SBCAG
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TTAC STAFF REPORT

SUBJECT: Measure A Strategic Plan

MEETING DATE: March 7, 2019 **AGENDA ITEM:** 6

STAFF CONTACT: Sarkes Khachek

RECOMMENDATION:

A. Receive presentation on Measure A Strategic Plan Financial Memorandum and provide recommendation on preferred scenario to SBCAG staff and SBCAG Board of Directors.
B. Recommend to the SBCAG Board that SBCAG staff prepare and submit a Transportation Infrastructure Finance and Innovation Act Letter of Interest to the United States Department of Transportation Build America Bureau.

DISCUSSION:

SBCAG staff and SBCAG's financial advisor, KNN, will provide TTAC with an updated Measure A Strategic Plan Financial Memorandum based on feedback received at the February TTAC meeting (Attachment A). SBCAG staff would also like to provide TTAC with an update on recent activity related to SBCAG's pursuit of a Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.

Per feedback from TTAC and recent discussion in February, only two financing scenarios are being considered in the Financial Memorandum.

The two scenarios are as follows:

1) **Two Bond Issuances (FY 2021/22 and FY 24/25) – No use of Regional Surface Transportation Program (RSTP) funds.**
2) **RSTP Contributions in FY 2021/22, FY 22/23, and FY 23/24 and Single Bond Issuance until FY 2023/24 – Downsize bond with remaining RSTP.**

SBCAG staff recommends that TTAC provide feedback to SBCAG staff in March with a recommendation to the SBCAG Board in March on a preferred scenario.

Finally, the memorandum includes a discussion on SBCAG's exploration of a Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan as an alternate financing option to public market bonds. SBCAG has been working on exploring a TIFIA loan and has had discussions with the U.S. DOT Build America Bureau regarding our interest. Pursuit of a Federal TIFIA loan is included in SBCAG's adopted 2019 Federal Legislative Platform.

Schedule
SBCAG staff proposes that the draft Financial Memorandum be presented to TTAC for feedback in March with a recommendation to the SBCAG Board in March. SBCAG staff recommends that a major update to the Strategic Plan be completed in Summer 2020 following Cycle 2 of the Senate Bill 1 (SB1) competitive programs.

ATTACHMENT:

A. **Updated KNN Financial Memorandum**

KNN public finance

MEMORANDUM

Date: February 27, 2019

To: Technical Transportation Advisory Committee
Santa Barbara County Association of Governments

From: KNN Public Finance

Re: Measure A Cash Flow Modeling for Strategic Planning

This Memo continues the cash flow modeling efforts and analyses that Santa Barbara County Association of Governments (SBCAG) staff, with assistance from KNN Public Finance (KNN), have prepared in connection with SBCAG's Strategic Planning efforts for Measure A.

In July 2018, SBCAG staff convened a Technical Transportation Advisory Committee (TTAC) meeting with representatives from each jurisdiction under Measure A to review Measure A cash flow projections. The TTAC gave SBCAG staff and KNN direction to analyze several financing scenarios to address the projected Measure A Fund (Fund) deficits, including the potential use of current and projected funds in the RSTP Reserve (RSTP).

The initial meeting with TTAC was followed by a series of further cash flow analyses and funding scenarios that were presented in subsequent meetings with TTAC over the months of August 2018 through October 2018. Further, in November 2018, the California voters did not support the proposed repeal of Senate Bill 1 – which allows SBCAG and Caltrans to continue to pursue critical state matching funds necessary to deliver the U.S. 101 HOV improvements and supports the implementation of Measure A cash flow as envisioned.

Following the most recent feedback received from TTAC with regard to the preferred cash flow model scenarios, this Memo details an updated Base Case cash flow projection and two financing scenarios designed to address the projected cash flow deficit under the Base Case. We provide an overview of assumptions and revised scenarios below:

Cash Flow Model Assumptions

- **Projected Revenues:** In November 2018, SBCAG received updated Measure A revenue estimates from HdL through FY 2023-24. These new revenue projections have been incorporated into the cash flow model. The table below displays the prior assumed revenue growth versus the revised projections provided by HdL. We note that the larger year-over-year variations in FY 2018-19 and FY 2019-20 relate to the timing of clean up payments in 2Q17 and missing 2Q18 payments from the California Department of Tax and Fee Administration.

Fiscal Year Ending June 30	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24*	FY 24-25	FY 25-26	FY 26-27	10-YR Average
Prior Measure A Revenue Growth Assumptions	3.5%	0.4%	1.1%	1.0%	1.0%	1.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Revised Measure A Revenue Growth Assumptions	3.5%	8.2%	-4.6%	0.4%	0.9%	1.3%	1.5%	3.0%	3.0%	3.0%	2.0%
	Actual	Based on Forecast Provided by HdL						Long-Term Average Growth Rate of Measure A Revenues			

*HdL extended forecast period to FY 23-24 in the November 2018 revenue projection. Prior growth assumption for FY 23-24 assumed 3%.

Overall, however, the average growth rate over the 10-year forecast period remains unchanged from prior assumptions at 2%.

