



June 26, 2019

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County of Marin
Damon Connolly
Katie Rice
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Dennis Rodoni
Judy Arnold

Nancy Whelan
General Manager
711 Grand Ave, #110
San Rafael, CA 94901

Re: Response to Marin Transit Comments on TAM's Measure AA Strategic Plan

Dear Ms. Whelan,

This letter is in response to Marin Transit's Comment Letters on the Draft Measure AA Strategic Plan dated May 23, 2019 and June 21, 2019.

Below please find TAM's responses to each of the comments provided:

Comment 1 May 23, 2019 Letter: Under Measure AA Local Transit received a lower % of gross sales tax receipts.

Marin Transit's Comment Letter from May 23, 2019 stated that Marin Transit staff was not aware of those important changes and the potential impacts on its agency's near-term funding picture until the strategic plan was developed. *"Before the Strategic Plan was developed, Marin Transit staff was not aware that there would be a decrease in funding for local transit under Measure AA..."* The following responses are provided for this comment.

Marin Transit did not account for the funding percentage change from 59.5% in Measure A to 55% in Measure AA for the Transit Category. During the 7-month Expenditure Plan Advisory Committee process, and afterwards through Board approval of a Draft and Final Expenditure Plan, it was shown that Category 1 Reduce Congestion on Highway 101 and Adjacent Roadways was part of the Expenditure Plan receiving 7% of the funds. The redistribution of those funds that had been happening in previous years would no longer occur.

Marin Transit staff reviewed the Measure AA Expenditure Plan and provided comments during the comment period. Note the funding changes, including the \$2.35 million off-the-top to fulfill funding commitments for all unfinished major roads projects, are stated in the Measure AA Expenditure Plan.

As for the funding table included as part of May 23, 2019 Comment Letter, the comparison does not clearly show the actual funding picture for Marin Transit under Measure A and Measure AA. The table illustrates the years that funding levels are temporarily reduced under Measure AA due to the 5% reserve, while the Measure A numbers not only don't have the 5% reserve off the top, but also show the return of the \$3.2 million reserve collected in the early years of the original Measure A.

Marin Transit has an accumulated funding balance of \$9.3 million by the end of FY2018-19 under Measure A/AA. Marin Transit has also confirmed the agency is in good financial position in the next 2-3 years.

Comment 2 May 23, 2019 Letter: Provide for an Equitable Allocation of Interest Funds

TAM staff understands Marin Transit's position of wanting to maximize its funding share under both the Measure A and Measure AA. Note the voter approved Expenditure Plans state the intended usage and allocation process of the interest revenue.

Measure AA Expenditure Plan (page 34):

All interest income generated by the sales tax can only be spent for the transportation purposes authorized by this Sales Tax Renewal Expenditure Plan. All use of sales tax interest revenue shall be solely determined by the TAM board, in a noticed public meeting.

TAM will also be able to use other means to assure the delivery of projects and programs, including seeking outside grants and matching or leveraging tax receipts to the maximum extent possible, including the usage of interest revenue generated by the sales tax.

The TAM Board debated a policy on accrued interest and approved the recommended interest policy at its May 30, 2019 Board Meeting, which is now included in the Draft Strategic Plan for Measure AA. It is attached for your convenience.

Comment 3 May 23, 2019 Letter: Develop a Leveraging and Fund Swap Policy

Under the Measure AA Expenditure Plan (bullet #2, page 34), *"TAM will have the authority to bond and use other financing mechanisms for the purposes of expediting delivery of transportation projects and programs pursuant to TAM's Strategic Plan."* Included in these concepts is the ability to swap or exchange funds to deliver projects that would not otherwise be possible.

Swapping funds, particularly with Measure AA funds between categories is often the last resort. Staff will always exhaust other options before resorting to swapping Measure AA funds between categories. If TAM staff propose a swap involving any Marin Transit funding, Marin Transit would not lose funds. At the minimum, all swap transactions have been one-for-one funding exchange. Swapping funds, including swapping funds between categories of Measure AA, is an important mechanism for flexibility to fund projects that would not otherwise have the ability to use the funds provided.

