San Francisco County Transportation Authority

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Memorandum

Date: 09.12.14

RE: Plans and Programs Committee
September 16, 2014

To: Plans and Programs Committee: Commissioners Mar (Chair), Kim (Vice Chair), Breed, Campos, Yee and Avalos (Ex Officio)

From: Anna LaForte – Deputy Director for Policy and Programming
Maria Lombardo – Chief Deputy Director

Through: Tilly Chang – Executive Director

Subject: **ACTION** – Recommend Adoption of the Draft 2014 Prop K Strategic Plan

Summary

The Prop K Strategic Plan is the financial tool that guides the timing and allocation of Prop K revenues over the 30-year Expenditure Plan period, reconciling the timing of expected Prop K revenues with the schedule for when project sponsors need those revenues in order to deliver projects, and setting policy for the administration of the program to ensure prudent stewardship of the funds. Last year the Board adopted the 2013 Prop K Strategic Plan Baseline, which consisted of updated actual sales tax revenues and project expenditures, financing assumptions, projected revenues, and revised programming of the major projects (e.g. Central Subway) that heavily drive overall program cash flow and financing needs. The Baseline served as an interim step towards a full update in 2014, pending completion of the 2014 5-Year Prioritization Programs (5YPPs), the last of which is the subject of a separate agenda item. The Draft 2014 Prop K Strategic Plan tiers off of the Baseline, adding programming and cash flow assumptions for the next five years from the 2014 5YPPs and making a limited number of programming changes to major capital projects. We also reviewed the 2009 Prop K policies and have retained them, but reorganized them to be more user friendly. The only substantive change is the proposed Delegated Allocation Authority pilot policy, which is the subject of a separate agenda item this month. The total 30-year revenue projection in the Draft 2014 Prop K Strategic Plan is $3.346 billion, $144 million less than the $3.490 billion assumed in 2009. Financing costs have also decreased, but at a much faster rate (down to $426 million from $859 million in 2009). The net effect is additional funding capacity, particularly for categories that advanced significant amounts of sales tax funds and carried their proportional share of financing costs, consistent with Strategic Plan policies. **We are seeking a recommendation to adopt the 2014 Prop K Strategic Plan.**

BACKGROUND

In November 2003, nearly 75% of the San Francisco electorate approved Proposition K (Prop K), extending the existing half-cent local transportation sales tax and adopting a new 30-year Expenditure Plan, and designating the San Francisco County Transportation Authority (Transportation Authority) as the administrator of the Prop K program. The Prop K Expenditure Plan provides an estimated $2.35 billion (2003 $'s) in local transportation sales tax revenue to a number of eligible categories, leveraging another $9.6 billion (2003 $'s) in other federal, state and local funds (Enclosure D, Appendix A). The Expenditure Plan describes the types of projects that are eligible for funds, including both specific projects and programmatic (i.e., non-project specific) categories, establishes limits on sales tax funding by Expenditure Plan line item, and sets expectations for leveraging of sales tax funds to fully fund the Expenditure Plan programs and projects. The Expenditure Plan, however, does not specify in which years of the 30-year program projects will receive funds, nor does it detail specific projects for funding in programmatic categories.

The Expenditure Plan establishes a number of other requirements. Included among them are development of a Strategic Plan to guide the implementation of the program, and for each of the 21 programmatic categories, development of the 5-Year Prioritization Program (5YPP) as a prerequisite for allocation of funds. The Strategic Plan is the financial tool that guides the implementation of the Expenditure Plan, reconciling the timing of expected Prop K revenues with the schedule for availability of state, federal and other funds beyond Prop K, the Transportation Authority's debt issuance capacity, the Transportation Authority's own assessment of the deliverability schedule for proposed projects, and the costs associated with project escalation and debt financing. The Strategic Plan also sets policy and provides guidance for the administration of the program ensuring prudent stewardship of the funds. Updating the Strategic Plan is a significant process undertaken every four years.

The Transportation Authority Board adopted the first Prop K Strategic Plan and 5YPPs in 2005 and the first update of these documents in Fiscal Year 2009/10. In July 2013 the Transportation Authority Board adopted the 2013 Prop K Strategic Plan Baseline and in June and July 2014, the Board approved 20 of 21 2014 Prop K 5YPPs, which include programming and cash flow for each project included in the 5YPPs. Approval of the final 5YPP is included as a separate item on this agenda.

The purpose of this memorandum is to present the Draft 2014 Prop K Strategic Plan and to seek a recommendation for its adoption.

DISCUSSION

The 2013 Strategic Baseline served as an interim step towards a full update in 2014, pending completion of the 2014 Prop K 5YPPs. The baseline incorporated actual revenues and expenditures (including financing costs), updated revenue projections, updated other Strategic Plan model assumptions such as interest costs related to debt issuance, and up-to-date de-obligations (costs savings or unneeded funds from cancelled projects) and updated expected project cash flows (reimbursement schedules) for existing allocations with large remaining unexpended balances. The 2013 Prop K Strategic Plan Baseline also incorporated programming and cash flow changes for the major capital projects and the paratransit category because 1) they are the primary drivers of financing need due to their size and 2) they have no 5YPP requirement. The major capital projects include: 3rd Street Light Rail, Central Subway, Transbay Transit Center, Caltrain Electrification, and Doyle Drive/Presidio Parkway. Further, as Prop B grandfathered projects, Central Subway and 3rd Street Light Rail have their associated financing costs covered by the program as a whole. Thus, they impact funds available for all the other Prop K projects and programs.

