

AGENDA: March 7, 2019

TO: Regional Transportation Commission
FROM: Guy Preston, Executive Director
RE: Director's Report

THIS ITEM FOR INFORMATION ONLY

RTC's Director of Budget and Finance

I am pleased to announce that the RTC has hired its new Director of Budget and Finance, Tracy New. Tracy comes to the RTC having most recently served as the Director of Business Services and Board Secretary for the Aptos/La Selva Fire Protection District. In that capacity, Tracy was responsible for all servicers of the administration office, including accounting functions. Working for an independent special district in Santa Cruz County, Tracy has experience utilizing county accounting programs, which will facilitate her transition into her new role here at the RTC. Tracy has a Bachelor of Science degree in Commerce / Finance from Santa Clara University and is a resident of Ben Lomond.

Tracy started work on Tuesday February 19, 2019. Based on her qualifications and experience, Tracy was hired at Step 4 of the seven-step classification series.

A special thanks goes out to Daniel Nikuna, who served in this role for 26-years. Daniel extended his retirement by 3-months, so the RTC could have more time to find and train his replacement. Daniel will now officially retire on March 28th. The RTC also thanks Mary Jo Walker, retired Auditor Controller for Santa Cruz County, who provided professional services to the RTC during this transitional period. Mary Jo is expected to complete her work for the RTC by the end of this month.

Legislative Program for Transportation Development Act (TDA) Funding

At the February 7, 2019 RTC Meeting, the Commission adopted the RTC's Federal and State Legislative Programs. The RTC's State Legislative Program includes language to oppose efforts that would reduce TDA funds which are essential for RTC administration and planning. During a discussion of this item, the Commission directed me to work with the General Manager of METRO to resolve potential conflicts between the respective agencies legislative programs regarding TDA funding.

Specifically, the RTC was concerned with a portion of the METRO's Legislative Program that would seek to cap the "off the top" dollars that are today taken by Regional Transportation Planning Agencies (RTPAs) for various line items-such as administrative, planning and reserves at 3% maximum. Current legislation has a 3% cap for certain planning and programming functions, but it does not have a cap on administration. METRO's originally proposed 3% cap on planning and administration would be a significant decrease in funding for the RTC.

METRO and RTC met on February 21, 2019 to discuss the legislative programs regarding TDA funding. METRO agreed to modify its legislative program to resolve this conflict. METRO's revised legislative program does not seek to make changes in the amounts that RTC can use for planning and programming. It only seeks to provide a cap on administration, with no percentage specified. Currently, RTC expends approximately 6% on administration. RTC is committed to transparency and fiscal responsibility and is confident that the METRO will not advocate for a reduction in TDA funds, which are essential for RTC's administration functions.

Measure D Revenue Projections

As part of the voter approved Measure D, the RTC allocates, administers, and oversees the expenditure of all Measure Revenues through an Implementation Plan. The purposes of the Implementation Plan are to define the scope, cost, and delivery schedule of each Expenditure Plan project or program, detail the revenue projections and possible financing tolls needed to deliver the expenditure Plan with the 30 years promised to voters.

As part of this effort, the RTC entered into a Professional Services Agreement with Hinderliter, De Llamas and Associates (HDL) for sales, use and transaction tax audit and services. HDL provides quarterly reports identifying changes in allocation totals by business groups and categories. Quarterly aberrations due to State audits, fund transfers, and receivables, along with late or double payments are identified. Data is used to assist the RTC in forecasting Measure D revenue growth for the Measure D Implementation Plan.

On February 19, 2019, HDL briefed RTC staff on their 2018 Third Quarter Report. A summary of this report is attached for reference. Although Measure D transportation receipts from July through September were 21.2% above the third sales period in 2017, HDL concluded that actual sales tax growth was only 2.7% higher in Santa Cruz County, due to significant aberrations in how the California Department of Tax and Fee Administration (CDTFA) has been distributing sales tax revenue. HDL further forecasts modest statewide growth of 1.5% in sales tax revenue for Fiscal Year 2019-20. RTC staff is considering this growth projection in the preparation of both the Measure D Implementation Plan and the RTC's Fiscal Year 2019-20 budget.