- **Actual Expenditures:** SBCAG staff has updated Measure A expenditure data to include actual expenditures through December 2018.

- **Projected Expenditures:** Following the February 2019 TTAC meeting, SBCAG staff updated projected Measure A expenditure data to address narrow cash balances in FY 2019-20 and FY 2020-21. Certain of the projected projects in these fiscal years where pushed back a year or two to allow for a stronger cash cushion in FY 2019-20 and FY 2020-21. SBCAG staff also revised the projected expenditure methodology in Fund 5308 such that a portion of expenditures are based on a percentage of Total Available Revenues and not entirely fixed.

Cash Flow Model Scenarios:

- **Base Case:** The updated cash flow model assumptions and projections produce annual deficit spending (i.e. expenditures greater than revenues) beginning in FY 2017-18 and extending through FY 2019-20; however, it is assumed that SBCAG utilizes available cash balances in the Fund to maintain a positive cash flow. Beginning in FY 2021-22 cash balances become negative at $19.8 million, growing to a deficit of $94.1 million in FY 2026-27.
- **Scenario 1:** Utilizes bond financings in FY 2021-22 and FY 2024-25 to meet cash flow deficits and deliver projects under the timetable envisioned.
- **Scenario 2:** Utilizes RSTP in lieu of a first bond financing, followed by a subsequent bond financing in FY 2023-24; however, the bond financing is downsized by the further contribution of RSTP.

The following discussion analyzes the financial implications for the Measure A Fund Balance and the RSTP cash flows under the scenarios above with the objective of guiding the Measure A Strategic Planning efforts. The cash flow model approach and summary tables are consistent with the approach under prior memos and presentations to TTAC.

Cash Flow Model Approach and Assumptions

The model projects revenues and expenditures, inclusive of local jurisdictional “Pass Through” funds and regional capital project costs, through FY 2026-27. A ten-year projection period is used because it encompasses a reasonable timeframe for completion of the 101 HOV project, which has the largest impact to the Measure A revenues during this timeframe.

Both Scenario 1 and Scenario 2 utilize varying degrees of bond financings to meet cash flow deficits. Total Available Revenues in each scenario are reduced by the corresponding estimated debt service on the bonds – thereby reducing “Pass Through” revenues as well as Measure A funds available for regional projects (Fund 5308). Further, with regard to bond financings, it is assumed that: (i) bonds are secured by a pledge of all Measure A sales tax revenues, (ii) the term of the bonds does not exceed the term of the tax in FY 2039-40, (iii) debt service is paid directly from Measure A funds before other uses of Measure A, and (iv) bond proceeds are expended within three years of issuance, consistent with IRS rules for tax-exempt bonds.

Additional assumptions underlying the projected cashflows are provided in an Appendix of this Memo.

Base Case: No Financings or Additional Revenues

The Base Case scenario provides cash flow projections for the Fund from FY 2017-18 through FY 2026-27 assuming no bond financings or additional revenues.

As illustrated in the tables below, cumulative Total Available Revenues (Measure A Sales Tax Revenues, plus interest, less certain costs) through FY 2026-27 total $409 million while Total Expenditures, inclusive of "Pass Through" revenues of $274.3 million, capital project costs in Fund 5308 of $253.9 million, and other program costs total $527.4 million. This mis-match reduces the beginning Fund balance of $20.4 million in FY 2017-18 to a negative Fund balance of $94.1 million in FY 2026-27.

Annual deficit spending (expenditures greater than revenues) begins in FY 2017-18 and continues through FY 2019-20. In FY 2020-21 the projections show a slight annual surplus with a negative Fund balance projected to occur until FY 2021-22. To mitigate the negative Fund balance, SBCAG could utilize either a long-term financing in this year or an initial contribution of RSTP Reserve funds, as discussed further in this Memo.

Measure A	**FY 17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**	**FY 21-22**
Measure A Revenue Growth	3.505%	8.200%	-4.600%	0.400%	0.900%
Subtotal Measure A Revenues	38,223,779	40,964,491	39,254,737	39,410,390	39,759,925
Less: Total Annual Debt Service	-	-	-	-	-
Total Available Revenue	38,223,779	40,964,491	39,254,737	39,410,390	39,759,925
Plus: RSTP Lump Sum	-	-	-	-	-
Plus: Bond Proceeds	-	-	-	-	-
Less: Monthly Pass-Thru	(25,632,043)	(27,469,905)	(26,323,380)	(26,427,758)	(26,662,149)
Less: Fund 5308 Capital Expenditures	(16,399,763)	(21,687,905)	(15,494,613)	(11,366,057)	(44,868,641)
Less: Admin Transfers	(20,327)	(43,179)	(21,000)	(21,000)	(21,000)
Add Back: Measure A exp (FY20-21 equp. sale)	40,000	460,000	10,000	309,997	10,000
Change in Cash Balance	**(3,788,354)**	**(7,776,498)**	**(2,574,256)**	**1,905,573**	**(31,781,864)**
Remaining Cash Balance	**20,474,245**	**12,697,747**	**10,123,491**	**12,029,064**	**(19,752,801)**

