

## STAFF REPORT

**SUBJECT:** Adoption of 2019 Measure K Strategic Plan Revenue Estimate and Status Update

**RECOMMENDED ACTION:** Recommend that the SJCOG Board Adopt the 2019 Measure K Strategic Plan Revenue Estimate of \$2.6 Billion

### SUMMARY:

Pursuant to the Measure K Renewal Expenditure Plan, a Strategic Plan is to be updated every two years.

The Authority will prepare a Strategic Plan every two years. The Strategic Plan will be the master document for delivery of the Expenditure Plan projects and can be amended at any time. The purposes of the Strategic Plan are as follows:

- Defines the scope, cost, and schedule of each project
- Identifies accomplishments and critical issues
- Lists a set of amendments to these projects
- Details the revenue projections and possible financing tools needed to deliver the Expenditure Plan
- Gathers into one document the policies and procedures of the Expenditure Plan
- Serves as annual budget

This staff report serves to establish the 30-year revenue estimate for the Measure K Renewal program and the initiation of the Strategic Plan which was last update in 2017-18.

The current revenue estimate, adopted in the 2017 Strategic Plan update, is \$2.6 billion. This revenue estimate was a reduction of \$300 million from the previous estimate reflecting the impact of the Great Recession on sales tax. Since April 1, 2011, the beginning of the MKR program, \$428,908,306 has been received through June 20, 2019. Over this period, the annual growth rate has averaged 6.2%, however, growth last year was only 2.8% and year to date collections for FY 2019-20 are not expected to exceed 3.5% over last year.

Moving into 2020, economic conditions are expected to grow on the slow side of modest. There doesn't appear to be a recession on the horizon, however, we are almost a decade into the recovery from the last recession, two years longer than the usual cycle.

Staff has consulted with Public Financial Management (PFM), the agency's financial advisor, to suggest a prudent growth rate for the program. Two different approaches were analyzed. One was to simply apply a 3.5% growth rate annually to arrive at a total for the program. The other approach was to model periodic recessions in the cash flow. Both scenarios generated average growth at 3.5% from the beginning of MKR, however, the recession model resulted in \$200 million less with a 2.6% average annual growth from 2021 to 2041. This is because the recession model has periodic reductions in the sales tax which results in the growth rate restarting from a lower number. The table below demonstrates. This model assumes a recession starts in 2022, reducing sales year over year by 4.5% and then remains flat for a year. Recovery is one year at 2.5% then returning to 5% a year for 5 years. Total MKR revenues would be just under \$2.4 billion in this scenario.

Using a straight-line growth of 3.5% annually, the total is just over \$2.6 billion as shown on the table to the right. This assumes there will be varying growth rates that could range from negative growth to robust growth over the course of the next 20 years.

Received to Date	428,908,306		Received to Date	428,908,306
29-Jun-20	69,375,853		29-Jun-20	69,375,853
30-Jun-21	72,844,646	5.0%	30-Jun-21	71,804,008
30-Jun-22	69,566,637	-4.5%	30-Jun-22	74,317,148
30-Jun-23	69,566,637	0.0%	30-Jun-23	76,918,248
30-Jun-24	71,305,803	2.5%	30-Jun-24	79,610,387
30-Jun-25	74,871,093	5.0%	30-Jun-25	82,396,751
30-Jun-26	78,614,647	5.0%	30-Jun-26	85,280,637
30-Jun-27	82,545,380	5.0%	30-Jun-27	88,265,459
30-Jun-28	86,672,649	5.0%	30-Jun-28	91,354,750
30-Jun-29	91,006,281	5.0%	30-Jun-29	94,552,166
30-Jun-30	86,910,998	-4.5%	30-Jun-30	97,861,492
30-Jun-31	86,910,998	0.0%	30-Jun-31	101,286,644
30-Jun-32	89,083,773	2.5%	30-Jun-32	104,831,677
30-Jun-33	93,537,962	5.0%	30-Jun-33	108,500,786
30-Jun-34	98,214,860	5.0%	30-Jun-34	112,298,313
30-Jun-35	103,125,603	5.0%	30-Jun-35	116,228,754
30-Jun-36	108,281,883	5.0%	30-Jun-36	120,296,761
30-Jun-37	113,695,977	5.0%	30-Jun-37	124,507,147
30-Jun-38	108,579,658	-4.5%	30-Jun-38	128,864,897
30-Jun-39	108,579,658	0.0%	30-Jun-39	133,375,169
30-Jun-40	111,294,150	2.5%	30-Jun-40	138,043,300
30-Jun-41	87,644,143	5.0%	30-Jun-41	107,156,111
	2,391,137,596	2.6%		2,636,034,766

SJCOG staff recommends keeping the Measure K Renewal revenue estimate at the current level, \$2.6 billion.