Monterey Bay Sanctuary Scenic Trail (MBSST) – Segment 7 – Phase II

At the February 7, 2019 RTC meeting, I reported that the City of Santa Cruz Planning Commission was scheduled to consider the Initial Study / Mitigated Negative Declaration for

Phase II of Segment 7 of the MBSST and Coastal Rail Trail spine at its meeting this evening. Phase II of Segment 7 extends from the intersection of California Street and Bay Street to Pacific Avenue at the Santa Cruz Wharf. I have been informed that this consideration has been delayed, in part, due to public hearing by the RTC on Segment 5 of the MBSST as part of today's meeting, as well as additional due diligence work being done by the City of Santa Cruz. I have not received an update on when this item will move forward but will keep you posted as information becomes available.

Highway 1 Auxiliary Lanes – Bay Avenue / Porter Street to State Park Drive

The RTC is working with Caltrans on a Cooperative Funding Agreement to be the implementing Agency on preliminary engineering and an environmental document for the next two sets of Highway 1 auxiliary lanes. Concurrently, staff is preparing a Request for Proposals (RFP) for a consulting firm to provide the necessary professional services to perform this work. Staff anticipates funding this work, in part, through \$1.83 Million in State Transportation Improvement Program (STIP) funds, which has been programmed by the California Transportation Commission (CTC). This project is also eligible for Measure D – Highway Corridor funding. Once staff completes the scope of work, advertises an RFP, selects a firm, and negotiates the terms of a proposed agreement with the most qualified firm, staff will bring a proposed contract to the Commission for consideration, likely at the August RTC meeting.

Budget and Administration (B&A) Committee Meeting Date

Please be advised that the March B&A meeting date / time has changed. The next B&A Committee will meet on Thursday, March 21, 2019 at 9AM.

Thank You Deputy Director Luis Mendez

Today, we recognize Luis Mendez for his 25 years and 6 days of dedicated service to the RTC. Luis is the longest tenured member of the RTC staff and serves as my Deputy Director. Luis is a wealth of knowledge and his experience is invaluable to the RTC. A resolution honoring Luis is attached to this staff report for your consideration.

Q3 2018



SCCRTC Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

Measure D In Brief

Measure D transportation tax receipts from July through September were 21.2% above the third sales period in 2017. Excluding aberrations, actual sales were up 5.2%.

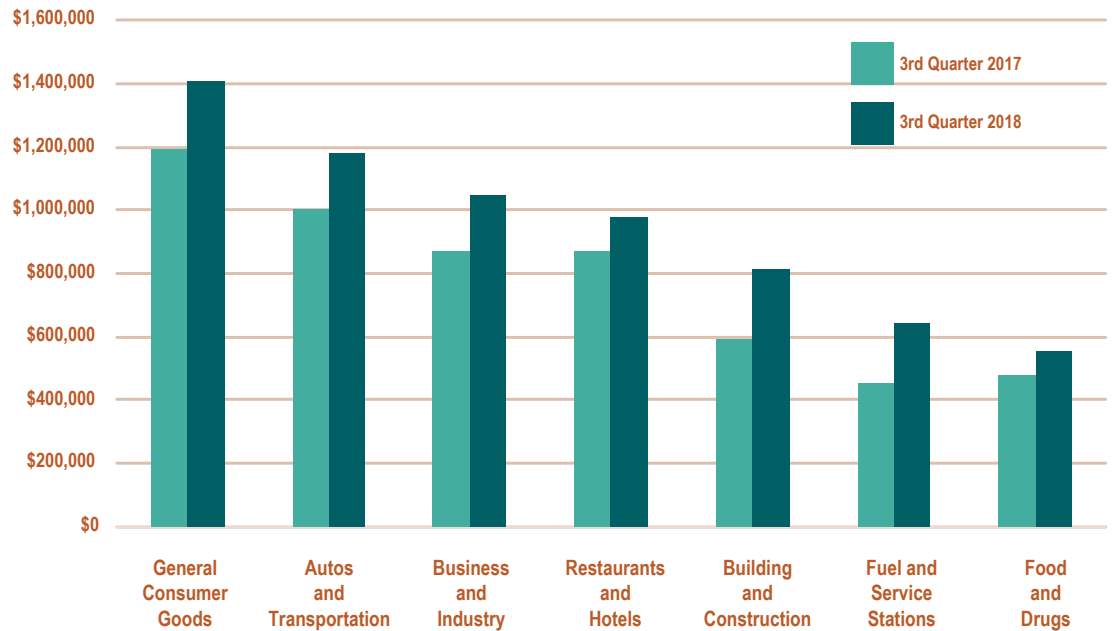
The State appears to have resolved the bulk of software-driven issues that plagued the first and second quarter of 2018 local tax distributions. All categories reported significant increases from double-up payments; over \$900,000 were received this quarter. \$330,000 remains outstanding from taxpayer returns for this reporting cycle.

