

State of the Authority

February 8, 2018

Chair Harris, Vice-Chair Peters, and Members of the STA Governing Board,

Today marks my first time before you to report on the State of the Authority. Since this is a relatively new concept for us and only the second such address in the history of the Sacramento Transportation Authority, I think it is appropriate to first look backward and talk about where the Authority has been before I talk about where we are today and where we are headed in 2018, in 2019, and beyond.

The STA was formed in 1989 to administer the then-just passed original Measure A. When I joined the Authority in 1994, we were already running the Sacramento Metropolitan Freeway Service Patrol (FSP) Program and had just taken on the role of the Sacramento Abandoned Vehicle Service Authority (SAVSA). The original Measure A provided a full one percent of sales tax revenues for general administration which allowed the Authority to have a permanent staff of six plus a full-time consultant and three interns.

Times have indeed changed and today's STA environment is vastly different. The Governing Board's membership grew from 11 elected officials to 16. Our FSP program's fleet has nearly doubled in size and we also took over the FSP program in Yolo County. Similarly, the number of agencies participating in SAVSA's Abandoned Vehicle Abatement Program doubled from four to eight. The only thing that got smaller was Authority staff which decreased from seven employees to three.

The transition between the two Measure As was dramatic. The "new" Measure A, which replaced "original" Measure A in April 2009, introduced many new requirements, including creation and management of four completely new programs one of which is the Sacramento County Traffic Mitigation Fee Program (SCTMFP), staffing and financial support for a new Independent Taxpayer Oversight Committee (ITOC), mandatory annual financial audits as well as periodic performance audits, plus many new reporting requirements and other compliance items.

Despite being a significantly broader and more complicated program, new Measure A cut funding for administration and operations from 1 percent of gross sales tax to three-quarters of one percent of a *calculated net* sales tax. No other measure, at least in California, is as restrictive. My reason for pointing this out is to lay the foundation for what I am about to say next: it is my firm belief that **no other transportation agency does more with less** than the Authority. We're able to do what we do thanks to the excellent leadership on the STA Governing Board, a highly-committed group of citizen volunteers on the ITOC, and a staff that, though small, is supremely dedicated. In my 10 months on the job as Executive Director, we worked hard and well together as a team to ensure a sound footing for the Authority. I am very proud of what we have accomplished so far.

ACCOMPLISHMENTS OVER THE PREVIOUS YEAR

We made sweeping changes across almost every aspect of every program.

We started by modernizing the accounting system and restructuring the chart of accounts. We separated out administration and FSP into their own accounts to increase transparency and accountability. We established new internal review processes and controls for invoices and all outgoing payments. We started providing quarterly budget-to-actual reports to the ITOC and to the Governing Board to show how our finances were actually tracking compared to what was anticipated. We reformatted the budget document to make it clearer, easier to read, and easier to understand. Starting this year, we amended the adopted budget to reflect the most up-to-date figures so it can serve as a better planning tool, and we will continue doing this in future years as appropriate. We reviewed every expense and cut out what was unnecessary and renegotiated rates and terms for everything else. We negotiated hard on new policies and coverages and even our new lease to get the best possible terms for the Authority. We held the line on staffing and the use of consultants. We succeeded at completely eliminating the administration deficit from the last two years. Still, we will continue to constrain costs as good stewards over public monies.

For the first time ever, we filled every seat on the ITOC. As required by the Ordinance, we provided the ITOC their own budget to independently act as necessary to carry out their oversight function. We gave them access to STA staff support. We invited the ITOC to provide updates and reports directly to the Board as they saw fit. In short, we cleared the way and provided the resources for the ITOC to function as originally envisioned in the Ordinance and was always intended.

In the Measure A program, we revamped the project status reports so that the information we collect is relevant, useful, and reader-friendly. We established policies requiring all new capital contracts and contract modifications and extensions to be first reviewed by the ITOC to ensure the timely use of funds. We updated the revenue projections and performed a new bond capacity analysis which we will keep up to date. Along with the Authority's financial advisor, we continue to actively monitor the capital bond program, looking for opportunities to keep costs as low as possible, as evidenced by some of the recently-requested transactions presented to your Board.