Measure A	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**FY 26-27**	**Grand Total**
Measure A Revenue Growth	1.300%	1.500%	3.000%	3.000%	3.000%	
Subtotal Measure A Revenues	40,276,221	40,886,744	42,126,102	43,402,641	44,717,477	409,022,507
Less: Total Annual Debt Service	-	-	-	-	-	-
Total Available Revenue	40,276,221	40,886,744	42,126,102	43,402,641	44,717,477	409,022,507
Plus: RSTP Lump Sum	-	-	-	-	-	-
Plus: Bond Proceeds	-	-	-	-	-	-
Less: Monthly Pass-Thru	(27,008,366)	(27,417,769)	(28,248,856)	(29,104,875)	(29,986,576)	(274,281,676)
Less: Fund 5308 Capital Expenditures	(28,189,288)	(33,339,308)	(32,903,357)	(19,989,488)	(29,619,823)	(253,858,245)
Less: Admin Transfers	-	-	-	-	-	(126,506)
Add Back: Measure A exp (FY20-21 equp. sale)	10,000	10,000	10,000	10,000	10,000	879,997
Change in Cash Balance	**(14,911,433)**	**(19,860,333)**	**(19,016,111)**	**(5,681,723)**	**(14,878,923)**	**(118,363,922)**
Remaining Cash Balance	**(34,664,233)**	**(54,524,566)**	**(73,540,678)**	**(79,222,400)**	**(94,101,323)**	

The primary driver of projected Measure A Fund cash flow deficits is due to anticipated capital spending for the 101 HOV project and other regional projects within Fund 5308. Based on its percentage allocation of Measure A revenues, Fund 5308 is projected to receive revenues of $134.7 million through FY 2026-27; however, expenditures are projected to total over $253.9 million during this same time horizon. Projected annual Fund 5308 revenues and expenditures are illustrated in the table below – deficit amounts are presented on an annual basis and are not cumulative.

Fund 5308 Capital Expenditures	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
FUND 5308 Revenue	12,591,736	13,494,587	12,931,357	12,982,632	13,097,777
Less: Fund 5308 Capital Expenditures	(16,399,763)	(21,687,905)	(15,494,613)	(11,366,057)	(44,868,641)
Fund 5308 Deficit	**(3,808,027)**	**(8,193,319)**	**(2,563,256)**	**1,616,575**	**(31,770,864)**

Fund 5308 Capital Expenditures	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Grand Total
FUND 5308 Revenue	13,267,856	13,468,975	13,877,246	14,297,766	14,730,901	134,740,831
Less: Fund 5308 Capital Expenditures	(28,189,288)	(33,339,308)	(32,903,357)	(19,989,488)	(29,619,823)	(253,858,245)
Fund 5308 Deficit	**(14,921,433)**	**(19,870,333)**	**(19,026,111)**	**(5,691,723)**	**(14,888,923)**	**(119,117,414)**

The RSTP fund balances are summarized below. It is estimated that the RSTP Reserve will receive an annual contribution of $3 million and interest earnings through FY 2026-27. Cumulative contributions and interest of $30 million and $10 million, respectively, bring the current RSTP balance of $23 million to $63 million. RSTP projections are illustrated in the tables below.

RSTP Fund Balance	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
RSTP Interest Rate	1.50%	1.75%	2.00%	2.25%	2.50%
Beginning Balance	23,000,000	26,390,000	29,904,325	33,562,412	37,385,066
Additonal Contribution	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Lump Sum Use of Fund					
Interest Earned	390,000	514,325	658,087	822,654	1,009,627
Remaining RSTP Fund Balance	**26,390,000**	**29,904,325**	**33,562,412**	**37,385,066**	**41,394,692**

RSTP Fund Balance	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Grand Total
RSTP Interest Rate	2.50%	2.50%	2.50%	2.50%	2.50%	
Beginning Balance	41,394,692	45,504,560	49,717,174	54,035,103	58,460,981	
Additonal Contribution	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	30,000,000
Lump Sum Use of Fund						-
Interest Earned	1,109,867	1,212,614	1,317,929	1,425,878	1,536,525	9,997,505
Remaining RSTP Fund Balance	**45,504,560**	**49,717,174**	**54,035,103**	**58,460,981**	**62,997,505**	

With this Base Case scenario established, we can now consider alternative funding scenarios to target positive Fund balance amounts in projected years. In the following scenarios, we hold the Base Case assumptions constant with respect to projections for Measure A revenues and expenditures and RSTP growth.

Scenario 1: Bond Financings – No Contribution from RSTP

Scenario 1 provides cash flow projections for the Fund from FY 2017-18 through FY 2026-27 assuming only bond financings are utilized to address negative Fund balances.

The first bond financing is assumed to be issued in FY 2021-22 to address the initial negative Fund balance of $19.8 million identified in the Base Case. With guidance from SBCAG, the first bond financing is sized to maintain a minimum Fund balance of approximately $5 million in FY 2023-24. This would require a $61.7 million bond financing. Given the period of time between now and the expected issuance in FY 2021-22, conservatively, we have assumed a 5% borrowing rate on the bonds; however, it anticipated that the actual borrowing rate for the issuance would fall below this level. Following a three-year spend-down period, a second bond financing is required and sized to target a similar ending Fund balance of approximately $5 million in FY 2026-27, the final year of the projections. Based on current expenditure assumptions, this would require a $45.4 million bond financing in FY 2024-25 utilizing the same 5% interest rate assumption.