TAM uses the fund swap policy to meet the funding needs of high priority projects/programs determined by the TAM Board.

Swapping funds is always on a case by case basis approved by the TAM Board and the granting agencies involved. It has supported numerous projects in Marin and has been strongly supported by our member agencies. TAM staff believes that the approval of fund swapping, including swapping Measure AA funds between categories, should be preserved for the TAM Board's discretion on a case by case basis. Adopting a policy as recommended by Marin Transit would substantially limit the TAM Board's authority on swapping funds as authorized by the Measure AA Expenditure Plan.

TAM believes its current policy provides the agency the flexibility it needs to deliver the transportation priorities of Marin County in the most cost-effective way and will continue this practice as long as the swaps are approved and supported by the granting agencies and the TAM Board.

Comment 4 May 23, 2019 Letter: Adopt a Reserve Policy

TAM understands this comment has been rescinded and replaced by the following two comments provided in the June 21, 2019 Comment Letter

Comment 1 June 21, 2019 Letter: Release of Measure A Reserve Funds

It had been TAM's plan to release the Measure A reserve once the Measure AA reserve policy is adopted. The original plan was to release all of the Measure A reserve in FY2019-20. However, during its June 17, 2019 meeting, the Citizens' Oversight Committee (COC) of Measure A and Measure AA felt very strongly that the existing reserve should not be distributed before the new reserve begins to build-up funds. The existing reserve should be released at 1:1 ratio as the new reserve is accumulated to maintain the reserve fund at its current \$5.38 million level. The COC voted unanimously to approve this recommendation and will present it along with the other actions it is recommending to the TAM Board at its June 27, 2019 meeting.

Comment 2 June 21, 2019 Letter: Establish a 0% Reserve Fund for Measure AA Transit Category

As TAM staff explained in various meetings with Marin Transit staff, as well as the electorate who serve on the Marin Transit and TAM Boards, TAM's reserve has no direct relation with Marin Transit reserve, or any of the other funding recipients under Measure A and Measure AA. The primary purposes of the Measure A/AA reserve funding are to:

- Ensure that the projects and programs included in this plan are implemented on schedule
- React to unforeseen emergencies
- Ensure a cushion if economic decline occurs that adversely affect the collection of the sales tax
- Use as collateral and help with cash flow when paying back loans
- Help maintain credit worthiness when debt financing is needed

Building a reserve for this Measure AA source is one of the key elements of TAM's responsible and accountable fiscal management strategies. Note Bay Area agencies such as TAM hold reserves as common fiscal practice.

The COC discussed this issue at its June 17, 2019 meeting and voted unanimously for the following action regarding the Measure A and Measure AA reserve:

1. Start to build the Measure AA reserve with 5% reserve set-aside for the first 5 years off the top of the total revenue collection
2. Do not release the Measure A reserve all at once, but release it at the same rate that the Measure AA reserve is collected to maintain the current \$5.38 million reserve level as the minimum level at all time
3. Adopt a policy that a category or subcategory that uses the Measure AA reserve fund will be responsible for replenishing the used funds over an established period of time

TAM staff recommend to the TAM Board supporting the COC's positions.

Lastly, TAM was requested by one of the Marin Transit Board members to clarify the difference in the funding percentage shares that TAM and Marin Transit staff have been using. While reviewing the budget presentation Marin Transit staff prepared in April, TAM staff noticed that Marin Transit was using the total gross revenue as the basis of the funding share calculation presented to its Board and the public, while both the Measure A and Measure AA Expenditure Plans state the funding share as a percentage of the net revenue after all the off-

Response to Marin Transit's Comments
June 26, 2019
Page 4

the-top items are withheld. Marin Transit's calculation from gross revenue rather than net revenue naturally would show a lower actual dollar amount. TAM staff requested Marin Transit staff use the same calculation based on what is stated in the Expenditure Plans during the May 1, 2019 staff level meeting and again at the May 6, 2019 Marin Transit Board meeting to avoid any confusion.