In August, we worked out a way for the ConnectorJPA to access \$2.5 million of their Measure A funding as working capital to keep the Capital SouthEast Connector project on track. In December, your Board took advantage of a rare opportunity to commence a project years ahead of schedule while saving millions of dollars in construction costs by approving a funding advance for Caltrans' Interstate 5 Carpool/Bus Lanes Project. We also worked with the City of Isleton to free up \$440,000 of their original Measure A funds to jumpstart their new and recently-approved Capital Improvement Program.

For the new Local Partnership Program, together with your agency staffs, we successfully lobbied the California Transportation Commission (CTC) to ease the local match funding requirements. This was a major accomplishment that made our local project applications viable.

When the CTC issued a call for projects in the Local Partnership Program's Formula Shares Program in late October, we worked with your staffs to identify projects, complete applications, agree on a funding allocation and receive Board approval in just six weeks to meet the submittal deadline. While no one got everything they wanted in the allocation, it demonstrated your Board's commitment to work together and compromise in order to improve our transportation system and which ultimately resulted in the best outcome. I am pleased to announce that, last Wednesday, the CTC approved our complete \$7 million funding package as submitted.

In January, your Board took on the task of prioritizing six excellent transportation construction projects nominated for the Competitive Grant Program. Once again, your Board came together and acted quickly to create a strong application package. All applications were submitted to the CTC on time last Tuesday. We will not know definitively until May 2018 but I believe the Board's unified action puts us in excellent position to bring yet another \$25 million or more of Local Partnership Program money into our region.

In regard to the FSP Program, we continue to make operations more efficient and responsive, not just for ourselves in Sacramento and Yolo Counties but also for our neighboring programs in Placer, El Dorado and San Joaquin Counties. Most importantly, Jennifer Doll of Authority staff who is the Chair of the Statewide Motorist Aid Committee, coordinated a successful effort by FSP managers throughout California to change how new SB1 funding for FSP would be allocated and matched. Jenn's efforts resulted in Caltrans releasing \$12 million of new funds per year statewide devoted to restoring service that had been cut in prior years due to budget restrictions. We will bring an RFP to the Board this summer to use some of this new funding to restore two FSP beats on Interstate 5 and Interstate 80.

Our Sacramento County Abandoned Vehicle Abatement Program continues to perform well. The total number of abandoned vehicles abated throughout Sacramento County has well-exceeded the one-half million mark. The better news, however, is that for the first time ever, SAVSA may soon include every jurisdiction in the County. SAVSA was created in 1992 between the County and the Cities of Galt, Isleton and Sacramento. The City of Folsom joined in 1999, followed by Citrus Heights in 2000, Elk Grove in 2003 and, finally, Rancho Cordova in 2015. Unfortunately, Isleton dropped out in 2012 due to lack of participation so there was never a time when every agency participated. Indications are that will soon change as we continue to work with Isleton staff to renew their membership.

THE AUTHORITY TODAY

Mr. Chair, I've just told you where the Authority has been and our recent accomplishments. Now, I'd like to talk about where the Authority is today, particularly in regard to Measure A revenues, our bond program, and our capital program.

Measure A took effect in April 2009 so the program is still young; we are only about 9 years into its 30-year duration. In 2009, it was projected that total Measure A revenues through Fiscal Year 2016/17—the date of the latest audited financial statements—would be \$912 million. Actual total revenues were \$811 million, a difference of barely 10 percent. Of the \$90 million shortfall, \$80 million was in lower developer impact fee receipts which, given the substantial downturn in building activity during the 2007-2012 recession, is understandable. Nevertheless, the downturn should have been recognized for what it

was and the projections should have been updated. Your Board has already taken the corrective step of directing that the revenue projections be updated annually so that expectations can continue to stay in sync with actual cashflow. And, as I mentioned earlier, we have already taken the additional steps of providing budget-to-actual analyses to both the ITOC and the Board every quarter plus amending the budget every year as necessary to reflect changed conditions.

On the subject of revenue projections, let me be perfectly clear: no money is “missing”. All Measure A sales tax and development impact fees that were received are accounted for. Yes, revenues may have come in lower than originally projected but we have not, do not, and cannot spend money we do not have. The flow of actual receipts through the Measure A allocation formula and the controls over our accounts simply do not allow that to happen.