Each Strategic Plan update has a slightly different focus reflective of the particular context at the time of development. Timing of the 2014 Strategic Plan allows the Prop K program to be responsive to recent plans and initiatives, including the Regional Transportation Plan/Sustainable Communities Strategy, Muni Forward/Implementation of the Transit Effectiveness Program, WalkFirst/Vision Zero, and the San Francisco Transportation Plan (SFTP), which was adopted by the Board in 2013.

The 2014 Strategic Plan (informed by the 5YPPs) and the SFTP have an especially close relationship: the 2014 update serves as the Early Action Program for the SFTP, directing revenues toward the first five years of investments included in the 30-year SFTP. The Early Action Program uses the Prop K half-cent transportation sales tax and its ability to leverage federal, state, and other funds to direct hundreds of millions of dollars toward SFTP investments in every mode and every part of the City in the next five years. As we have highlighted during the 5YPP approval process, Prop K funds are advancing key initiatives and recommendations from the SFTP from creation of the Neighborhood Transportation Improvement Program to the Freeway Corridor Management Strategy to the Bay Area

Transit Core Capacity Study. Appropriation of Prop K funds for these three efforts is the subject of a separate agenda item on this agenda.

Highlights of the Draft 2014 Strategic Plan: The Draft 2014 Prop K Strategic Plan tiers off of the 2013 Strategic Plan Baseline, retaining key inputs and assumptions (e.g. revenue projections), and incorporating any actual revenues, expenditures, financing costs, de-obligations, and updated cash flows for existing allocations with large remaining unexpended balances since the 2013 Baseline. The main changes are the incorporation of programming and cash flow assumptions for the next five years from the 2014 5YPPs and any outyear programming for those categories. It also makes a limited number of programming changes to major capital projects (see Programming section below and Appendix D). We also reviewed the Prop K policies and procedures to ensure the program continues to support timely and cost-effective project delivery while ensuring a certain level of transparency and accountability.

Policies and Procedures: The Strategic Plan Policies (see Enclosure B) 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 were structured to support the following three guiding principles:

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

These principles are crucial to understanding both the Strategic Plan policies and the specific programming recommendations contained therein. We reviewed the 2009 Prop K policies and have retained them, but reorganized them to be more user friendly. The only substantive change is the proposed Delegated Allocation Authority pilot policy, which is intended to support more efficient project delivery by shortening the allocation timeline for some projects, while maintaining transparency and accountability. The Delegated Allocation Authority pilot policy is the subject of a separate item on the September Plans and Programs Committee agenda.

Revenues: The total 30-year revenue projection (net of Board of Equalization fees), in the Draft 2014 Strategic Plan is $3.346 billion, $144 million less than the $3.490 billion assumed in the 2009 Strategic Plan. The 2014 Strategic Plan revenue projection is substantially the same as the 2013 Baseline, but reflects one additional year of actual revenues (i.e., Fiscal Year 2012/13). The short-term, five-year (i.e., Fiscal Years 2014/15 – 2018/19) average annual growth rate is 3.8%, while the average annual long-term (i.e., Fiscal Years 2019/20 – 2033/34) rate is 3.5%. Combining actual revenues since the inception of Prop K with the revenue projection through 2034 included in the Draft Prop K 2014 Strategic Plan Baseline results in a 30-year average annual growth rate of 3.5%.

Programming: The amount of funds available to program to projects consists of Prop K revenues minus Prop K administration costs (approved by the Transportation Authority Board in April 2014) and finance costs associated with the major capital projects grandfathered from the Prop B program. Our current forecast for available programming is at about 82% of Priority 1 funding levels – the most conservative revenue forecast included in the Prop K Expenditure Plan (See Enclosure D, Appendix E).

Over the 30-year life of the program, the Draft 2014 Prop K Strategic Plan includes $2.529 billion in programming to projects, which is $160 million more than was included in the 2009 Prop K Strategic Plan. Steep reductions in financing costs have allowed us to program additional funds to many Prop K Expenditure Plan categories. In some instances, project sponsors have opted to advance the additional programming to the next five years (e.g., Bus Rapid Transit/Transit Preferential Streets/Muni Metro), while for other categories, project sponsors have requested to program additional capacity to extend the number of years in which there is funding for projects (e.g., Street Resurfacing, Paratransit). In many instances, the additional programming has been spread out over the balance of the 20 years remaining in the Prop K program (e.g., Signals and Signs, Muni Facilities, Muni Guideways).

