



For Agenda Of:

June 7, 2006

ITEM # 14

To: Sacramento Transportation Authority

Subj: Status Report: New Measure A Plan of Finance

RECOMMENDATION

Receive a report from staff and consultants on remaining policy issues affecting completion of the *New* Measure A Plan of Finance.

DISCUSSION

New Measure A consists of two revenue streams: the ½-percent transportation sales tax and a new Countywide development fee. Annual sales tax revenues are anticipated to grow at an annual pace of 4.85% from \$128 million in 2010 to \$484 million in 2038. Total sales tax revenues between 2009 and 2039 will be \$8.22 billion, of which 20.75% (≈\$1.71 billion) will be available for capital projects. A comparison of the proposed Countywide development fee rates (Item #13) with anticipated local development patterns results in cumulative estimated development fee revenues of \$1.58 billion between 2009 and 2039. Eighty-five percent (≈\$1.34 billion) of these revenues will be available for capital projects in the *New* Measure A expenditure plan. Total forecasted revenues available for the *New* Measure A capital program during the 30-year term is about \$3.05 billion. The other \$6.75 billion will be earmarked for on-going maintenance and operations functions on an annual pay-go basis as set forth in the *New* Measure A ordinance.

In the past few weeks, staff and consultants have been working on three significant policy issues:

1. Determining the appropriate amount of sales tax that can be “pledged” to debt service to diminish the possibility that sales tax revenues earmarked for on-going maintenance and operations would have to be diverted to pay debt service on the capital program.

Regional Transit’s financial staff has expressed some discomfort with staff’s original proposal to pledge 100% of the anticipated sales tax revenues to debt service on the capital program. “Pledging” means that even though only 20.75% of the sales tax revenues will be borrowed against to accelerate project delivery, the entire sales tax revenue stream is exposed to creditors in years when revenues fall significantly below expectations. To address this concern,

the consulting team is proposing that the Finance Plan assume a lower 65% pledge of sales tax revenues.

2. Determining the appropriate allocation ratio of future Countywide development fee revenues to the capital program between debt service and annual pay-go expenditures.

Staff's review of bond counsel proposals (Item #15) and our on-going discussions with representatives of various investment banks suggest that the development fee revenue stream is potentially less appealing as a credit risk than the sales tax. The pace of development can fluctuate significantly during a 30-year period, while sales tax revenues in an economy like Sacramento's are relatively steady. There will also likely be some additional administrative and legislative requirements for bonding these revenues. In response, the consulting team is proposing that the Finance Plan assume that only about half of the forecasted development fee revenues be borrowed against, while the remainder be earmarked for annual pay-go.

Reducing the sales tax "pledge" and the amount of Countywide development fee revenues earmarked for debt service improves the program's debt coverage and enhances its appeal to the financial markets. There are resulting implications, however, on the capacity of the program to satisfy the project delivery schedules submitted by the sponsoring local entities.

3. Spreading the estimated delivery of the capital projects over the first 12-15 years of the term to reduce debt service costs and match the anticipated draw on *New* Measure A revenues with their forecasted availability.

Last winter, the local agency sponsors of the *New* Measure A capital projects submitted preferred delivery schedules and updated costs for each of their projects. Many projects came in at a much higher cost than was estimated during development of the *New* Measure A expenditure plan in 2004. In most instances, this is due to a rapid escalation in materials and right-of-way costs during the past two years. In some instances, the sponsoring agency re-scoped the project. In addition, most of the proposed delivery schedules are extremely ambitious with very optimistic projections about when matching state and federal funds will materialize and about the availability of resources to design, clear, and construct big projects.¹

The consulting team was originally directed to draft a Plan of Finance to accommodate this extremely front-loaded program. It is now apparent, however, that fiscal prudence and the need to improve debt coverage set forth in #1 and #2 above requires that project delivery be more evenly spread over the first 12-15 years of the 30-year term. As shown in the attached graph, the program will very clearly have insufficient capacity to accommodate the existing proposed delivery schedules over time. Even if funding could be made available, it is extremely unlikely that sufficient resources could be compiled to construct hundreds of million of dollars

¹ Of note is that two entities—City of Citrus Heights and County of Sacramento—incorporated these variables into their analyses, and have submitted fairly steady 15-year delivery schedules for their relative programs. In the past few weeks, Caltrans has also significantly reduced its estimated draw on *New* Measure A funds, and has begun spreading project delivery as well.

worth of new projects each year for the first four years of the program as is currently proposed. STA staff has begun working with local agency staffs to prepare a more workable delivery schedule.

At today's meeting, the consulting team will further explain the implications of these issues for completion of the Plan of Finance, which we anticipate bringing to your Board for adoption on July 27th.

Respectfully Submitted,

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Executive Director

Attachments

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