Measure A	**FY 17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**	**FY 21-22**
Measure A Revenue Growth	3.505%	8.200%	-4.600%	0.400%	0.900%
Subtotal Measure A Revenues	38,223,779	40,964,491	39,254,737	39,410,390	39,759,925
Less: Total Annual Debt Service	-	-	-	-	(771,500)
Total Available Revenue	38,223,779	40,964,491	39,254,737	39,410,390	38,988,425
Plus: RSTP Lump Sum	-	-	-	-	-
Plus: Bond Proceeds	-	-	-	-	61,720,000
Less: Monthly Pass-Thru	(25,632,043)	(27,469,905)	(26,323,380)	(26,427,758)	(26,144,798)
Less: Fund 5308 Capital Expenditures	(16,399,763)	(21,687,905)	(15,494,613)	(11,366,057)	(44,783,950)
Less: Admin Transfers	(20,327)	(43,179)	(21,000)	(21,000)	(21,000)
Add Back: Measure A exp (FY20-21 equp. sale)	40,000	460,000	10,000	309,997	10,000
Change in Cash Balance	**(3,788,354)**	**(7,776,498)**	**(2,574,256)**	**1,905,573**	**29,768,678**
Remaining Cash Balance	**20,474,245**	**12,697,747**	**10,123,491**	**12,029,064**	**41,797,741**

Measure A	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**FY 26-27**	**Grand Total**
Measure A Revenue Growth	1.300%	1.500%	3.000%	3.000%	3.000%	
Subtotal Measure A Revenues	40,276,221	40,886,744	42,126,102	43,402,641	44,717,477	409,022,507
Less: Total Annual Debt Service	(5,279,913)	(5,279,913)	(5,847,413)	(9,653,853)	(9,653,853)	(36,486,444)
Total Available Revenue	34,996,309	35,606,831	36,278,689	33,748,788	35,063,624	372,536,063
Plus: RSTP Lump Sum	-	-	-	-	-	-
Plus: Bond Proceeds	-	-	45,400,000	-	-	107,120,000
Less: Monthly Pass-Thru	(23,467,770)	(23,877,173)	(24,327,707)	(22,631,210)	(23,512,910)	(249,814,653)
Less: Fund 5308 Capital Expenditures	(27,609,690)	(32,759,710)	(32,261,463)	(18,929,745)	(28,560,080)	(249,852,976)
Less: Admin Transfers	-	-	-	-	-	(126,506)
Add Back: Measure A exp (FY20-21 equp. sale)	10,000	10,000	10,000	10,000	10,000	879,997
Change in Cash Balance	**(16,071,152)**	**(21,020,052)**	**25,099,520**	**(7,802,166)**	**(16,999,366)**	**(19,258,075)**
Remaining Cash Balance	**25,726,589**	**4,706,537**	**29,806,057**	**22,003,891**	**5,004,524**	

Payment of debt service on the projected bond financings impacts the amount of cumulative Pass Through funds paid through FY 26-27 through the reduction in Total Available Revenues by the estimated amount of annual debt service. As illustrated in the Measure A cash flow table above, total estimated Pass Through funds over the ten-year projection period are reduced by approximately $24.5 million from $274.3 million to $249.8 million. Given a portion of the Fund 5308 expenditures are based on a percentage of Total Available Revenues, Fund 5308 expenditures are reduced by $4 million from $253.9 to $249.9 million.

RSTP is unchanged from the Base Case scenario. The RSTP balance of $23 million is expected to grow to $63 million over the projection period, assuming additional contributions and earnings.

RSTP Fund Balance	**FY 17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**	**FY 21-22**
RSTP Interest Rate	1.50%	1.75%	2.00%	2.25%	2.50%
Beginning Balance	23,000,000	26,390,000	29,904,325	33,562,412	37,385,066
Additonal Contribution	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Lump Sum Use of Fund					
Interest Earned	390,000	514,325	658,087	822,654	1,009,627
Remaining RSTP Fund Balance	**26,390,000**	**29,904,325**	**33,562,412**	**37,385,066**	**41,394,692**

RSTP Fund Balance	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Grand Total
RSTP Interest Rate	2.50%	2.50%	2.50%	2.50%	2.50%	
Beginning Balance	41,394,692	45,504,560	49,717,174	54,035,103	58,460,981	
Additonal Contribution	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	30,000,000
Lump Sum Use of Fund						-
Interest Earned	1,109,867	1,212,614	1,317,929	1,425,878	1,536,525	9,997,505
Remaining RSTP Fund Balance	**45,504,560**	**49,717,174**	**54,035,103**	**58,460,981**	**62,997,505**	

Scenario 2: RSTP Contributions and Single Bond Financing Downsized by RSTP Contribution (FY 2023-24)

In contrast to Scenario 1 where RSTP is not utilized, Scenario 2 relies on RSTP funds to address annual cash flow needs beginning in FY 2021-22 through FY 2023-24. However, in FY 2023-24, the funding requirement is also met with bond proceeds only given limited remaining RSTP fund balance. After utilizing a combined total of $42 million of RSTP funds in FY 2021-22 through FY 2023-24, the resulting bond financing in FY 2023-24 necessary to achieve an ending Fund balance of $5 million in FY 2026-27 is $61 million.