The Draft 2014 Prop K Strategic Plan incorporates the programming and cash flow assumptions for the next five years from the 2014 5YPPs, and a limited number of updates to major capital projects. Increased programming over the 2009 Strategic Plan based on newly available funds has provided $45 million for the Downtown Extension/Transbay Transit Center ($4 million since the 2013 Baseline), $4.4 million for Electrification ($3 million since the 2013 Baseline), and $7 million for Doyle Drive/Presidio Parkway ($5 million since the 2013 Baseline). Enclosure 4, Appendix D includes a summary of the scope and status, schedule, cost and funding plan for each of these projects and the Central Subway project.

Enclosure 4 contains the Draft Prop K 2014 Strategic Plan appendices, which provide detailed information on programming and cash flow assumptions discussed above. Enclosure 4, Appendix F, in particular, shows the programming and financing cost information (annually and a 30-year total) for each Expenditure Plan line item. In our eleventh year of the 30-year Expenditure Plan, we are pleased to be able to report that we have allocated over $1 billion in sales tax funds to projects in neighborhoods citywide and all of Prop K's major capital projects are under construction or soon to be in the construction phase.

Financing: Advancing 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 relies upon 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; and
- Where feasible, non-Prop K funds will be used first, and high priority will be given to leveraging federal funds using Prop K.

The result is a Strategic Plan that minimizes debt financing costs, maximizes the leveraging of outside funds, ensures fairness by charging debt costs back to the projects that trigger borrowing, and optimizes project delivery schedules in relationship to the availability of funding. The Draft 2014 Prop K Strategic Plan assumes $620 million in debt issuance, at a cost of about $426 million in finance costs in year-of-expenditure dollars. This is a significant increase over the Transportation Authority's current commercial paper program, which we have used in conjunction with annual sales tax revenues for the first 11 years of the Prop K program to pay project costs. The Strategic Plan provides for all debt principal and interest for both commercial paper and long-term finance such as bonding to be retired prior to Fiscal Year 2033/34.

Based on cash needs for Prop K projects provided by project sponsors, the 2009 Prop K Strategic Plan assumed a first bond issuance in 2010. To date, we have been able to meet the cash needs of the program using $150 million in commercial paper debt. Based on the programming and cash flow assumptions in the Draft 2014 Strategic Plan, we are assuming a first bond in 2016—six years later than assumed in the 2009 Strategic Plan. As noted above, the lower anticipated financing costs (down from about $859 million to $426 million) are primarily attributable to slower project delivery (allocations and reimbursements) than anticipated in the 2009 Strategic Plan and, in some cases, project sponsors using non-Prop K funds first.

Anticipated Amendment for Muni LRV Procurement: The Board of Supervisor just approved a 15-year contract for the San Francisco Municipal Transportation Authority (SFMTA) to procure both replacement and expansion Light Rail Vehicles (LRVs). The $1.2 billion contract includes a base contract and a series of options, which if all executed by the contract deadlines lock in better prices enabling SFMTA to purchase a total of 260 LRVs. The funding plan for the overall contract is a combination of funds in hand, funds programmed or otherwise committed (e.g. Prop K, SFMTA revenue bonds), planned funds (e.g. future Federal Transit Administration formula funds), and funds to be identified.

SFMTA is now moving to secure funding in order to award and issue notice to proceed (NTP) on the base contract of 175 LRVs, which consists of the 24 new LRVs for the Central Subway and 151 replacement LRVs. Prop K funding for the 24 new LRVs for Central Subway, part of the base contract, was already incorporated into the Transit Enhancements 5YPP. SFMTA will be seeking programming and possibly cash flow revisions to the Vehicles-Muni and Vehicles-Undesignated line items to support NTP issuance and cash flow needs of the base contract. We are working with SFMTA to reviewing the funding plan for the procurement and to understand how Prop K funds can best support the contract. We anticipate bringing a Strategic Plan amendment to the Plans and Programs Committee for approval in October since SFMTA is eager to issue the NTP.

We are seeking a recommendation for the adoption of the 2014 Prop K Strategic Plan.

ALTERNATIVES

1. Recommend adoption of the 2014 Prop K Strategic Plan.
2. Recommend adoption of the 2014 Prop K Strategic Plan, with modifications.
3. Defer action, pending additional information or further staff analysis.

CAC POSITION

The CAC was briefed on this item at its September 3, 2014 meeting, and unanimously adopted a motion of support for the staff recommendation.

FINANCIAL IMPACTS

The proposed action will result in a recommendation to move forward with an overall programming strategy that may require the borrowing of $620 million against future Prop K sales tax revenues (in order to support accelerated delivery of projects over a pay-as-you-go program), at an estimated cost of $426 million in finance costs over the 30-year life of the program. As noted above, this is significantly lower financing than assumed in the 2009 Strategic Plan ($859 million), as well as the 2013 Strategic Plan Baseline ($470 million). Adoption of the Strategic Plan or annual Transportation Authority Budget by the Board does not 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 Transportation Authority Budget.

RECOMMENDATION

Recommend adoption of the 2014 Prop K Strategic Plan.

Enclosures (3):

A. Draft 2014 Prop K Strategic Plan Presentation
B. Draft 2014 Prop K Strategic Plan Policies
C. Draft 2014 Prop K Strategic Plan Appendices