As the transportation planning and funding agency for the County, TAM's mission is "dedicated to making the most of Marin County transportation dollars and creating an efficient and effective transportation system that promotes mobility and accessibility by providing a variety of high-quality transportation options to all users." TAM's mission to fund the multi-modal priorities of the public requires flexibility in the management of those funds in order to respond to future funding priorities that may become critical in any of the categories identified in the Expenditure Plan. The requested items in Marin Transit's comment letter are ways to maximum the funding available to Marin Transit, but would negatively impact TAM's ability to carry out its mission with the flexibility required and potentially could delay other high priorities approved by the voters.

The region has benefitted from a strong and growing economy over the last 10 years. With Measure AA, the County has a new funding source to benefit our transportation network 30-years into the future.

The Strategic Plan sets out a sensible roadmap to clearly show revenue distribution as well as safeguards for responsible financial management as expected in the voter-approved Expenditure Plan.

Sincerely,



Dianne Steinhauser
Executive Director

Attachments:

Interest Policy
Marin Transit Letters of June 21, 2019 and May 23, 2019



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director
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director
supervisor district 3

eric lucan
alternate
city of novato

June 21, 2019

Dianne Steinhauser, Executive Director
Transportation Authority of Marin
900 Fifth Avenue, Suite 100
San Rafael, CA 94901

Re: Marin Transit Comments on the Measure AA Strategic Plan

Dear Ms. Steinhauser:

Marin Transit provided comments to TAM staff, the TAM Board president, and the president of the Marin Transit Board of Directors on the Measure AA Strategic Plan in a letter dated May 23, 2019 (attached). The TAM Board of Commissioners met on May 30, 2019 and approved opening a 30-day public comment period on the Measure AA Strategic Plan. This letter provides additional and updated comment from Marin Transit on the plan during this public comment period.

Due to the reduction of funds under Measure AA, Marin Transit Staff recommends the following:

1. Release of Measure A Reserve Funds - TAM staff is recommending to the Executive Committee that the reserves accumulated under Measure A be released to each of the strategies according to their proportionate shares. Marin Transit is scheduled to receive \$3.127 million in reserve funds.

Marin Transit supports the release of Measure A reserves. Release of \$3.127 million in reserves was assumed in Marin Transit's recently adopted FY 19-20 operating budget. The release of reserves helps offset the significant reduction in Measure AA revenues to Marin Transit in FY 19-20. Without the release of these reserves, Marin Transit will need to revise its budget and use its operating reserve or consider cost cutting measures such as service reductions.

2. Establish a 0% Reserve Fund for Measure AA Transit Category - TAM staff has suggested setting aside 5% for reserve funds under Measure AA. [TAM Board Meeting, May 30, 2019, Item 8]. At the Executive Committee meeting on June 10th the Committee discussed the establishment of a percentage and number of years of collection for a reserve "off the top" of Measure AA sales tax receipts. Marin Transit staff recommends that TAM establish a 0% reserve fund for the Measure AA Transit category for at least 5 years and reconsider the need for a reserve fund after 5 years.

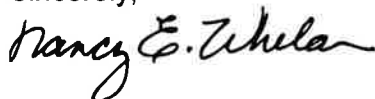
A 0% reserve fund for transit is appropriate for the following reasons:

1. Marin Transit has been fiscally prudent and met the Marin Transit Board adopted policy to maintain an emergency reserve equal to two months operating expenses and a contingency reserve equal to four months operating expenses. For FY 19-20 a capital reserve fund of \$10.7 million has been established after the emergency and contingency reserve were met. These reserves are made up of non-Measure A/AA funds. Additional Measure AA reserves held by TAM for transit purposes are not needed and will prevent services from being provided.
2. TAM correctly makes conservative revenue estimates of Measure AA funds. Conservative estimates help provide a cushion if unanticipated economic declines occur and sales tax collections are lower than expected.
3. The Measure A Reserve has essentially never been used. In 2016, Marin Transit requested an allocation of Measure A interest funds due to higher than planned bids for the Redwood and Grant Transit facility. The Measure A interest funds were intended for this purpose. TAM advanced Measure A reserve funds to Marin Transit instead of allocating Measure A interest. Marin Transit agreed to the advance of reserve funds. Later, those reserve funds were replenished through reductions in annual Measure A allocations to Marin Transit.

