



AGENDA

Independent Taxpayer Oversight Committee (ITOC)

October 26, 2017 – 4:00 PM

700 H Street – Suite 1487 • Sacramento, California 95814

Voting Members:	Joan Borucki, Chair Maureen Daly Pascoe Beth Tincher
Ex-Officio Members:	Robert Holderness (STA Governing Board Chair designee) Joyce Renison (Sacramento County Auditor-Controller designee) Norman Hom - STA Executive Director
Staff:	Tim Jones, STA Accounting/Finance Manager

1. Call to order
2. Approve minutes from September 28, 2017 ITOC meeting
3. Present long-term revenue projections
4. Update on the review of the Functional Guidelines and Performance Standards
5. Discuss developing a process for agencies to demonstrate project readiness for the upcoming capital project contract period beginning July 2018
6. Update regarding initiating a Performance Audit as required under the Measure A Ordinance
7. Comments from the public

Agenda Item #2

Meeting Minutes

To: ITOC Committee Members

From: Tim Jones, Accounting/Finance Manager and ITOC Staff

Date: October 26, 2017

Re: September 28, 2017 ITOC Meeting Minutes

Attendees:

Joan Borucki – Chair, Maureen Daly Pascoe, Beth Tincher – voting members

Joyce Renison, Robert Holderness and Norman Hom – ex-officio members

Meeting called to order at 4 pm and adjourned at 5:15 pm

Agenda Item #2

- Reviewed and approved the August, 31, 2017 meeting minutes.

Agenda Item #3

- Staff presented STA budget-to-actual analysis for the 4th quarter of FY 2017. Nothing substantive noted by committee members.

Agenda Item #4

- The committee recommended the following improvements to the capital project status reporting template:
 - Add a line for the project manager's contact information
 - Remove completed tasks section
 - Move "current status" section under the "overall progress bar"
 - Add a large text box at the bottom of the template for the project manager to explain what project activities occurred during the reporting period

Agenda Item #5

- Performed a line-by-line review of the functional guidelines to complete the update process. A clean copy of the document will be presented at the October meeting for committee approval.

Agenda Item #6

- Initiate the RFI/RFP process for the performance audit in the 1st quarter of calendar year 2018

Agenda Item #7

- No comments from the public

Sacramento Transportation Authority

Revenue Forecast

STA



August
2017



Sacramento Transportation Authority Revenue Forecast

This publication was prepared for:

Sacramento Transportation Authority

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REPORT OVERVIEW

This revenue forecast for the Sacramento Transportation Authority (STA), extending to 2038–39, uses standard time-series econometric techniques based on historical correlations and forecasts of economic trends. Long-run economic growth, and subsequent tax revenue for STA that result from local spending, are driven primarily by demographic and labor force trends, and by inflation. By forecasting population and employment growth at the local level, together with an outlook on long-run inflation, **Beacon Economics** can make projections for STA tax revenue that are grounded in long-run economic fundamentals.

Beacon Economics' method of long-run forecasting takes a layered approach. A U.S. forecast model is first built that includes demographics, labor force participation, unemployment and inflation. **Beacon** then crafts a Sacramento County model that incorporates these trends at the national level with countywide trends in labor markets and spending to forecast STA sales tax revenue to 2038–39.

Sacramento Transportation Authority Revenue Forecast

Revenue Stream	Actual	Forecast					
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Taxable Sales (\$ 000s)	22,662,517	23,742,974	24,539,218	25,514,523	26,482,152	27,343,521	28,172,937
Growth(%)	5.2	4.8	3.4	4.0	3.8	3.3	3.0
Sales and Use Tax (\$ 000s)	110,708	116,354	120,659	125,655	130,255	134,555	138,555
Growth(%)	4.9	5.1	3.7	4.1	3.7	3.3	3.0

Source: Forecast by Beacon Economics

NATIONAL AND STATE ECONOMIES

The Sacramento County economy is heavily dependent on the national and state economies. In the most recent edition of **Beaconomics** (free of charge at www.BeaconEcon.com), **Beacon Economics** analyzes national and state economic trends in depth. Below is a summary of what **Beacon** sees happening in the U.S. and California economies.

