Economic and Sound Transit Financial Management Overview

Finance and Audit Committee

5/9/2024

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Why we are here

- Long-Range Financial Plan (LRFP)
- Revenue & expense trends
- What we are doing

Long-Range Financial Plan (LRFP)

What is the Long-Range Financial Plan and why is it important?

- A 30-year (2017 – 2046) financial forecasting model
- Projects all agency revenues and expenditures required to build and operate SM, ST2, and ST3
- Identifies when peak spending occurs and when Sound Transit needs to issue debt to fund system expansion
- Monitors Sound Transit's ability to build and operate the voter approved system while adhering to state financial laws and agency financial policies

How is the Long-Range Financial Plan used?

- **Monitor program affordability.** Provides holistic view of program affordability and gives ST ability to act if the program is unaffordable.
- **Support decision making.** Provides financial impact of decisions presented to the Board.
- **Federal reporting.** Required for federal loans and grants.
- **Credit ratings.** Analysis from Financial Plan provided to ratings agencies.
- **Legislative Proposals and Initiatives.** Used to analyze bills that may impact Sound Transit's financial projections.

What are the inputs to the plan?

Financial Plan

Project cost estimates & schedules
Project cost estimates, budgets, and schedules
Asset lifecycle costs
Operating Costs (purchased transportation, salaries & benefits, insurance, etc.)

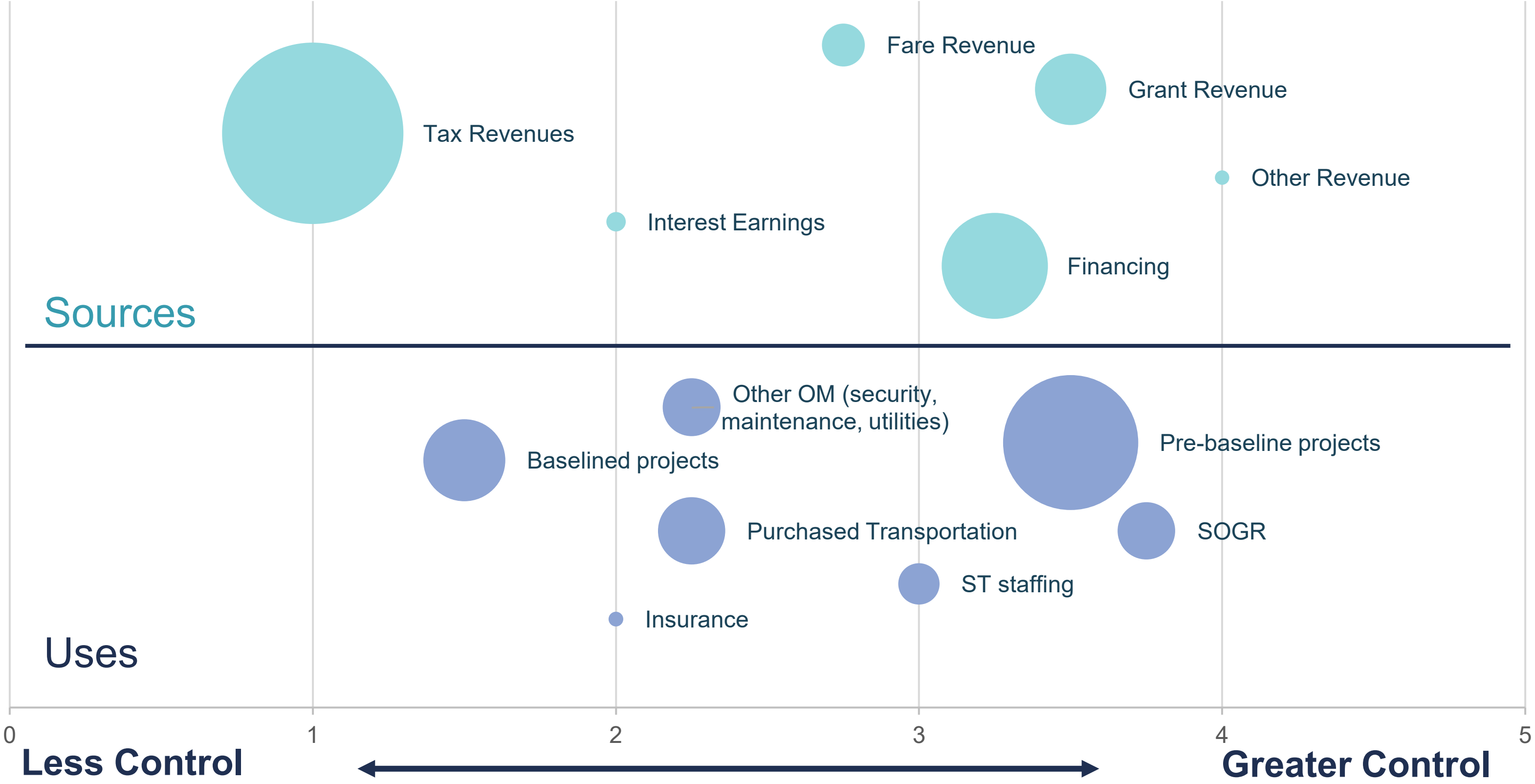
Independent tax revenue forecasts
Assessed values
Sales tax
MVET