The Measure AA Expenditure Plan is permissive and broad with regard to the reserve fund: "TAM will have the ability to set aside a reserve fund of up to 10% of the annual transportation sales tax receipts for contingencies, to ensure a cushion if economic decline occurs that adversely affects the collection of the sales tax. This reserve is in addition to the Major Roads reserve to meet existing commitments." [Measure AA Expenditure Plan, page 34] The TAM Board has the ability to apply a reserve to each strategy and sub strategy individually or across the program as a whole. It can apply a reserve to meet an established dollar value or use a percentage up to 10% for a specified period of time. With this flexibility, the TAM Board can treat the transit category differently than the other Measure AA strategies, if it so chooses. We understand that TAM may be seeking a legal opinion on this issue.

With a 0% Measure AA reserve, Marin Transit would retain an additional \$4 million over the next five years compared to the 5% Measure AA reserve identified in the Draft Strategic Plan. This revenue will help offset the significant reduction in Measure AA revenues to Marin Transit.

Sincerely,



Nancy Whelan
General Manager

Attachment: MCTD Comments on TAM Measure AA Strategic Plan Letter from May 23, 2019

cc: Judy Arnold, President, Transportation Authority of Marin Board of Commissioners
Damon Connolly, President, Marin Transit Board of Directors



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May 23, 2019

Dianne Steinhauser, Executive Director
Transportation Authority of Marin
900 Fifth Avenue, Suite 100
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Re: Marin Transit Comments on the Measure AA Strategic Plan

Dear Ms. Steinhauser:

board of directors

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supervisor district 2

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director
supervisor district 3

eric lucan
alternate
city of novato

Marin Transit is very grateful that the voters of Marin County reauthorized the Measure A half-cent transportation sales tax and for the initiative and dedication of the Transportation Authority of Marin (TAM). Without consistent and ongoing local funding, Marin Transit would have to drastically reduce bus and paratransit services.

The original Measure A local transportation sales tax was slated to end in FY 2024/25. On an annual basis, Measure A has provided nearly forty percent of the revenues needed to operate Marin Transit services. The measure is also the source of critical capital funds that enable the District to replace aging transit buses and paratransit vehicles. The renewal measure, Measure AA, provides longer-term certainty that allows Marin Transit to continue to plan for and deliver efficient and sustainable transit services to Marin residents.

The Measure AA Strategic Plan is the implementation roadmap for the voter-approved Expenditure Plan. We recognize the complexity of developing this roadmap and balancing Marin's competing transportation needs.

Before the TAM Board adopts the draft *Transportation Sales Tax Measure AA Strategic Plan Update 2019*, (SPU) Marin Transit is providing the following comments and recommendations for your consideration:

1. Under Measure AA Local Transit receives a lower % of gross sales tax receipts

Before the passage of Measure AA, the revenue forecasts in the *2018 Measure A Strategic Plan Update*¹ indicated that Marin Transit would receive \$89.2 million over the next six fiscal years – from FY 2020 through FY 2025 – until Measure A expired (see attachment). The Measure AA Strategic plan projects only \$80 million for local transit (SPU 2019 Attachment 3-4) over the same six years. This is a \$9.3 million decline in funding for local transit.

Before the Strategic Plan was developed, Marin Transit staff was not aware that there would be a decrease in funding for local transit under Measure AA. The voter approved Expenditure Plan for Measure AA retained a 55% allocation for local transit and showed a consistent funding level of \$14.9 million for local transit in the included figures and charts. While the gross sales tax projections increase by \$500,000 between the Expenditure Plan and the Draft Strategic Plan for FY2019/20, the allocation to transit drops from \$14.9 to \$12.2 million. The collection of new reserve funds reduces funding for the first five years of the Measure but does not account for all of the difference (see attachment, year FY25). Based on conversations with TAM staff, we understand funding for prior commitments, combined with a structural change in between the measures causes an 8% reduction in local transit funds for the first 14 years of Measure AA.