Measure A	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
Measure A Revenue Growth	3.505%	8.200%	-4.600%	0.400%	0.900%
Subtotal Measure A Revenues	38,223,779	40,964,491	39,254,737	39,410,390	39,759,925
Less: Total Annual Debt Service	-	-	-	-	-
Total Available Revenue	38,223,779	40,964,491	39,254,737	39,410,390	39,759,925
Plus: RSTP Lump Sum	-	-	-	-	24,753,000
Plus: Bond Proceeds	-	-	-	-	-
Less: Monthly Pass-Thru	(25,632,043)	(27,469,905)	(26,323,380)	(26,427,758)	(26,662,149)
Less: Fund 5308 Capital Expenditures	(16,399,763)	(21,687,905)	(15,494,613)	(11,366,057)	(44,868,641)
Less: Admin Transfers	(20,327)	(43,179)	(21,000)	(21,000)	(21,000)
Add Back: Measure A exp (FY20-21 equp. sale)	40,000	460,000	10,000	309,997	10,000
Change in Cash Balance	**(3,788,354)**	**(7,776,498)**	**(2,574,256)**	**1,905,573**	**(7,028,864)**
Remaining Cash Balance	**20,474,245**	**12,697,747**	**10,123,491**	**12,029,064**	**5,000,199**

Measure A	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Grand Total
Measure A Revenue Growth	1.300%	1.500%	3.000%	3.000%	3.000%	
Subtotal Measure A Revenues	40,276,221	40,886,744	42,126,102	43,402,641	44,717,477	409,022,507
Less: Total Annual Debt Service	-	(762,250)	(5,626,619)	(5,626,619)	(5,626,619)	(17,642,107)
Total Available Revenue	40,276,221	40,124,494	36,499,483	37,776,022	39,090,858	391,380,400
Plus: RSTP Lump Sum	14,912,000	2,335,000	-	-	-	42,000,000
Plus: Bond Proceeds	-	60,980,000	-	-	-	60,980,000
Less: Monthly Pass-Thru	(27,008,366)	(26,906,620)	(24,475,766)	(25,331,786)	(26,213,486)	(262,451,259)
Less: Fund 5308 Capital Expenditures	(28,189,288)	(33,255,633)	(32,285,700)	(19,371,831)	(29,002,166)	(251,921,597)
Less: Admin Transfers	-	-	-	-	-	(126,506)
Add Back: Measure A exp (FY20-21 equp. sale)	10,000	10,000	10,000	10,000	10,000	879,997
Change in Cash Balance	**567**	**43,287,241**	**(20,251,984)**	**(6,917,595)**	**(16,114,795)**	**(19,258,965)**
Remaining Cash Balance	**5,000,767**	**48,288,007**	**28,036,024**	**21,118,429**	**5,003,634**	

Given bonding needs are lower than those in Scenario 1, Pass Through funds are impacted less over the projection period under Scenario 2. Specifically, Pass Through funds are reduced by $11.8 million from $274.3 million to $262.5 million over the projection period. Similarly, Fund 5308 expenditures are reduced by $2 million from $253.9 to $251.9 million.

Total RSTP funds drawn from FY 2021-22 to FY 2023-24 are $42 million. The RSTP balance is projected to be $14.8 million at the end of the projection period.

RSTP Fund Balance	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
RSTP Interest Rate	1.50%	1.75%	2.00%	2.25%	2.50%
Beginning Balance	23,000,000	26,390,000	29,904,325	33,562,412	37,385,066
Additonal Contribution	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Lump Sum Use of Fund					(24,753,000)
Interest Earned	390,000	514,325	658,087	822,654	390,802
Remaining RSTP Fund Balance	**26,390,000**	**29,904,325**	**33,562,412**	**37,385,066**	**16,022,867**

RSTP Fund Balance	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Grand Total
RSTP Interest Rate	2.50%	2.50%	2.50%	2.50%	2.50%	
Beginning Balance	16,022,867	4,213,639	5,000,605	8,200,620	11,480,636	
Additonal Contribution	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	30,000,000
Lump Sum Use of Fund	(14,912,000)	(2,335,000)				(42,000,000)
Interest Earned	102,772	121,966	200,015	280,016	362,016	3,842,652
Remaining RSTP Fund Balance	**4,213,639**	**5,000,605**	**8,200,620**	**11,480,636**	**14,842,652**	

Summary Tables for Scenario 1 and Scenario 2

The following tables summarize Scenario 1 and Scenario 2 and their respective impact on the Measure A Fund Balance and the RSTP Reserve over the ten-year projection period.