United States Economy

- Consumer spending has been the mainstay of the U.S. economy, contributing nearly 2 percentage points to headline GDP growth over the last two years. Continuing a seasonal pattern of the last few years, consumer spending slowed sharply in the first quarter of 2017 but picked up in the second quarter and should be solid through the rest of the year as a tight labor market puts upward pressure on wages.
- The U.S. unemployment rate fell to its lowest point, 4.3%, in 16 years in May, supporting the idea that the labor force is essentially at full employment. The 25-year low is 3.8%, so there is still room for the rate to fall.
- The economy is clearly gathering momentum despite uncertainty surrounding new policies from the Trump administration and Republican-controlled Congress. The most recent read on industrial production, for example, was 2% higher in June than one year earlier—when production was declining. Similarly, the ISM Purchasing Manager diffusion indexes are at levels not seen since 2015, before last year's economic slowdown.

- The better numbers in 2017 stem from the fading of the global commodity glut, which began with the sharp decline in commodity prices in 2015. Falling prices hurt many commodity-producing economies—including Saudi Arabia, Brazil, Texas and California’s Central Valley. This in turn caused a sharp pullback in investment in commodity-producing industries.
- The U.S. economy is lining up for yet another 2%-to-2.3% growth year—not great in terms of speed, but there is little sign of an end to the expansion. This appears to be at odds with a growing concern in some circles that the current expansion is getting long in the tooth. In July the U.S. economy entered its ninth year of an expansion that started in 2009—not yet a record in terms of length, but getting close.

California Economy

- As of June, the State’s wage and salary (nonfarm) employment had grown 1.6% over the previous year, or a gain of 261,400 jobs. Most of the State’s private industries added jobs in yearly terms in the first half of 2017. With the unemployment rate hitting a 16-year low of 4.7% in June and labor force participation stabilizing at just over 62% for now, the State is effectively at full employment even as some labor force growth continues.
- Although the California economy has continued to grow, the pace has slowed markedly in recent months: The 1.6% employment gain in June 2017 was less than half of the 3.3% rate one year earlier. The slowdown was evident across all industries. Keep in mind that California has had impressive job gains over the last five years and that the current slowdown is not exclusive to the State. In fact, U.S. job growth slowed from 1.7% in June 2016 to 1.6% in June of this year.
- Housing affordability concerns are ever-present in California, and although affordability isn’t at an all-time low, it has worsened in recent years as home prices have risen. Arguably, low housing affordability limits job growth in the State. This highlights the need to increase supply, especially that which aligns with the State’s housing needs.
- One limit to growth in the State is the uncertain outlook on federal policy in the near term. Although the notion that uncertainty can lead to inaction makes sense, it is not so easy to find hard evidence of it. Still, it stands to reason that firms must make plans regarding future sales, capital expenditures and hiring, and will sit on their hands, or at best move slowly, if the future is cloudy for any reason.
- Federal policies on trade, immigration, health care and taxes are akin to the “rules of the road” for businesses and employers. Given that those rules may change under the current administration in Washington, there is every incentive to wait and see what will transpire.

SACRAMENTO TRANSPORTATION AUTHORITY REVENUE FORECAST

Beacon Economics’ forecast for STA sales tax revenue assumes a baseline trajectory for the national economy. That is, the forecast assumes that federal government policies will not change in a way that affects the underlying dynamics of economic growth, and that the U.S. economy will continue to expand at a moderate pace. It should be noted, however, that with considerable uncertainty surrounding President Trump’s policy actions, our outlook on short-term growth could change significantly. **Beacon** will monitor the situation and reassess as new information becomes available.

