



Date: October 16, 2000

Committee Meeting Date: October 19, 2000

Board Meeting Date: November 2, 2000

BOARD MEMORANDUM

ACTION DISCUSSION INFO

TO: Transportation Planning and Operations Committee
Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Peter M. Cipolla
General Manager

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FROM: Scott D. Buhner, Chief Financial Officer
Fiscal Resources

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SUBJECT: Sales Tax Projections

FOR INFORMATION ONLY

BACKGROUND:

At the VTP 2020 Workshop on September 29, 2000, we reported that VTA had recently received "clean-up" payment information for the sales tax quarter ended June 30, 2000. This information showed that sales tax had once again exceeded our expectations. We also noted that we were working on revisions to our various program forecasts and indicated it appeared likely that: the 1996 Measure B Transportation Improvement Program will experience a surplus; additional revenue will be available for the VTP 2020 capital projects, (ie. the 2000 Measure A); and, VTA will not experience deficits from operating the expansion projects that are contained in the new Measure A Program.

Supervisor Pete McHugh, Chair of the Transportation Planning and Operations Committee, has requested up-dated sales tax projections and their impact on both Measure B and 2000 Measure A.

DISCUSSION:

Sales Tax

Part of our budget philosophy and policy has been to invoke a relatively strong element of conservatism in our revenue forecasts. However, results experienced in recent years

have surprised most forecasters and, in retrospect, one would have to characterize our sales tax forecasts as perhaps overly conservative, even pessimistic, as shown below.

Fiscal Year	Adopted Budget	Actual	Difference	Percent
(000's omitted)				
1995-96	103,400	122,274	18,874	18.25%
1996-97	117,400	128,969	11,569	9.85%
1997-98	127,414	138,429	11,015	8.65%
1998-99	134,262	143,712	9,450	7.04%
1999-00	144,233	166,764	22,531	15.62%
2000-01	152,680	N/A	N/A	N/A
		Average	14,688	11.72%

Our consistent underestimation of revenues and a recently released long-term socioeconomic forecast, for 25 counties of California, published by the Department of Transportation (DOT), has caused us to reflect on our forecasted growth rates for Santa Clara County. DOT's forecast was developed in consultation with Booz-Allen & Hamilton Inc. and the Center for Regional Economic Research.

The long-term economic forecast for Santa Clara County anticipates total personal income to grow an average of 6.6% per year for the next 10 years. Inflation adjusted, the average annual rate of increase of personal income per person is forecast at 2.8%. Implicit in this economic analysis is an inflation rate of 3.8%.

Consumer spending is projected to remain strong in the County over the next several years, with higher income per person resulting in higher rates of consumption. The projected growth of retail sales is at 5.9% through 2010. With an inflation rate of 3.8%, we can conclude that growth on retail sales is expected to be 2.1% during this time period.

Over the last few years, VTA has used long term real growth rates of 1.2 – 1.7%, in year of receipt dollars, depending on the situation. As discussed below, the impact of an additional 1% in real growth is significant.

1996 Measure B Transportation Improvement Program

In the June 2000 update to the 1996 Measure B Program Revenue and Expenditure Plan, we forecasted our sales tax revenues off the base year of Fiscal Year (FY) 1999, which was the most recent full year of revenue performance. In this updated forecast we escalated project costs by 3.5% to be more aligned with what was being experienced in the regional economy, and used a 3.5% inflation rate when forecasting revenues. However, we retained our conservatism in the area of real growth, (i.e. net of inflation) in retail sales, using a 1.2% growth rate. Even with this conservatism, the program shortfall was reduced from the June 1999 projection of a \$104 million to the June 2000 projection of a \$14.5 million. We recently completed an analysis to determine the effect

the increase of sales tax performance experienced during FY 2000 has on the remainder of the Measure B Transportation Improvement Program (MBTIP). We believe that the MBTIP will experience a surplus of at least \$166 million. We used the same conservative assumptions (1.2% growth, 3.5% inflation); however, changed the base year to FY 2000 to determine future sales tax revenues.

The MBTIP Revenue and Expenditure Plan is a projection of cash receipts and disbursements. The forecasts are in escalated or "year of receipt dollars". The plan calculates interest earnings for cash surpluses and interest expense when temporary cash shortfalls are projected. Therefore an increase in sales tax receipts will not result in dollar for dollar improvement, but rather a greater overall favorable impact to the program. The impacts are summarized below.

