



SMART's Financial Plan

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“Reasonable and conservative.”

That’s how Dr. Robert Eyler, director of Center for Regional Economic Analysis at Sonoma State University, describes the 20-year funding plan prepared this year by the Sonoma-Marín Area Rail Transit District.

It’s reasonable, Eyler concludes, because the plan uses standard methods for forecasting SMART’s revenues and expenses over a 20-year period. And it’s conservative, he says, because it takes into account these tough economic times, features careful assumptions about the North Bay’s economic future and includes large contingencies to cover any possible “surprises.”

The SMART train and pathway project will cost an estimated \$541 million (in current dollars) to build, including rail vehicles, stations, track upgrades, bridge reconstruction and other capital costs. Annual operating costs, including maintenance, labor, fuel, security and the operation of SMART shuttle vehicles, will total a little more than \$19 million (current dollars).

The bulk of those costs will be covered by a ¼-cent sales tax dedicated to SMART. By adding 25 cents to every \$100 in retail purchases, Marin and Sonoma Counties can pay for the construction and 20-year operation of the SMART train and bicycle/pedestrian pathway.

SMART will have other revenues, as well. The agency already has obtained approximately \$132 million from federal, state, regional and county sources. Passenger fares will cover more than a third of the train’s operating costs – a “farebox recovery” rate that compares well with other transit systems throughout the United States. In addition, SMART will earn money by leasing property it owns along the rail line, and from the development of key pieces of property such as 5.5 acres that will be turned into a transit village in Santa Rosa’s Railroad Square. Also, SMART will receive user fees from any freight rail operation that runs in the SMART corridor.

In order to ensure that SMART's revenues are enough to cover its expenses over the next 20 years, SMART and its financial consultants conducted a months-long analysis of finances for the project. Then they subjected their draft findings to a rigorous review by outside experts, including Dr. Eycler and transportation finance professionals from the Transportation Authority of Marin (TAM). Comments from those reviewers, along with suggestions and questions submitted by members of the public, helped SMART finalize its funding plan.

The result is a document that outlines costs, revenues, bonding strategy, financial risk management and a detailed 20-year cash flow analysis for the project. It includes fuel cost, ridership, sales tax collection and inflation assumptions. And, on top of those conservative assumptions, it includes contingencies of nearly 20 percent for each year of operation and all construction costs.

The funding plan's "bottom line" is that, even though costs have increased significantly since SMART first appeared on the ballot in 2006, the project can still be provided, operated and maintained with a ¼-cent sales tax measure over 20 years. Three key changes make that possible:

1. Higher sales tax projections. In 2006, SMART's funding plan relied on sales tax *estimates* from both Marin and Sonoma Counties. Since then, both counties have had experience collecting transportation-related sales taxes, and the *audited results* of those taxes show collections much higher than those projected in 2006. Thus, even though SMART projects flat sales tax collections in the next few years, the starting tax base is higher and provides more revenue to SMART than what was assumed in 2006.
2. A more sophisticated bonding strategy. SMART's bond consultant, KNN Public Finance, advises the district to maximize its bonding capacity with a strategy that spreads bonding over the early years of the project, with bond issuances in fiscal years 2009, 2012 and 2015.
3. An extended construction period. By extending the construction period by two years, to 2014, SMART can continue to accrue sales tax revenue and optimize its bonding strategy. However, all efforts will be made to deliver the project earlier.

The Funding Plan contains detailed estimates of construction costs, which include stations, rail vehicles, track and bridge rehabilitation, signals, crossings, the bicycle-pedestrian pathway and other elements. Cost estimates take into account recent increases in the cost of construction materials such as steel and concrete, and assume that those costs will continue to escalate through the construction period. On top of those assumptions, the construction cost estimate includes a nearly 20-percent contingency.

Operation and maintenance costs of the project also include a 20-percent contingency, and other assumptions make these projections even more conservative. For instance, SMART assumes a beginning fuel cost of \$5.50 a gallon in 2008 dollars, significantly higher than what other transit districts are currently paying (public transit districts are exempt from California fuel taxes).

The bulk of SMART's revenue will be generated by the ¼-cent sales tax, which will provide an estimated average of \$44.5 million a year to the district. Again, SMART has chosen to use conservative projections for future tax revenues. While the historic sales tax growth for Sonoma County in the past 20 years has averaged 5.23 percent, and for Marin County 4.22 percent, SMART's projections start off with zero growth in the sales tax for the years 2008-2010. That is followed by modest growth of 2 percent, 2.5 percent and 3.5 percent in years 2011-2013, and then a 4-percent growth rate through the remaining years of the project. That is still below the historic combined Sonoma-Marin sales tax average growth rate of 4.83 percent.

While SMART assumes tax revenue growth that is less than the historic average, it assumes cost increases that are higher than historic inflation rates. The cash flow analysis in the funding plan assumes an increase in the Consumer Price Index that peaks at 4.5 percent in 2010, drops to 3.25 percent in 2012, levels off to 3.5 percent through 2018 and then increases to 3.75 percent through the remaining years of the project. That compares to a 3.09-percent 20-year historic average of the All Urban Consumer Price Index.

SMART's funding plan is the product of years of work by a team of transportation and financial professionals. It has been carefully reviewed by citizens, economists, transit experts and other public agencies. It concludes that with the public's approval of a ¼-cent sales tax measure, SMART can build, maintain and operate a passenger train and pathway project for Marin and Sonoma Counties through the year 2029.

To read the complete funding plan, go to www.sonomamarintrain.org

For more information about SMART, go to www.sonomamarintrain.org or call SMART's information lines in Marin, 415-419-3510, or Sonoma, 707-583-2323.