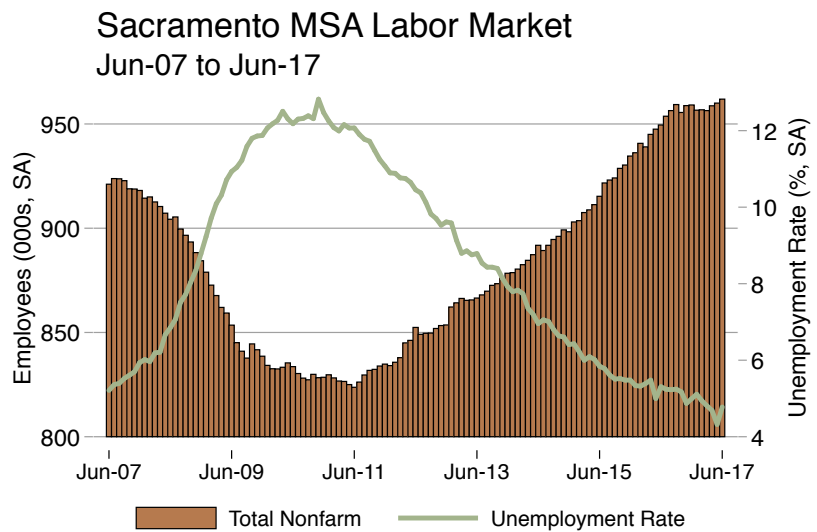
The outlook for the Sacramento economy in the short run calls for steady growth, with nothing on the immediate horizon that would signal a reversal of the positive trends in the latest data. Total nonfarm employment in the Sacramento metropolitan area reached a record high in June 2017, and the unemployment rate was at a post-recession low of 4.3% in May.

The pace of job growth has slowed notably from prior years, but this is due to an increasing shortage of labor in the region rather than a slowdown in business activity that would decrease the demand for labor. Employment growth has outpaced labor force growth in recent years, and the pace of job creation cannot continue to increase if the supply of labor grows at a slower rate. It is only a matter of time before the slack in the labor market (the number of unemployed and those who dropped out of the labor force) left over from the Great Recession is depleted.

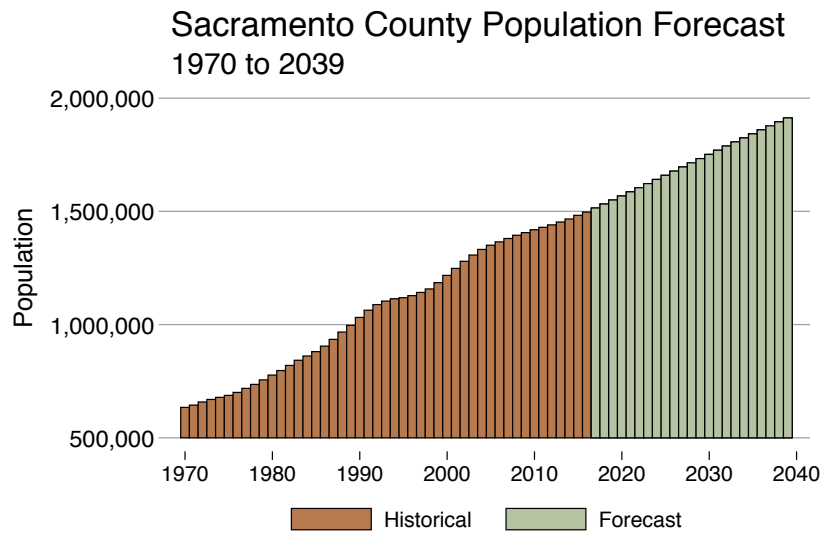
Beacon’s long-run outlook for STA sales tax revenue is driven by long-run assumptions about population growth, labor force participation and inflation. Sales tax revenue is based on spending, which is driven by employment dynamics. Ultimately this is driven by population growth and the share of the population that is working. Given that sales tax revenue is a nominal figure, inflation is also a critical component in determining long-run projections.

The California Department of Finance (DOF) projects Sacramento County’s population will grow about 1.2% through 2021, slow to 1.1% through 2030 and then grow about 1% through 2039. This rate of population growth is well below the long-run average of 1.87% since 1970 and fits with demographic trends of slowing population growth over time.