Sales Tax Increase	\$ 156.0 million
Interest Expense Reduction	10.0 million
Interest Earnings Increase	14.8 million
June 2000 shortfall projection	(14.5 million)
Current Projected Program Balance	\$ 166.3 million

Base year changed to 2000 sales tax receipts. All other assumptions retained.

If we further revised forecasts using 2% real growth rates we see the following increases in revenue:

Sales Tax Increase	\$ 178.9 million
Interest Expense Reduction	11.5 million
Interest Earnings Increase	16.4 million
June 2000 shortfall projection	(14.5 million)
Current Projected Program Balance	\$ 192.3 million

Base year changed to 2000 sales tax receipts. 2% real growth changed from 1.2%.

MTC's economic forecasts, which can be found at www.mtc.ca.gov/srtp.htm, indicate growth to be in excess of 1.2% through 2017. Updating their economic forecasts with actual FY 2000 earnings we would see the following impact on the MBTIP Program:

Sales Tax Increase	\$ 208.4 million
Interest Expense Reduction	12.9 million
Interest Earnings Increase	16.9 million
June 2000 shortfall projection	(14.5 million)
Current Projected Program Balance	\$ 223.7 million

MTC economic forecast updated to FY 2000 sales tax receipts.

New Measure A

The current forecast for the revenues from the new Measure A sales tax is in FY 2000 constant dollars, using a projected base year of 2000, and a 1.2 % real growth rate.

However, as with previous forecasting, it's clear we understated projected earnings for FY 2000 by nearly 10%.

As with the 1996 Measure B Program, changing the forecast to reflect the actual FY 2000 results, our previous forecast of \$5.98 billion is increased by \$555 million to \$6.54 billion. We continue to maintain a 1.2% real growth and maintain the projections stated in constant FY 2000 dollars.

A further revision to the forecasts using 2% real growth rates would provide an additional increase of \$1.3 million for a projected total of \$7.81 billion. And, as we have illustrated with 1996 Measure B, if we were to update MTC's forecasts with actual FY 2000 sales tax earnings, forecasted sales tax earnings for Measure A exceed \$8.6 billion.

VTA Operating

We have also updated our VTA long-range forecast to reflect the increased sales tax performance experienced during FY 2000. We also increased our long-term growth rate from 1.5% to 1.7%, consistent with the last update to our Short-Range Transit Plan (SRTP). We have also made a few minor, "truing up" adjustments, and, we have allocated additional resources for ADA services.

The updated long-range forecast continues to reflect ambitious service expansion in all of our services. The key elements of our long-range plan are:

- 750 Bus Fleet (unchanged).
- Begin purchasing zero emissions buses (ZEBs) in 2005 (unchanged).
- Caltrain operates 120 trains per day by 2009 (unchanged).
- ACE operates 16 trains per day by 2007 (unchanged).
- BART operating subsidy beginning 2010 (unchanged).
- Downtown/East Valley LRT operating subsidy beginning 2008 (unchanged).

The long-range plan continues to be conservative. For example:

- We believe the purchase price and the operating cost for the ZEBs will eventually be about the same as a CNG bus. The long range plan assumes ZEBs cost 50% more to purchase and 25% more to operate and maintain (more than double the increased cost of CNG) (unchanged).
- Paratransit service costs are assumed to increase annually at 15%, 13%, 11%, 9%, 7% and 5% thereafter. Previous forecasts assumed paratransit service cost increases to settle down to 3.5% per year.

The VTA long-range cash flow forecast, like the MBTIP forecasts is expressed in escalated dollars.

The forecast covers through FY 2030. The cumulative impacts from the revised forecast are summarized below:

Sales Tax	\$1,770.0 million
Interest Earnings Increase	329.0 million
Increase in Passenger Fares	119.0 million
Total Revenue	\$2,218.0 million
Fixed Route Bus Increase	514.0 million
ADA Increase	179.0 million
LRT Increase	73.0 million
Cost Increases	\$766.0 million
Net Increase in Reserves	\$1,452.0 million
Reserves Ending Balance in 2030	\$ 506.0 million

Cumulative impacts by line item occurring from the updated long-range

We also developed a VTA long-range forecast using the MTC growth projections. MTC's projections annual real growth (i.e. net of inflation) at rates ranging from 1.17% to 2.57% (compared to VTA's forecast of 1.7%) for all years. MTC's growth rates are higher in the early years, lower in the middle years and higher in the later years. If we use the MTC's growth rates the impacts are as follows:

Sales Tax Increase	\$ 42.0 million
Interest Earnings Increase	205.0 million
Increase in Ending Reserves	247.0 million
Reserves Ending Balance in 2030	\$ 753.0 million