



EOS Report on Spending of Measure A Taxes: Implications for the Measure B Tax Proposal

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An Eye on Sacramento Report

For further information on this EOS Report, please contact:

Greg L. Thompson, Principal Author
Chair, Transportation Committee
Eye on Sacramento

Phone: (916) 246-9230

E-mail: greglthompson123@gmail.com

Debra Desrosiers, Co-Author
Vice-President – Government Oversight
Eye on Sacramento

Phone: (916) 803-2868

E-mail: debra_desrosiers@comcast.net

Craig K. Powell, President
Eye on Sacramento

Phone: (916) 718-3030

E-mail: craig@eyeonsacramento.org

For further information about Eye on Sacramento, please contact:

Lisa Garcia, Vice-President - Community Outreach

Phone: (916) 403-0592; E-mail: Lgarcia916@yahoo.com; Website: www.eyeonsacramento.org

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Summary of Findings

How Measure A Funds Have Been Spent Should Inform Voters' Decision on Measure B

Sacramento County voters will make an important choice on November 8th on Measure B, a ballot proposal which would double the current Measure A one-half percent county-wide transportation sales tax to a full 1 percent. To help voters make an informed choice, EOS has examined how those local governments, which would see their transportation sales tax revenues doubled by Measure B, have been spending their Measure A funds. Have they been prudent and responsible? Or have they been wasteful and pursuing the wrong priorities?

Alarming Escalation of Capital Spending; STA's Wasteful Borrowing Practices

Alarming Escalation of Capital Spending. We have determined, however, that the Sacramento Transportation Authority, which administers Measure A funds, is engaged in an alarmingly rapid escalation of credit-fueled spending on capital projects, with its outstanding bond debt increasing from \$180 million in 2009 to an expected level of over \$450 million in 2017 - a 243 percent anticipated increase in debt.

Misuse of Interest-Only Bonds. Further, STA has chosen to finance most of its huge recent increase in bond debt through the issuance of very expensive interest-only bonds, which drive up total interest costs to taxpayers by an estimated 23 percent by postponing for 14 years any amortization (reduction) of bond principal, while creating future financial time bombs when the very large principal payments on such bonds start coming due in 2029.

Interest-Only Bonds Will Waste at Least \$52 Million of Taxpayer Funds. If STA continues its current imprudent practice and pace of issuing interest-only bonds, the total sum of taxpayer funds that STA will waste on unnecessary additional interest costs over the next 23 years will likely increase from a currently estimated \$52 million to over \$100 million.

Bond Service Costs Are Diverting Maintenance Dollars. This rapid escalation in STA's bond service payments is also increasing diverting Measure A funds away from surface road maintenance programs and Regional Transit's operations and maintenance. Since STA intends to issue another \$80 million in bonds over the next two years, the diversion of funds from maintenance and operations will grow. *The diversion of Measure A funds to pay interest on STA*

bond debt is projected to divert over \$350 million of Measure A taxes from spending on surface road maintenance, RT's transit operations and capital expenditures on both roads and transit over the next 23 years.

Use of Interest-Only STA Bonds is a "Red Flag." The use of interest-only bonds is a "red flag" that the issuing entity is borrowing more money than it is capable of paying back on standard commercial terms (i.e. through fully amortizing standard muni bonds). Otherwise, the issuing entity would use standard bonds to avoid the higher interest costs that interest-only bonds entail. We urge Sacramento County to retain an independent financial advisor to assess the sustainability of the current pace of STA's capital spending, its portfolio of outstanding bonds, and its borrowing practices, and to recommend prudent changes in STA's borrowing practices and in the pace of its future capital spending.

Regional Transit Issues

Federal, State and Local Funding for RT Are Not "Drying Up." Contrary to public statements made by some RT officials, federal, state and local sources of funds for RT's operations and maintenance have not been "drying up." While funds available for capital projects have always been, and will continue to be, highly variable year-to-year, federal, state and local funds for RT operations and maintenance, including Measure A funds, have been less volatile and growing at an average rate greater than the inflation rate in recent years and are expected to continue to do so for the foreseeable future. Federal, state and local funds for RT operations and maintenance have grown less rapidly than RT had predicted which has been a factor in RT's overspending.

Controllable Causes of RT's Distress. RT's financial distress is real and has a number of causes, many of which were fully within RT's control, including wage and salary increases of 4 to 5 percent per year (more than double increases in the cost of living) which reduce funds available for maintenance; the wasteful spending of \$42 million of Measure A funds on an unneeded 1.1 mile track from Downtown to Richards Blvd. (the Green Line); and the unnecessary borrowing of \$86.7 million in Farebox Revenue Bonds to fund the local match on the premature expansion of the Blue Line from Meadowview to Cosumnes River College, which added a \$5 to \$6 million annual cost burden on RT. RT also faces the looming threat of having to cover operating losses on the proposed Downtown streetcar project which EOS projects could add from \$6 to \$8 million annually to RT's operating costs. RT also faces major increases in its pension costs and health care costs.

STA is Not Monitoring Availability of Matching Funds. STA is not keeping its 2004 promise to Measure A voters that local funds spent on capital projects would be matched with funds from the federal and state governments. Had this promise been kept by STA, RT would not have been permitted to spend \$42 million of Measure A funds to build the 1.1-mile track to Richards Blvd. without either federal or state matching funds. By misspending such funds on the Richards Blvd. stub, such funds were not available to help fund the local match on the extension of the Blue Line to Cosumnes River College, which led RT to raise the local match through the issuance of pricey bonds instead.