Steady population growth will help fuel the region’s labor force and spending base, supporting positive growth for STA revenue in the decades to come. For 2016, the California Employment Development Department estimated the



Source: California Employment Development Department



Source: California Department of Finance

labor force in Sacramento County to be 697,400. Given the DOF’s estimate of the County’s working-age population in 2016 of 1,186,007, labor force participation was at 58.8%. Labor markets across the country are essentially at full employment, which puts upward pressure on wages. In the years to come, labor force participation is expected to rise slightly as higher wages bring more people back into the labor force.

Higher wages are also expected to push inflation more in line with the Federal Reserve’s 2% target, up from the weak price growth of the last few years. Although the national economy has recovered from the Great Recession, inflation has remained stubbornly low. In the second quarter of 2017 the price index for personal consumption expenditures (PCE), the Federal Reserve’s preferred measure of inflation, was up 1.6% from the second quarter of 2016.

Aside from a blip in the first quarter of 2017 when the PCE price index increased 2% year over year, inflation has been below 2% on a quarterly basis since the first quarter of 2012. The weak inflation has been in large part due to the collapse in oil prices of the last few years. Now that the oil market has stabilized, higher wages driven by tight labor markets should push inflation toward the Fed’s 2% target and support nominal growth in STA sales tax revenue.

SUMMARY

Beacon Economics’ forecast represents an optimistic outlook through 2038–39 and assumes that the U.S. economy will grow at a moderate pace, much as it has in recent years. Because of uncertainty surrounding Trump’s policies, there is an inherent uncertainty within this forecast. **Beacon** continues to closely monitor policies as they are announced. Depending on what policies are enacted, **Beacon** will adjust its economic outlook accordingly.

Overall, the Sacramento economy is trending in the right direction, and nothing on the immediate horizon signals a reversal of that trend. The regional labor market is in good health, despite a general slowdown in job growth. Fuel prices have stabilized and are trending higher, which will support nominal growth in taxable sales. Long-run population growth, labor force participation and inflation are all expected to trend favorably, resulting in growth in STA revenue in the years to come.

<i>Sacramento Transportation Authority Forecast</i>							
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Source: Forecast by Beacon Economics

ABOUT BEACON ECONOMICS

Beacon Economics, LLC is a leading provider of economic research and forecasting, industry analysis, public policy analysis, and economic data services. By delivering independent, rigorous analysis, we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. Learn more at www.BeaconEcon.com.

SERVICES

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Sacramento Transportation Authority Revenue Forecast August 2017