Measure A Fund Balance

Measure A Cash Flow Analysis	Scenario 1	Scenario 2
Bond Financings	2 Bond	1 Bond
RSTP Contribution - Lump Sum	None	3 Lump Sum
Beginning Measure A Cash Blance (FY 2017-18)	**24,262,599**	**24,262,599**
Estimated Total Revenues/Resources Thru FY 2026-27		
Total Measure A Revenues	409,022,507	409,022,507
Less: Debt Service on Bonds	(36,486,444)	(17,642,107)
Total Available Measure A Revenues	372,536,063	391,380,400
Total Estimated Bond Proceeds	107,120,000	60,980,000
Total Estimated RSTP Lump Sum	-	42,000,000
Total All Revenues/Resources	**479,656,063**	**494,360,400**
Estimated Total Expenditures Thru FY 2026-27		
Local Pass Thru	(249,814,653)	(262,451,259)
Regional Capital and Project Costs (5308)	(249,852,976)	(251,921,597)
Other	753,491	753,491
Total All Expenditures	**(498,914,138)**	**(513,619,366)**
Remaining Measure A Cash Balance (FY 2026-27)	**5,004,524**	**5,003,634**

RSTP Balance

Measure A Cash Flow Analysis	Scenario 1	Scenario 2
Bond Financings	2 Bond	1 Bond
RSTP Contribution - Lump Sum	None	3 Lump Sum
RSTP Cash Flow Analysis thru FY 2026-27		
Beginning RSTP Cash Balance (FY 2017-18)	**23,000,000**	**23,000,000**
Additional RSTP Contribution	30,000,000	30,000,000
Lump Sum Contribution to Measure A Capital Costs	-	(42,000,000)
Interest Earned	9,997,505	3,842,652
Remaining RSTP Cash Balance (FY 2026-27)	**62,997,505**	**14,842,652**

The following table summarizes the debt financings assumed in Scenario 1 and Scenario 2 and the respective debt service amounts for each scenario both during **AND** after the projection period.

Bonds and Estimated Debt Service Summary

Measure A Cash Flow Analysis	Scenario 1	Scenario 2
Bond Financings	2 Bond	1 Bond
RSTP Contribution - Lump Sum	None	3 Lump Sum
Bonding and Debt Service Summary		
Total Bonds Issued	**107,120,000**	**60,980,000**
Total Payments thru FY 2026-27	36,486,444	17,642,107
Total Payments FY 2027-28 through FY 2039-40	125,500,085	73,146,047
Total Payments	**161,986,529**	**90,788,154**

Estimated Net Impact/Cost for Scenario 1 and Scenario 2

Though this analysis is limited to a projection period to FY 2026-27, there are financial implications beyond the projection period because the debt service on the bonds extends to the end of Measure A in FY 2039-40. Thus, holding all else constant, we have summarized the impact of the bond issuance(s) on projected resources and costs through the term of the tax.

Further, the contrast between Scenarios 1 and 2 illustrate that when RSTP funds are utilized to provide a lump sum amount in lieu of a bond, there is a tradeoff between Pass Through revenues and RSTP revenues overtime. We endeavor to quantify this overall net impact to the jurisdictions. However, we note the objective nature of this approach, as in actuality RSTP funds will be programmed and utilized over time and will not necessarily accumulate and earn interest on the aggregate balance through FY 2039-40.

Estimated Net Impact to Resources: Measure A and RSTP

To better assist TTAC in evaluating the trade-off of utilizing RSTP funding resources to downsize or delay the need for bonding, we prepared the summary table on the following page, which estimates total Measure A revenues available for pass thru and RSTP ending balances for each scenario over the forecast period and through the term of the tax.

Assuming no additional bonding and no further utilization of RSTP resources beyond what is projected over the forecast period, Scenario 1 results in the greatest amount of total resources (Measure A Local Pass Through plus RSTP) - $312.8 million through FY 2026-27 and $782.3 million through FY 2039-40. However, available Measure A revenues are the lowest under Scenario 1 – thus, most notably impacting pass thru dollars to the jurisdictions. On the other hand, Scenario 2 is estimated to produce the least amount of resources (Measure A Pass Through plus RSTP); however total available Measure A revenues are the greatest. Under Scenario 2, Measure A Pass Through revenues are maximized for distribution to the jurisdictions and RSTP Reserve balances (and earnings) are depleted at a greater rate.

Measure A Cash Flow Analysis	Scenario 1	Scenario 2
Bond Financings	2 Bond	1 Bond
Total Amount	107,120,000	60,980,000
RSTP Contribution - Lump Sum	None	3 Lump Sum
Total Amount	-	42,000,000
Estimated Net Impact to Jurisdictions: Measure A and RSTP (Thru Forecast FY 2026-27)		
Total Estimated Measure A Revenues[1]	**409,022,507**	**409,022,507**
Less Debt Service on Bonds[2]	(36,486,444)	(17,642,107)
Total Available Measure A Revenues	372,536,063	391,380,400
Local Pass Thru[3]	249,814,653	262,451,259
RSTP Ending Balance[4]	62,997,505	14,842,652
Total Estimated Revenues/Resources (FY 2026-27)	**312,812,158**	**277,293,911**
Estimated Net Impact to Jurisdictions: Measure A and RSTP (Thru Sales Tax Term FY 2039-40)		
Total Estimated Measure A Revenues[1]	**1,129,674,664**	**1,129,674,664**
Less Debt Service on Bonds[2]	(161,986,529)	(90,788,154)
Total Available Measure A Revenues	967,688,135	1,038,886,511
Local Pass Thru[3]	648,910,801	696,654,897
RSTP Ending Balance[4]	133,399,615	67,017,618
Total Estimated Revenues/Resources (FY 2039-40)	**782,310,416**	**763,672,514**