Mr. Chair, let’s talk about the Authority’s decision to borrow money to advance transportation projects. There are good reasons why most transportation agencies rely on bond financing to help deliver at least part of their capital programs. The biggest one is: **Bonding allows those paying the taxes to enjoy the use of the facilities they’re paying for.** Otherwise, the benefits might only be realized by future generations. Accelerated delivery allows regional transportation benefits to be realized sooner and the cost of construction is almost always lower by avoiding the impact of inflation when projects are delayed. In just the last ten years, the cost of construction has increased an average of nearly 3 percent a year while the cost of right-of-way also continues to rise. All the while without improvements, road and traffic conditions worsen.

An example of the benefits of bonding and early delivery is Folsom Lake Crossing. Construction began in 2007 and was completed in just two years at a total cost of \$139 million, including \$34 million from Measure A early bond proceeds. To undertake that project today would cost \$175 million and the Measure A share would jump to \$42 million. Meanwhile, there have been 75 million vehicle trips on that bridge. Measure A early bond proceeds were critical in matching federal funds only available at the time, closing the funding gap, and completing the project in a short timeframe.

Another early-delivery project is the Highway 99 Interchange at Grantline Road in Elk Grove which was completed in 2009 at a total cost of \$40 million, \$37 million of it coming from Measure A early bond proceeds. Today, that project would cost over \$50 million. Not counting thru traffic on Highway 99, that new interchange has already been used 52 million times.

In all, **the Authority has been able to advance over \$370 million in projects at a 3.95 percent weighted average cost of capital**, a very attractive cost of borrowing. Bond projects throughout the County include:

- Bradshaw Road Widening, Phase 1 (*County*)
- Hazel Avenue Widening, Phase 1 (*County*)
- U.S. Highway 50 Bus & Carpool Lanes, Phase 1 (*Caltrans*)
- Downtown Intermodal Station (*Sacramento*)
- Sunrise Blvd. Widening — Gold Country Road to Jackson Road (*Rancho Cordova*)
- Greenback Lane Widening — West City Limits to Fair Oaks Blvd. (*Citrus Heights*)

- Grantline Road/Highway 99 Interchange (*Elk Grove*)
- Sheldon Road/Highway 99 Interchange (*Elk Grove*)
- Folsom Lake Crossing (*Folsom*)
- Central Galt/Highway 99 Interchange (*Galt*)
- Light Rail Extension from Downtown to Richards Blvd (*Regional Transit*)
- Light Rail Extension from Meadowview to Cosumnes River College (*Regional Transit*)
- Capital | SouthEast Connector (*Connector/JPA*)

For as much as I've touted the benefits of our bond program, one might conclude that the Authority does not use PAYGO—which stands for Pay As You GO—funding. The opposite is true. The fact is, the STA relies on PAYGO extensively. The whole of the non-capital portion of Measure A, which comprises 79.25 percent of the program, is entirely funded on a PAYGO-basis. In the capital program, all projects currently under contract with the Authority are being PAYGO-funded. Most of the projects in the next contract cycle will also be PAYGO. PAYGO has been and will continue to be important for the Authority.

CURRENT CONDITION OF THE AUTHORITY

Overall, I would summarize the current condition of the Authority as follows:

- **Financial Condition.** The Authority's short-term financial condition is stable. Preliminary projections show cashflow is adequate to cover the next cycle of originally-planned Measure A capital projects. However, before we issue any new capital contracts, I recommend that we engage a consultant with the expertise to perform an independent analysis and produce a 5-year expenditure plan that considers all revenue sources and past expenditures in relation to what had been programmed in previous plans. I will meet with your local staffs as I craft an RFP that ensures a comprehensive work product. I tentatively plan to present a recommended consultant to your Board on April 12.
- **Administration.** Authority administration is constrained by the three-quarters of one percent cap. We will continue to minimize costs to stay within the Ordinance allowance.
- **Programs.** In terms of implementing the new required programs, the Authority faces a challenge. The Measure A Ordinance calls for the Authority to create and manage a Neighborhood Shuttle System, a Smart Growth Incentive Program, and a Transportation Project Environmental Mitigation Program, none of which have been started beyond a conceptual level. The additional workload created by the SB1 Local Partnership Program has only delayed the commencement of work. Implementation of one program, the Neighborhood Shuttle, is planned for this year but the other two are not programmed until 2022.