Marin Transit can compensate for the decline in local transit funding in the upcoming fiscal year using revenue from the anticipated release of Measure A reserves. The lower funding level will have a longer-term impact on local transit service levels. The final impacts of the changes will be modeled in our District's current Short Range Transit Plan (SRTP) update

2. **Provide for an Equitable Allocation of Interest Funds** - Interest is earned when funds are invested, and there is no interest earned when funds are allocated to project sponsors. For transit funding, this occurs for two reasons: (1) When actual sales tax receipts exceed forecasted revenues, these funds are available for TAM to invest. TAM allocations are based on forecasts rather than actual receipts. (2) Due to the uneven timing of large capital projects, funds for those projects are available to invest since TAM allocates them on a reimbursement basis.

Marin Transit recommends the following practices to ensure that TAM allocates Measure AA interest revenues consistently and predictably:

- (a) The allocation of interest reserves should adhere to the established Measure AA funding percentages. This would mitigate some of the funding losses to categories under the new Measure and create an equitable distribution that is in accordance with voter expectations. Under this protocol, categories would receive the interest proportionally based on the category funds held by TAM and in accordance with the allocation plan in the voter-approved Expenditure Plan.

¹ Adopted by TAM Board June 2018

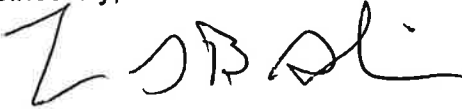
- TAM's immediate funding needs for anticipated roadway capital projects with cost overruns and eligible bicycle path maintenance under Measure A would be funded with interest funds from the relevant funding category.
- (b) Include a cash flow plan in the Strategic Plan that provides anticipated interest fund projections, earnings, and expenditures. Providing a projection of interest funds is critical for understanding and evaluating the Measure AA interest fund policy.
 - (c) Include the Measure AA interest fund policy in the Strategic Plan. This provides clarity and an opportunity for the TAM Board of Directors to conduct an annual review.
3. **Develop a Leveraging and Fund Swap Policy** – This policy can be very helpful in cases where “fund swapping” simplifies project delivery as it can limit the number of fund sources on a single project.
- (a) To ensure that all available federal, state, and local funds are used for their stated purpose, Marin Transit recommends that TAM restrict fund swapping to uses within a category and not between categories. For example, if the State provides formula funding to Marin County that is restricted for use in Transit Operations, this funding would not replace funding for Measure AA Local Transit (Strategy 4). This swap frees up Measure AA funds for an alternate use. Both the designated State and Measure AA sources should be available for their intended transit projects in Marin County. This is consistent with Implementing Guideline # 16 from the Expenditure Plan that states that “funds shall remain in the major category unless all needs in the category are met.”
4. **Adopt a Reserve Policy** – The draft Strategic Plan outlines a five percent set-aside of annual receipts to be held in reserve for five years. A set-aside of reserve funding in the initial years of the Measure adds to the eight percent decline in funding to the Measure AA categories.
- (a) Marin Transit recommends that the TAM Board adopt a Reserve Policy that establishes a guideline for the total amount of reserves that will be held by TAM. This policy should be based on the balance needed to smooth out allocation amounts under a typical economic downturn scenario. Provide a comparison of this level to other sales tax agencies. TAM uses conservative projections to prevent the need for reserves, and holding the equivalent of 25 percent of annual receipts in reserve may be too high.

Thank you for this opportunity to provide feedback on the Strategic Plan. Measure AA funding is critical to providing transit services that meet the needs and expectations of Marin residents.

There is a direct correlation between the ability to accurately predict future funding and delivering the maximum amount of transit service to Marin County. While we respect TAM's

desire to hedge against future revenue uncertainty, we will gladly share the responsibility for uncertainty in exchange for earlier access to dedicated transit operating and capital revenues.