[1] Assumes revenue growth projections as provided by HdL through FY 2023-24 and 3% thereafter through the term of the tax (FY 2039-40).

[2] Assumes 5% interest rate for bond issuances in the projection period. Beyond FY 2026-27 projection period no further bonding is assumed.

[3] Based on local jurisdiction percentage of total available revenues per the Expenditure Plan (67%).

[4] Assumes annual contributions of $3million and interest earnings of 1.5% (FY 2017-18); 1.8% (FY 2018-19); 2.0% (FY 201920); and 2.5% thereafter through the term of the tax (FY 2039-40). No furhter draws from RSTP beyond what is modeled are assumed.

Estimated Net Cost: Bond Interest and RSTP Lost Earnings

Another consideration is the relationship between the assumed earnings rate on the RSTP Reserve and the interest rate paid on the bonds. RSTP funds are assumed to earn interest at short term Treasury Pool rates ranging from 1.50% to 2.50%. However, this rate will fluctuate year to year while the interest rate on the bonds will be fixed for the duration of the bond. Long term tax-exempt fixed rates are relatively low now but are trending up. As referenced earlier in the Memo we have assumed a conservative 5.00% borrowing rate given the period of time between now and the projected initial bonding needs in FY 2021-22 and FY 2024-25 (Scenario 1) and FY 2023-24 (Scenario 2).

While the projections are driven by our assumptions for borrowing and earnings rates, we utilize such assumptions to help quantify the “cost” of each scenario based on total bond interest paid (dependent on timing and size of financings) and lost earnings received on RSTP Fund balances (dependent on amount of resources utilized).

As noted above, we assume no additional bonding and no additional utilization of RSTP resources beyond what is projected over the forecast period and provide "cost" estimates over the forecast period and through the term of the tax. Again, this analysis does not assume any further utilization of RSTP beyond what is needed to address cash flow needs. This assumption is made to help isolate the trade-off of bond interest paid versus RSTP interest earned. However, in actuality, SBCAG is likely to utilize RSTP resources to fund projects between now and the term of the tax; yet the projected utilization of RSTP for additional projects is not being forecasted through the Strategic Planning process and RSTP is only considered to meet cash needs over the forecast period.

From this perspective, Scenario 2 represents the lowest cost alternative driven by the least amount of bond interest paid (approximately half the par amount issued as in Scenario 1) and manageable lost earnings on RSTP given the "as-needed" utilization of those funds. The benefit of Scenario 2, however, is not meaningfully greater than Scenario 1. While Scenario 1 does not have lost earnings on RSTP Fund balance, bond interest costs are substantially higher given the greater projected bonding needs. Overall, the estimated "cost" difference of the two scenarios over the term of the tax is approximately $680,000 higher under Scenario 1.

Measure A Cash Flow Analysis	Scenario 1	Scenario 2
Bond Financings	2 Bond	1 Bond
Total Amount	107,120,000	60,980,000
RSTP Contribution - Lump Sum	None	3 Lump Sum
Total Amount	-	42,000,000
Estimated Net Impact to Jurisdictions: Cost of Bond Interest Paid and RSTP Lost Earnings		
Thru Forecast FY 2026-27		
Bond Interest Paid[1]	20,050,614	9,516,163
Lost Earnings on RSTP[2]	-	6,154,854
Total Estimated Cost (Thru Forecast)	**20,050,614**	**15,671,017**
Thru Sales Tax Term FY 2039-40		
Bond Interest Paid[1]	54,866,529	29,808,154
Lost Earnings on RSTP[2]	-	24,381,997
Total Estimated Cost (Thru Term of Sales Tax)	**54,866,529**	**54,190,151**

[1] Assumes 5% interest rate for bond issuances in the projection period. Beyond FY 2026-27 projection period no further bonding is assumed.

[2] Assumes annual contributions of $3million and interest earnings of 1.5% (FY 2017-18); 1.8% (FY 2018-19); 2.0% (FY 201920); and 2.5% thereafter through the term of the tax (FY 2039-40). No furhter draws from RSTP beyond what is modeled are assumed.

Financing Approach

At the beginning of this Memo we stated assumptions with regard to the bonding approach and expectations for the structuring and payment of ongoing debt service obligations:

(i) bonds are secured by a pledge of all Measure A sales tax revenues;
(ii) the term of the bonds does not exceed the term of the tax in FY 2039-40;
(iii) debt service is paid directly from Measure A funds before other uses of Measure A; and
(iv) bond proceeds are expended within three years of issuance, consistent with IRS rules for tax-exempt bonds.

