Date:	September 5, 2003
Committee Meeting Date:	September 10, 2003
Board Workshop Date:	October 10, 2003

BOARD MEMORANDUM

ACTION ____ DISCUSSION __X__ INFO ____

TO: Ad Hoc Financial Stability Committee
Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Peter M. Cipolla
General Manager

FROM: Scott D. Buhrer
Chief Financial Officer

SUBJECT: Sample Plan/Major 2000 Measure A Projects & Potential Revenues

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BACKGROUND:

For illustrative purposes we have prepared a Sample Plan (Sample Plan) of Major 2000 Measure A Projects and Potential Revenues, which incorporates assumptions that are consistent and congruent with the assumptions used to update the Scenario 3 forecast discussed in the Board Memorandum dated September 4, which outlined several VTA Operating Financial Scenarios. In developing the combined Operating Financial Scenarios and the Sample Plan of Major 2000 Measure A Projects and Potential Revenues, we made assumptions intended to minimize the amount of operating funds used to provide matching funds for Caltrain and ACE. The forecast was prepared in escalated dollars, and, as shown on Attachment 1, it is clear that VTA will not have the ability to implement all of the 2000 Measure A projects based upon current revenue forecasts and bonding capacity.

This Sample Plan also shows substantial cash deficits in the early years of the program. The program expenditures are also somewhat understated because they only include interest expense for the 2003 bond program. We did not attempt to develop a debt-financing program to deal with the additional cash shortfalls because the magnitude of the cash required between now and 2014 would clearly exceed our ability to use debt for purposes of leveling out the cash flows.

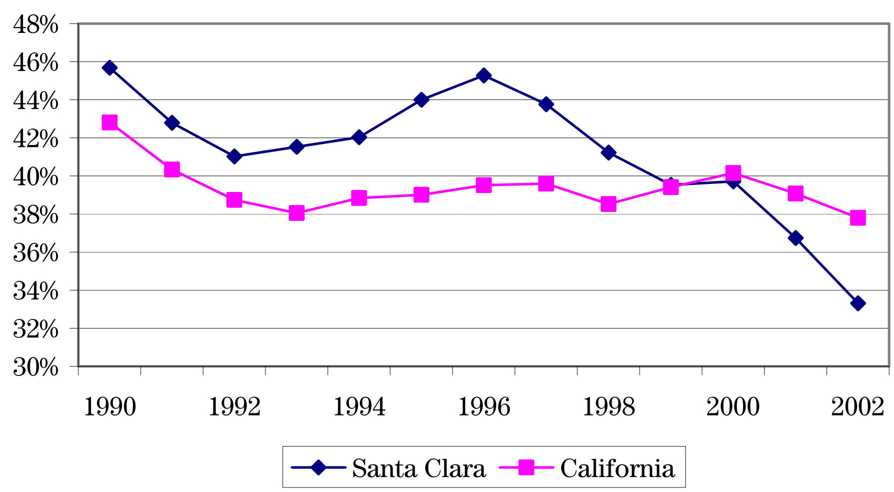
<u>DISCUSSION</u>:

<u>Revenues</u>

The revised sales tax estimate is based on the same assumptions discussed in Attachment B to the Board Memorandum for agenda item 4A. The estimate reflects a sharp reduction in the amount of sales tax receipts since our last update. Job levels have fallen since mid 2002 and the much-anticipated economic recovery continues to remain "at least a year off." The job projections are considerably lower than last year. The revised estimate indicates that "Silicon Valley will not quite return to 2000 levels by the end of the decade." (CCSCE, Attachment A, page 3)

The most disturbing economic finding in this year's update is the continual decline in the percent of personal income being spent on taxable sales. In 1990, taxable sales as a percent of personal income was nearly 46%. In 2002, as shown below, the ratio plummeted to 33.3%.

Taxable Sales as Percent of Personal Income



Source: CCSCE

In year-of-receipt dollars, the 2000 Measure A program is now forecast to generate $9.3 billion in sales tax receipts. In FY 2000 dollars, the program is forecast to generate $3.96 billion in sales tax receipts, substantially less than the $5.9 billion estimated in 2000.

Another revision to the Revenues component of the Sample Plan is the assumption of delaying the receipt of the Transportation for Congestion Relief funds. The State budget characterized the action as deferral of the funding and at this time we expect prior commitments to be met. The Sample Plan assumes that the TCRP funding will resume in FY 2006.

The Federal New Starts funding assumptions remain unchanged from our last revision. However, there are indications that this assumption may need to be revised at some time in the near future depending upon the Federal Transportation Reauthorization effort and other factors.

The Proposition 42 funding assumptions have been updated based on data received from MTC. Initial receipts (beginning in FY2009) have been revised downward nearly 20% from the last forecast.

Expenditures

The Sample Plan continues to assume that the *proportionate allocation* of 2000 Measure A sales tax revenue remains at 18.457% of receipts, the same as when the VTP 2020 list of projects was developed. Therefore, with the downward revision to the sales tax forecast, the operating assistance forecast portion has also been reduced proportionately.

The amount of funds earmarked for the Repayment Obligation (principally associated with the Low Floor Light Rail Vehicles project) has also been revised to reflect the acceleration of a portion of the Obligation, which was accomplished in the 2003 Bond program.

The 2003 Bond Repayment project is new in this year's update. The amounts reflect the estimated funds necessary to pay off the (up to) $550 million[1] of debt secured by and payable from 2000 Measure A, authorized by the Board of Directors at the August 7th meeting.

The Downtown East Valley Project reflects just the Tasman to Eastridge portion, which has advanced forward with an environmental document under development. Project decisions are pending on the Santa Clara/Alum Rock portion.

The completion of the BART extension to Milpitas, San Jose and Santa Clara project has been extended one and one-half years. The change in project costs results from extending the time. However, the constant dollar forecasts are generally the same.

We have added Caltrain and ACE as new project categories to this year's update because we assumed that a portion of the capital match requirements could be directed to projects that are compliant with Measure A.

[1] $550 million includes $81.5M for repayment of the 2002 Note, $62.9M for the Repayment Obligation, $78.4M for deferral of service cuts, $168.9M for BART Preliminary Engineering.

Conclusions:

The Sample Plan shows substantial cash deficits in the early years of the program and the magnitude of the projected shortfalls exceeds our ability to use debt to smooth out the cash flows. At this point in time, the Sample Plan indicates that in the absence of new revenue sources or a substantial improvement in the local economy, the Board will need to prioritize which projects to pursue and the timing of their completion. For example, in light of the Ad Hoc Financial Committee's recommendation to pursue only those projects with foreseeable operating funds, does the board really want to begin studies on an additional four or five light rail corridors? The question is, when do we get to that fork in the road?

We know that the local economy is volatile, with higher peaks and most recently, far deeper troughs than other regions in the country. We know that 30 years is a long time and even a small change in the growth rate for sales tax would have significant impacts over such a long period of time. We also know that the magnitude of financial challenges facing our operating system is daunting to say the least.

We believe that we should continue to advance the Downtown East Valley and BART projects and those elements of other projects that have the greatest return on investment, particularly in terms of congestion relief. We believe that funding for transportation is cyclical and that it is essential for this community to be properly positioned with projects that are "shelf-ready" to rapidly be ready to implement when the next economic upturn begins or additional, perhaps even unexpected, funds become available.

Attachments:

Sample Plan of Major 2000 Measure A Projects & Potential Revenues

Prepared by: Scott Buhrer, Chief Financial Officer