan.

#### **2.9. | INDIRECT EXPENSES NOT ALLOWED**

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.

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**2.10. | CONTRACT AWARD AND ENCUMBRANCE**

Prop K allocations for construction capital and equipment purchase shall 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 shall be drawn down within 12 months of the date of contract acceptance.

**2.11. | REMAINING BALANCE REQUIRED TO SAME PROJECT FOR FUTURE PHASES**

Unexpended portions of allocated amounts remaining after final reimbursement for that phase may be returned to the project's programmed balance if the project is not yet completed (e.g. future phases remain).

**2.12. | REMAINING BALANCE RETURNED TO SAME CATEGORY**

Upon completion of the project, including any expected work product shown in Table 2, the Transportation Authority will deem that any remaining programmed or unspent balance for the project is available for programming to another project within the same Expenditure Plan line item.

**2.13. | COMMUNICATION**

It is imperative to the success of the Prop K program that project sponsors of Prop K-funded projects work with Transportation Authority representatives in a cooperative process. It is the project sponsor's responsibility to keep the Transportation Authority apprised of significant issues affecting project delivery and costs. Ongoing communication resolves issues, facilitates compliance with Transportation Authority policies and contributes greatly toward ensuring that adequate funds will be available when they are needed to support project delivery.

**3. MAXIMIZE THE COST-EFFECTIVENESS OF FINANCING**

**3.1. | CASH FLOW DISTRIBUTION SCHEDULES**

Under the approved Transportation Authority Fiscal Policy, Cash Flow Distribution Schedules consistent with project schedule 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 Transportation Authority will not guarantee reimbursement levels higher than those adopted in the original allocation or any subsequent amendments.

**3.2. | TIMELY-USE-OF-FUNDS REQUIREMENTS**

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 Transportation 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 five years, the ability of sponsors to deliver their committed projects and programs will be taken into consideration when updating the programming of funds.

**3.3. | PROPORTIONAL SPENDING**

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,

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Prop K funds will be spent down at a rate proportional to the Prop K share of the total funds programmed to the project phase or program.

**3.4. | PRIORITY 1 VS. PRIORITY 2 FUNDING LEVELS**

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 Transportation 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 Expenditure Plan for Priority 2.

**3.5. | PRO-RATA SHARE**

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 Transportation Authority, and the costs of debt financing for that project or program must be borne by the Expenditure Plan line item from which the funds are allocated. See also policies 3.6 and 3.7.

**3.6. | ADVANCING FUNDS**

The amount of funds that can be advanced is finite, reflecting the Transportation Authority's limited borrowing capacity. The Transportation Authority must optimize debt service burden through effective planning and project cash management, in coordination with Transportation Authority project sponsors, and preserve the highest practical credit ratings in order to minimize the cost of borrowing.

**3.7. | FINANCING ASSIGNED BY CATEGORY**

Debt issuance and service costs will be allocated to individual Expenditure Plan line items in proportion to the amount of debt issuance they trigger. The interest assigned to the line item will be considered a cost to that line item. Total cost, including programming and interest, will not exceed the Priority 1 funding caps as outlined in the Expenditure Plan. Projects grandfathered from the Prop B Expenditure Plan shall be exempt from this policy and any associated financing costs for those projects will be covered by the capital program as a whole.

**4. PREREQUISITE MILESTONES FOR ALLOCATION**

Allocations of Prop K funds for specific project phases will be contingent on the prerequisite milestones shown in Table 1 below. 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.

**Table 1. Prerequisite Milestones for Allocation**

<b>Phase</b>	<b>Prerequisite Milestone(s) for Allocation</b>
Planning/Conceptual Engineering	<ul style="list-style-type: none"><li>• 5YPP or 5-year project delivery plan</li></ul>
Environmental Studies (PA&ED)	<ul style="list-style-type: none"><li>• 5YPP or 5-year project delivery plan</li></ul>

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Design Engineering (PS&E)	<ul style="list-style-type: none"> <li>• 5YPP or 5-year project delivery plan</li> <li>• Approved environmental document</li> <li>• Capital construction funding in adopted plan, including RTP and Countywide Transportation Plan</li> </ul>
Right of Way Support/Acquisition	<ul style="list-style-type: none"> <li>• 5YPP or 5-year project delivery plan</li> <li>• Approved environmental document</li> <li>• Capital construction phase committed in programming document</li> </ul>
Construction (includes procurement)	<ul style="list-style-type: none"> <li>• 5YPP or 5-year project delivery plan</li> <li>• Approved environmental document</li> <li>• Right of way certification</li> <li>• 100% PS&amp;E</li> <li>• All applicable permits</li> </ul>
Incremental Operating and Maintenance	<ul style="list-style-type: none"> <li>• 5-year project delivery plan</li> <li>• Documentation confirming costs are for new transportation services or an eligible grandfathered project per Expenditure Plan</li> <li>• Proof that all other fund sources are identified and committed for operating the facility or service</li> </ul>
Operations (i.e. paratransit operations)	<ul style="list-style-type: none"> <li>• 5-year project delivery plan</li> <li>• Proof that all other fund sources are identified and committed for operating the facility or service</li> </ul>

**5. EXPECTED WORK PRODUCTS/DELIVERABLES BY PHASE**

Project phases for which Prop K funds are allocated will be expected to result in a complete work product or deliverable. The expected work product for each phase is described in Table 2 below. Requests for allocations that are expected to result in a work product/deliverable other than that shown in Table 2 for a specific phase shall include a description of the expected work product/deliverable. Prior to approval of a request for allocation that is expected to result in a work product/deliverable other than that shown in Table 2 for the specific phase, the Transportation Authority shall make a determination that the expected work product is consistent with a cost-effective approach to delivering the project or program as required in the Expenditure Plan.

**Table 2. Expected Work Products/Deliverables by Phase**

<b>Phase</b>	<b>Expected Work Product/Deliverable<sup>1</sup></b>
Planning/Conceptual Engineering	Planning document approved by sponsoring agency
Environmental Studies (PA&ED)	Final approved environmental decision/project approval documentation
Design Engineering (PS&E)	Final design package including contract documents

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Right of Way Support/Acquisition	Title to property/easements/rights of entry/order of possession or relocated utility(ies)
Construction (includes procurement)	Constructed improvement or minimum operating segment, or equipment in service.
Incremental Operating and Maintenance	Continual regular service or operation
Operations (e.g. paratransit operating support)	Continual regular service or operation

<sup>1</sup> The Transportation Authority will specify required deliverables for an allocation in the Allocation Request Form, typically requiring evidence of completion of the above work products/deliverables such as a copy of the signed certifications page as evidence of completion of PS&E or digital photos of a completed construction project.