Gains in autos-transportation came from robust sales of brand-specific luxury sedans. Recently opened merchants added to the tax bases in family apparel, building materials and cannabis businesses.

Crude oil prices remained steady, while gasoline and diesel followed seasonal pricing patterns; the impact was steady growth from service stations. A strong summer quarter by multiple suppliers boosted contractors' returns. With all anomalies removed, restaurant and hotel revenues were flat when compared to year-ago results.

Net of aberrations, taxable sales for all of Santa Cruz County grew 2.7% over the comparable time period; the Central Coast region was up 3.3%.

SALES TAX BY MAJOR BUSINESS GROUP



SCCRTC

*In thousands of dollars		SCCRTC	HdL State
Business Type	Q3 '18*	Change From '17	Change From '17
Building Materials	534.2	39.7%	29.8%
Casual Dining	515.5	10.8%	14.8%
Contractors	182.6	35.7%	37.7%
Discount Dept Stores	281.4	9.6%	18.3%
Electronics/Appliance Stores	147.8	13.2%	12.4%
Family Apparel	146.0	11.7%	36.3%
Garden/Agricultural Supplies	121.2	2.2%	9.3%
General Merchandise	— CONFIDENTIAL —		24.7%
Grocery Stores	245.5	18.3%	16.1%
Light Industrial/Printers	138.4	15.5%	29.0%
New Motor Vehicle Dealers	619.3	10.7%	12.7%
Quick-Service Restaurants	216.3	5.2%	13.4%
Service Stations	609.4	40.2%	43.1%
Specialty Stores	125.7	15.3%	8.3%
Used Automotive Dealers	230.6	31.1%	46.9%
Total All Accounts	6,612.4	21.2%	21.8%

California Overall

The CDTF's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax. California will begin enforcing the Wayfair reversal effective April 1, 2019 by making retailers delivering from out-of-state responsible for collecting and remitting use

tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

POINT OF SALE TRENDS BY COUNTY

Percent Change from 3rd Quarter 2017 *

	Autos/Tran.	Bldg/Const	Bus/Ind.	Food/Drug	Fuel	Cons. Goods	Restaurants
Monterey Co.	-4.3	18.2	-8.7	3.1	-6.0	-1.6	5.5
San Benito Co.	-6.9	13.3	-55.5	1.1	5.7	2.2	1.5
San Luis Obispo Co.	0.5	7.9	4.1	1.8	14.9	-1.7	1.5
Santa Barbara Co.	3.9	10.8	-3.9	-2.1	13.2	4.6	0.2
Santa Cruz Co.	-4.5	10.1	-6.8	-1.0	16.6	-1.2	1.0

* Reporting aberrations adjusted to better reflect actual sales activity