Sincerely,

A handwritten signature in black ink, appearing to read 'L Gradia', written in a cursive style.

Lauren Gradia
Director of Finance and Capital Programs

Attachment – Comparison of *Measure A- Transportation Sales Tax, Strategic Plan Update (SPU) 2018* to *Transportation Sales Tax, Measure AA, Strategic Plan Update (SPU) 2019*

cc: Nancy Whelan, General Manager, Marin Transit
Judy Arnold, President, Transportation Authority of Marin Board of Commissioners
Damon Connolly, President, Marin Transit Board of Directors

Attachment

Comparison of
Measure A- Transportation Sales Tax, Strategic Plan Update (SPU) 2018
to
Transportation Sales Tax, Measure AA, Strategic Plan Update (SPU) 2019

Measure A, TAM Board Adopted Strategic Plan Update (SPU) June 2018

	FY20	FY21	FY22	FY23	FY24	FY25	Total (6 years)
Gross Sales Tax Revenue	\$27,478,800	\$28,028,376	\$28,588,944	\$29,160,722	\$29,743,937	\$25,282,346	\$168,283,125
Annual Rev to Local Transit	\$14,024,511	\$14,334,948	\$14,651,592	\$14,974,570	\$15,304,008	\$15,987,438	\$89,277,067
% of receipts	51%	51%	51%	51%	51%	63%	53%

Measure AA, DRAFT Strategic Plan Update (SPU) May 2019

	FY20	FY21	FY22	FY23	FY24	FY25 ¹	Total (6 years)
Gross Sales Tax Revenue	\$27,500,000	\$28,187,500	\$28,892,188	\$29,614,492	\$30,354,854	\$31,113,726	\$175,662,760
Annual Rev to Local Transit	\$12,321,000	\$12,660,313	\$13,009,133	\$13,336,674	\$13,733,153	\$14,964,422	\$80,024,695
% of receipts	45%	45%	45%	45%	45%	48%	46%

1) FY25 is the first year no reserve funds are collected. As a result, the Local Transit share increases to 48% from 45%.

Comparison of Measure A SPU June 2018 to Draft Measure AA SPU May 2019

	Projected Total Sales Tax Revenue FY20-FY25	Annual Rev To Local Transit	% of Gross
2018 Measure A SPU	\$168,283,125	\$89,277,067	53%
2019 Measure AA SPU	\$175,662,760	\$80,024,695	46%
Difference	\$7,379,635	-\$9,252,372	
% Change	4%	-10%	

- Projected Total Sales Tax Revenue for FY20-FY26 increases 4% in Measure AA SPU 2019 by
- Revenue to Transit decreases 10% in Measure AA SPU 2019 by

Measure AA Strategic Plan

Interest Fund Policy (pages 27-28)

All interest income generated by the sales tax can only be spent for the transportation purposes authorized by the Sales Tax Renewal Expenditure Plan. All use of sales tax interest revenue shall be solely determined by the TAM Board, in a noticed public meeting.

Interest funds should be only used in cases where no other funding source is available or when immediate action is required to keep a Measure AA project or program on schedule. Examples include bid openings or construction shortfalls where an immediate source of funding is required to prevent substantial delays. The construction phase of projects is a period when any delay can have significant disruption to the total project budget or result in a vital construction window being missed if bids must be rejected. In the case of an increase in costs during construction, significant delay claims may occur if TAM does not have a source of readily available funding.

Commitments from previously allocated interest funds from Measure A will continue to be honored. This includes an insurance policy associated with the Central Marin Ferry Connection and limited bicycle path maintenance.

The current interest policy has Measure A and AA interest applied in the following priority order:

1. Maintain commitment to fund a mitigation measure associated with the Central Marin Ferry Connector Project;
2. Provide funding to respond to bid opening and construction shortfalls;
3. Maintain funding commitments to routine bike/ped path maintenance;
4. Other emerging unfunded immediate needs.