Overtime Pay for RT Drivers While on Vacation. Unreasonable work rules, including a prohibition on RT's use of part-time drivers, negotiated into RT labor contracts have been driving up RT's costs substantially for years. One stunning instance of waste in its labor contracts concerns the payment of overtime pay to bus and train operators *while the operators are on vacation*. If their regular work assignment involves overtime pay, then RT continues to pay operators overtime pay while they are on vacation. Additionally, a replacement operator who fills in for a vacating operator receives the overtime pay a second time. So, RT ends up paying overtime twice to two different employees for the same bus or light rail run.

The Promising Start of RT's Henry Li. RT's new general manager, Henry Li, is instilling a new culture of openness and transparency at RT. He has also taken smart and decisive early actions, including rejecting a staff proposal to cut RT service levels (which would have made ridership losses from RT's recent 10% fare hike worse) and a decision to eliminate a number of administrative staff positions. The open question is: will the RT board, comprised of 15 elected politicians, support Li when he pushes them to approve the kind of major reforms RT must adopt, but which require political courage to stand up to expected opposition, including resistance from RT's unions?

Measure B's Bias in Favor of Building Light Rail to the Airport. While Measure B contains a "fix it first" provision that purports to limit capital spending in the first five years of the measure's 30-year existence, such a provision can be waived at any time by STA board action. Further, Measure B calls on RT to build the Green Line to the Sacramento International Airport, a \$1 billion project that would be a misuse of resources given inadequate population density along the route. Measure B also places a higher funding priority on the Green Line to the airport than extending the Blue Line from Meadowview the last few miles to population-heavy Elk Grove, another case of misplaced priorities.

Measure B Could *Not* Fund an Extension of Light Rail to the Airport. We note that proponents of Measure B have been deceptively representing to voters that the measure's passage would result in completion of the Green Line to the airport. Even with federal matching grants, Measure B provides insufficient funds to fund an extension of light rail to the Sacramento International Airport or anywhere close to it. *In fact, EOS estimates that, even if Measure B is approved by voters, it would, at best and with all available federal matching grants, only fund construction of light rail one-half of the way to the airport.*

Giving More Money to RT Without Reforms at RT is Unwise. There is nothing in Measure B that will impel RT to adopt the critical reforms it must embrace to solve its chronic financial problems: reforming its overly politicized board governance, reining in wage, salary and fringe benefit costs, and jettisoning extremely expensive work rules under RT's labor contracts, etc. Without such reforms, RT will likely use the additional money it is promised in Measure B in a manner that will make matters worse.

A Mirage of Taxpayer Oversight. Measure B promises "taxpayer accountability measures" that are virtually identical to the "taxpayer accountability measures" in Measure A. Unfortunately, the "Independent Taxpayer Oversight Committee" called for in both Measure A and B is not independent, includes not a single taxpayer or taxpayer representative and has failed

to provide effective oversight of Measure A spending. The ITOC issues no written reports and has failed to commission performance audits of Measure A spending as it is required to do under applicable law.

EOS's Vision for Transit Development in the Sacramento Region

We Really Do Mean "Fix it First." That is, fix it before any additional stream of funds is provided to Regional Transit. To help bring RT back to solvency and sustainability, RT should freeze all wage and salary hikes for two years and limit raises thereafter to cost of living increases, as well as renegotiate labor contracts to eliminate burdensome work rules, wasteful overtime policies, and explore all opportunities for reducing cost via outsourcing and managed competition.

Redeploy Streetcar Funding. RT and other proponents should terminate the costly and useless streetcar project and redeploy streetcar construction capital (\$200 million) to replace our aging stock of light rail trains with modern low-floor rail cars, and to help fund minor alterations to existing Blue and Gold line routes to serve important new unserved destinations like CSUS and West Sacramento, which would greatly enhance the usefulness of the existing system. Redesign light rail routes in Downtown to serve Midtown residents.

Governance Reforms. The RT board cannot escape responsibility for RT's poor strategic decision-making and STA's excessive use of debt and its reckless use of interest-only bonds which drive up interest costs and increasingly divert Measure A funds from road maintenance and RT operations. RT and STA board members, most of whom serve on 10 to 12 other government boards, lack the time to provide effective oversight of the entities. We urge the adoption of governance reforms that remove elected officials from these boards and replace them with well-screened experienced directors and managers experienced with large complex organizations, as well as with community representatives.

Public Conversation on Future Funding. Once RT's financial problems are resolved, begin a broad public assessment and conversation on the potential need for increasing resources for transit to: restore free passes between light rail and buses, plan for a system of trunk bus routes running every 15 minutes on major roads and to build out the light rail route changes noted above.

Long-Term Transit Investments. For the long-term, Sacramento should implement a system of fast regional trunk line bus services that interconnect major destinations, with local bus routes reorganized around stops on the regional system, and deploy autonomous collector vehicles to replace lightly used bus service.

The complete EOS report may be viewed at www.eyeeonsacramento.org. Inquiries regarding this report may be directed to:

Professor Gregory L. Thompson, Principal Author, e-mail: greglthompson123@gmail.com

Debra Desrosiers, Co-Author, e-mail: debra_desrosiers@comcast.net

Craig Powell, EOS President, e-mail: craig@eyeeonsacramento.org