Fiscal Year	Levels (\$000s)		Growth Rates		Series
	Sacrametno County Taxable Sales	STA Sales Tax Revenue	Sacrametno County Taxable Sales (\$000s)	STA Sales Tax Revenue	
1995-96	11,735,746	59,087			
1996-97	12,120,731	60,428	3.3%	2.3%	
1997-98	12,909,275	65,056	6.5%	7.7%	
1998-99	14,043,686	69,164	8.8%	6.3%	
1999-00	15,932,665	77,965	13.5%	12.7%	
2000-01	17,000,066	87,929	6.7%	12.8%	
2001-02	17,380,650	84,501	2.2%	-3.9%	
2002-03	17,910,026	89,975	3.0%	6.5%	
2003-04	19,373,458	97,160	8.2%	8.0%	
2004-05	20,652,882	102,386	6.6%	5.4%	
2005-06	21,486,041	109,689	4.0%	7.1%	
2006-07	21,072,425	105,367	-1.9%	-3.9%	
2007-08	20,063,992	101,156	-4.8%	-4.0%	
2008-09	17,579,291	89,395	-12.4%	-11.6%	
2009-10	16,639,960	81,414	-5.3%	-8.9%	
2010-11	17,415,233	87,299	4.7%	7.2%	
2011-12	18,605,586	92,240	6.8%	5.7%	
2012-13	19,549,568	97,390	5.1%	5.6%	
2013-14	20,617,570	100,063	5.5%	2.7%	
2014-15	21,535,316	105,564	4.5%	5.5%	
2015-16	22,662,517	110,708	5.2%	4.9%	
2016-17	23,742,974	116,354	4.8%	5.1%	
2017-18	24,539,218	120,659	3.4%	3.7%	
2018-19	25,514,523	125,655	4.0%	4.1%	
2019-20	26,482,152	130,255	3.8%	3.7%	
2020-21	27,343,521	134,555	3.3%	3.3%	
2021-22	28,172,937	138,555	3.0%	3.0%	
2022-23	29,051,167	142,801	3.1%	3.1%	
2023-24	30,015,992	147,436	3.3%	3.2%	
2024-25	31,044,956	152,407	3.4%	3.4%	
2025-26	32,101,243	157,519	3.4%	3.4%	
2026-27	33,194,434	162,797	3.4%	3.4%	
2027-28	34,343,746	168,336	3.5%	3.4%	Forecast
2028-29	35,545,520	174,132	3.5%	3.4%	
2029-30	36,780,126	180,094	3.5%	3.4%	
2030-31	38,043,851	186,191	3.4%	3.4%	
2031-32	39,342,244	192,451	3.4%	3.4%	
2032-33	40,651,500	198,775	3.3%	3.3%	
2033-34	41,961,950	205,102	3.2%	3.2%	
2034-35	43,262,960	211,387	3.1%	3.1%	
2035-36	44,557,370	217,633	3.0%	3.0%	
2036-37	45,872,950	223,962	3.0%	2.9%	
2037-38	47,209,900	230,398	2.9%	2.9%	
2038-39	48,578,480	236,975	2.9%	2.9%	

Quarterly Status Report



PROJECT INFO

Quarter Ended: **September 30, 2017** Fiscal Year: **2017/18** Reporting Quarter: **1**

Agency: **California Department of Transportation** Project Mgr:
 Contact Info:

Project Name: **US Highway 50 Bus & Carpool Lanes - phase 2**

Sponsor Project ID Number: **03-3F360** STA Project ID Number: **A-47-CT**

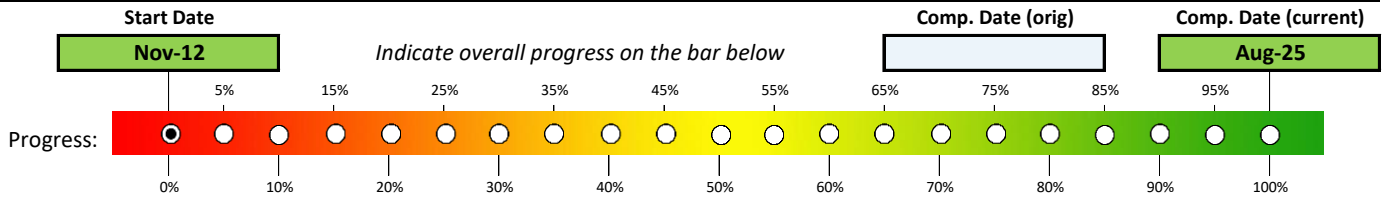
Original Est. Project Cost: \$ **68,315,000.00** Current Est. Project Cost: \$ **146,290,000.00**

MEASURE A FUNDING

Total Measure A Funding:	\$	15,945,604.00	Projected Spending	2Q:	\$
Current Contract Amount:	\$	12,055,031.21		3Q:	\$
Total Previously Expended:	\$	11,049,446.01		4Q:	\$
Expended This Quarter:	\$			1Q:	\$
Total Remaining:	\$	4,896,157.99			

Measure A Funds Used for Local Match? Yes No

PROJECT STATUS



Current Status (as of last day of reporting quarter; check only one):

- Not Started
- Right-of-Way Acquisition
- Bidding and/or Contracting
- Pending or On-Hold
- Environmental Review
- Under Construction
- Design and/or Engineering
- Planning/Financing/Approval
- Completed

Explanation of Activities this Quarter and Additional Notes