Regarding reporting and compliance, Mr. Chair, please allow me to deviate a little from directly addressing the Board. We have concerned citizens and citizen groups that call to our attention areas where we are not in 100 percent compliance with certain reporting and other requirements that are specified in the Measure A Ordinance. To those citizens, I am grateful for your concern. Please know that meeting the Ordinance is important to us. In fact, when I list the Authority priorities for 2018, you will see it listed near the top. The problem is this: the Ordinance which imposes these new requirements on the Authority is also the same Ordinance that took away the resources needed to comply with them. So, today, I would like to call upon all concerned and interested citizens to join us. Join us in becoming part of the solution. Anyone interested can start by attending the Independent Taxpayer Oversight Committee meetings. There, we can together identify acceptable solutions and work out a plan to fix what needs fixing. The ITOC is a tremendous resource for the Authority because its members have years of experience in project management, development, finance and law and, most importantly, because they are also concerned citizens.

AUTHORITY PRIORITIES FOR 2018

Mr. Chair, now as we turn our focus forward, here are my five priorities for the Authority in 2018:

Priority #1 is Measure A. It should go without saying that delivering the Measure A Program is the Authority's number one priority for 2018. In fact, delivering Measure A should be the Authority's number one priority each and every year. I will work to ensure we never lose sight of that. In delivering the Measure A Program, we will do so in a sound, financially-prudent, and fair manner.

Priority #2 is Public Trust. In 2018, we will continue to increase transparency, build accountability and make steady progress toward full compliance with all requirements.

Priority #3 is Educate the Public. Previous studies have shown that most residents are unaware of the Sacramento Transportation Authority, who we are or what we do. The same goes for Measure A. We will provide public education and outreach that will help voters identify how their tax dollars are being wisely spent and the things Measure A is doing to improve our local transportation system. We will also find out the public's needs and seek their transportation priorities.

Priority #4 is Senate Bill 1. Nobody likes paying more taxes but everybody wants better transportation. Continued SB1 funding is crucial for the maintenance and improvement of our local system. So although the Authority itself does not receive a single dollar from the Local Partnership Program to offset the 100+ of hours of staff time spent on the program so far, the Authority must continue to support and stand behind SB1. We are already starting to see its positive impacts locally.

Priority #5 is Build Reserves. This year, we want to start establishing and building reserves in the administration account and in the capital program. It is simply prudent to prepare and be ready for the unexpected.

AUTHORITY 5-YEAR MAJOR WORK AGENDA

Finally, Mr. Chair, I present the Authority's major work tasks over the next five years. They are:

2018

- Release 2009C Bond Reserves (\$8 million)
- Measure A Short-Term 5-Year Expenditure Program
- Public Education & Outreach Program
- City of Isleton SAVSA Membership
- Neighborhood Shuttle Program
- Aviation Fuel Tax Policy Amendment (or Implementation Plan)
- Development of a Transportation System Investment Policy
- SB1 Local Partnership Program Formula Shares Program Allocation, Round 2
- SacMetro Freeway Service Patrol SB1 Funding Implementation

2019

- Measure A Transportation Expenditure Plan Review & Update
- SB1 Local Partnership Program Guidelines Revision
- Measure A Performance Audit (ITOC)
- SB1 Local Partnership Program Competitive Grant Program Prioritization, Round 2

2020

- Potential Bond Issue (\$61 million)
- Supplemental Transportation Funding Measure (including new expenditure plan & ordinance)
- Renewal of the Sacramento Abandoned Vehicle Abatement Program & Fee

2021

- Measure A Long-Term 20-Year Plan of Finance & Expenditure Plan
- Release 2012 Bond Reserves (\$4 million)

2022

- Smart Growth Incentive Program
- Transportation Project Environmental Mitigation Program

Chair Harris, members of the Board, as I close this address, I want you to be assured that the Authority is stable and headed in the right direction. Yes, there is still a lot of work ahead of us. And, yes, there are challenges ahead. But, yes, we can and will continue to address those things we find along the way. We will not be deterred in making solid plans that will successfully guide the Authority far into a sustainable future. So, as I stand before you here today, I am confident to report that the State of the Authority is solid and its outlook is positive.

Thank you.

Norman K. Hom
Executive Director