Upon adoption of the revenue estimate, PFM will be preparing a cash flow analysis of the projects. This cash flow analysis will be used to prepare the Draft Strategic Plan for review in March 2020. SJCOG staff will be meeting with all local agencies and transit operators to discuss the implications of the Measure K financial picture and how to prioritize projects through Fiscal Year 2030/31. SJCOG staff will work with the project sponsors to finalize the scope, cost, and schedule of all Measure K projects.

## **RECOMMENDATION:**

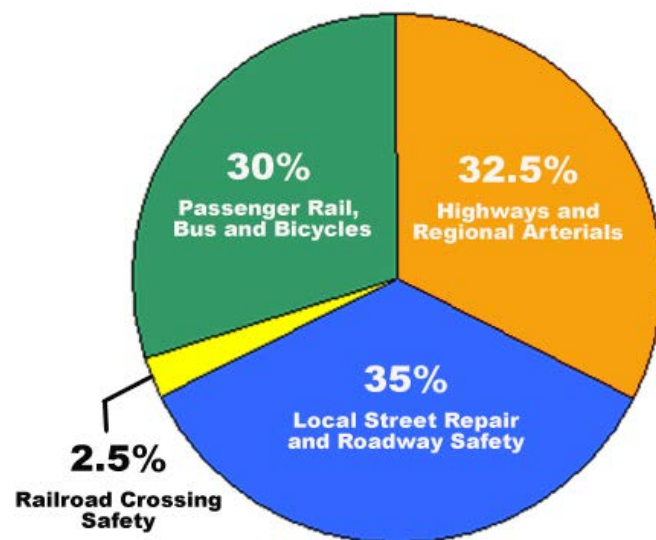
SJCOG staff recommends that the Executive Committee recommend that the SJCOG board adopt the 2019 Measure K Strategic Plan Revenue estimate of \$2.6 billion.

## **FISCAL IMPACT:**

None at this time. Fiscal impact will be determined as the Strategic Plan approaches draft form.

## **BACKGROUND:**

Measure K is the half-cent sales tax dedicated to transportation projects in San Joaquin County. With its original passage in November 1990, Measure K began laying the groundwork for funding for a system of improved highways and local streets, new passenger rail service, regional and inter-regional bus routes, new bicycle facilities, and railroad crossings.



**Measure K Renewal:** On November 7, 2006 San Joaquin County voters decided to extend Measure K for an additional 30 years.

The categorical allocations of Measure K Renewal (hereafter referred simply as Measure K) include Local Street Repairs and roadway Safety (35%), Congestion Relief projects (32.5%), Railroad Crossing Safety Projects (2.5%), and Passenger Rail, Bus, and Bicycles (30%), which includes subcategories for Rail Transit, Bus Transit, Bus Rapid Transit, and Bicycle, Pedestrian, and Safe Routes to Schools improvements.

The renewal of Measure K was initially estimated to generate \$3 billion, but current estimates are at \$2.6 billion, representing a \$370 million decrease.

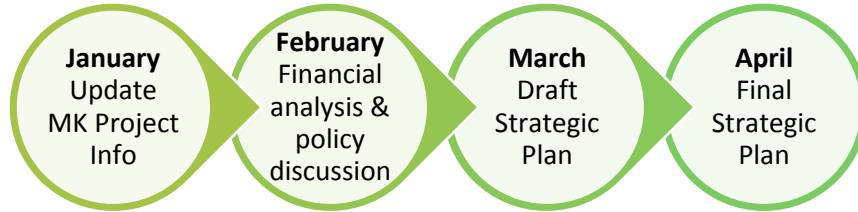
### Measure K Strategic Plan:

The Measure K Strategic Plan serves as the guiding document for delivery of the Measure K (Renewal) projects and programs. The Strategic Plan functions as a Measure K capital improvement program (CIP) for all eligible categories approved by San Joaquin voters. Its financial plan describes the long-term revenue forecast, capital funding requirements, borrowing needs and the associated debt service costs of the program.

The current version of the Plan, the **2017 Measure K Strategic Plan**, provides a twenty-year outlook of Measure K projects through Fiscal Year 2030/31. A copy can be found at:

<http://ca-sjcog2.civicplus.com/DocumentCenter/View/1777>

### **NEXT STEPS:**



*Prepared by: Steve Dial, Deputy Executive Director/CFO and David Ripperda, Associate Regional Planner.*