Under this framework, the working assumption is that SBCAG would issue sales tax revenue bonds sold in the public market to tax-exempt municipal bond investors. Given the security pledge of gross sales tax revenues and SBCAG's limited leverage against the Measure A tax, the bonds would likely be highly rated ("AA"-category or above) and receive favorable interest rates relative to the market at the time of issuance. Further, given the projected bond issuance timing (ranging from FY 2021-22 to FY 2024-25) and the expected term of the bonds in FY 2039-40 (bonds cannot extend beyond the term of the Measure A tax), the proposed sales tax revenue bond offerings would be relatively short (i.e. 16-years to 19-years versus a more standard bond term of 30-years), which would also support a lower borrowing rate. The process for issuing sales tax revenue bonds from forming a financing team, finalizing a plan of finance, and pricing and closing on the bonds is estimated to be anywhere from four to six months.

While the issuance of public market tax-exempt bonds is the working assumption, SBCAG could pursue other forms of borrowings secured by the Measure A sales tax revenue pledge, including bank private placements or State and Federal loans. In prior discussions with TTAC, the possibility of seeking a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan with the Federal government was raised as an alternative to public market bonds. The TIFIA Credit Program has provided important support to investment in large-scale national transportation projects by offering credit assistance in the form of direct loans, loan guarantees, and standby lines of credit (rather than grants) to projects of national or regional significance. Notably, TIFIA has provided a cost-effective means of financing transportation projects that have a longer-term (up to 35-years after a 5-year construction period), can be lower-rated, and include other financing components to the project (bonds, state loans, revenues etc.). If SBCAG were to pursue a TIFIA loan, the term of the loan, however, would be limited by the term of the Measure A tax in 2040 given the pledge of Measure A revenues would serve as the security on the loan.

There are several major requirements of the TIFIA Credit Program, inclusive of:

1) Minimum Anticipated Project Costs
   - $10 million for Transit-Oriented Development, Local, and Rural Projects
   - $15 million for Intelligent Transportation System Projects
   - $50 million for all other eligible Surface Transportation Projects
2) TIFIA Credit Assistance Limit – Credit assistance limited to 33% of reasonably anticipated eligible project costs (unless the sponsor provides a compelling justification for up to 49%)
3) Investment Grade Rating – Senior debt and TIFIA loan must receive investment grade ratings from at least two nationally recognized credit rating agencies (only one rating required if less than $75 million)
4) Dedicated Repayment Source – The project must have a dedicated revenue source pledged to secure both the TIFIA and senior debt financing
5) Applicable Federal Requirements – Including, but not limited to: Civil Rights, NEPA, Uniform Relocation, Buy America, Titles 23 and 49

The TIFIA loan process begins with a project sponsor submitting a Letter of Interest that provides sufficient information to satisfy the eligibility requirements, such as creditworthiness and readiness to proceed; after invitation from the TIFIA Joint Program Office, a formal application is required. The DOT notifies the project sponsor regarding project approval no more than 60 days after delivery of notice regarding application completeness. Upon project award, the development of financing documentation and the credit agreement begins.

Taking into account the application and approval process, the timeline to close on a TIFIA loan could be the upwards of a year or more. If the TIFIA loan process is the desired course, SBCAG will want to factor in a lead time of approximately 1.5 years from submittal of the Letter of Interest/Application process to the time in which funds are needed. We note that earlier in the process, following the submittal of the Letter of Interest, the DOT will ask SBCAG to submit a $250,000 upfront fee to cover the DOT's costs to procure outside financial and legal advisors (the Advisors' Fees Upfront Payment). While it is possible that Advisors' Fees Upfront Payment be waived for TIFIA projects less than $75 million (this should be indicated in the Letter of Interest), SBCAG will want to conduct a detailed financial analysis of the estimated economic benefit of the TIFIA loan versus bonds before the payment of this fee.

Appendix: Summary of Assumptions for Cash Flow Model Scenarios

Summary of Assumptions for Bonding and Cash Flow Analysis Ten-Year Projection Period: FY 2017-18 to FY 2026-27
Measure A Program revenues assumes FY 2017-18 actual sales tax revenues. Thereafter, the following assumptions are used: FY 2018-19 annual growth of 8.2% per HdL. FY 2019-20 annual growth of -4.6% per HdL. FY 2020-21 annual growth of 0.4% per HdL. FY 2021-22 annual growth of 0.9% per HdL. FY 2022-23 annual growth of 1.3% per HdL. FY 2023-24 annual growth of 1.5% per HdL. FY 2024-25 through FY 2026-2027 annual growth of 3%. RSTP Reserve assumes annual $3 million contribution; FY 2017-18 interest earnings of 1.5%; FY 2018-19 interest earnings of 1.75%; FY 2019-20 interest earnings of 2.00%; FY 2020-21 interest earnings of 2.25%; and FY 2021-22 thru FY 2026-27 interest earnings of 2.50%. Bond financings assumes 5% TIC. All bond financings assume final maturity of 2040. All assumptions are estimates and subject to change.