Independent inflation forecasts
Consumer Price Index (CPI)
Construction Cost Index (CCI)
Right of Way Index (ROWI)

Key planning assumptions
Ridership
Fare Compliance
Service levels

Board-adopted financial policies
Farebox revenue targets
Debt financing limits
Subarea Equity

Major financial plan inputs - control



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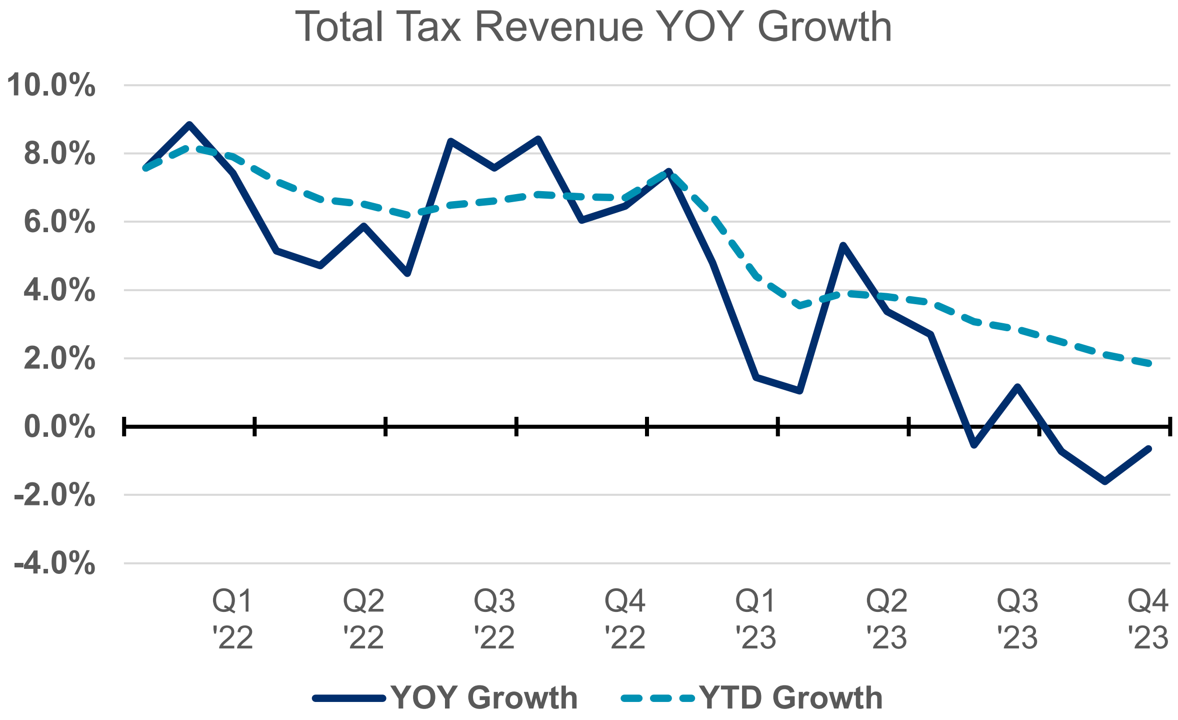
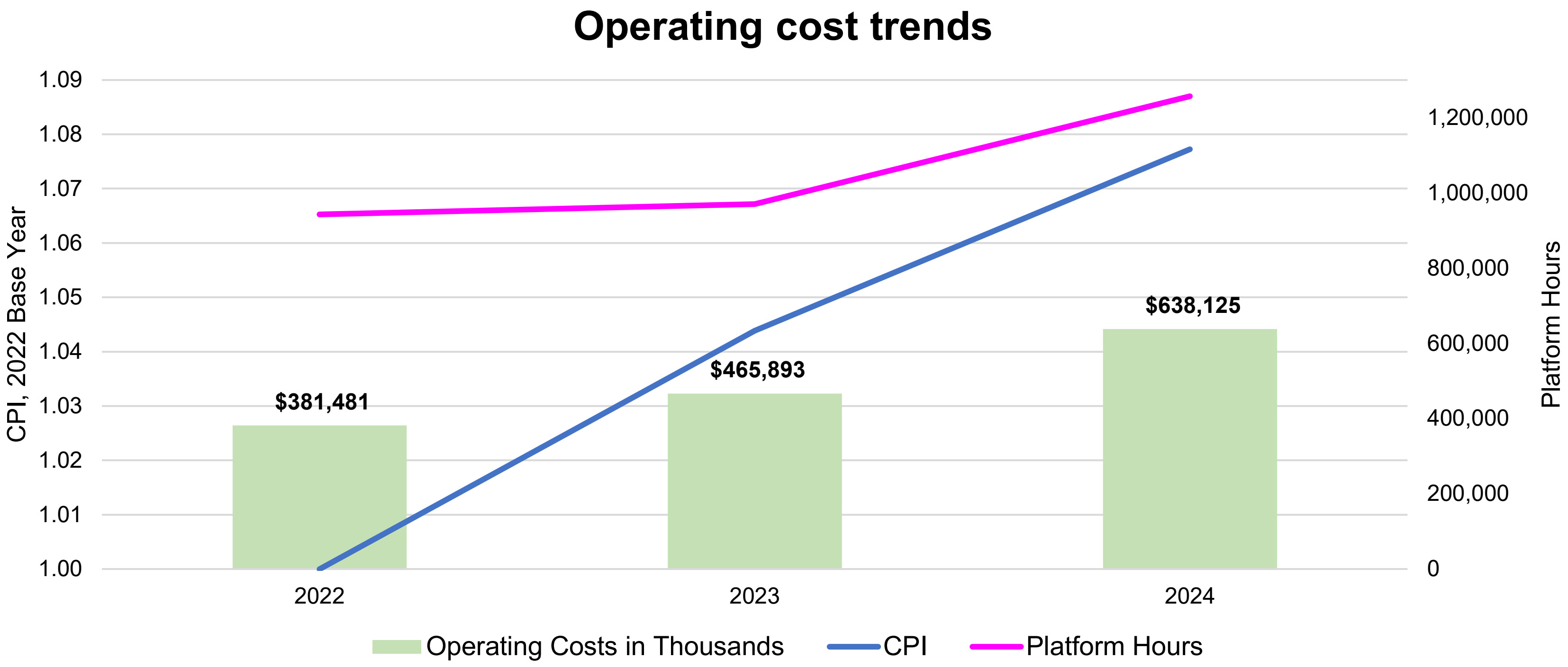
Revenue & expense trends

Revenue trends – tax revenue

- Overall tax collections grew 6.7% in 2022 and 1.9% in 2023
- 2022 sales tax growth heavily impacted by economic recovery from pandemic
- MVET results impacted by decline in vehicle sales in 2022, but are now recovering



Operating cost trends – inflation and service levels



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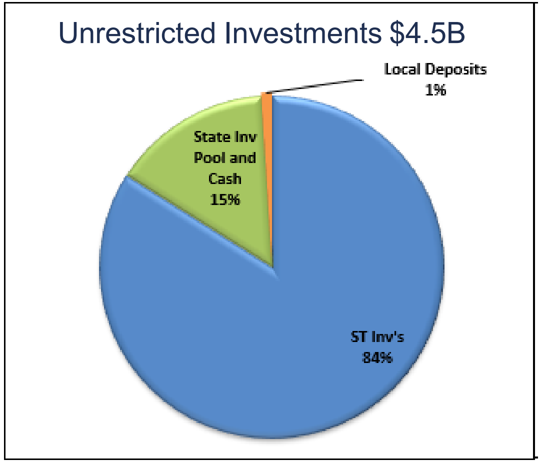
What we are doing

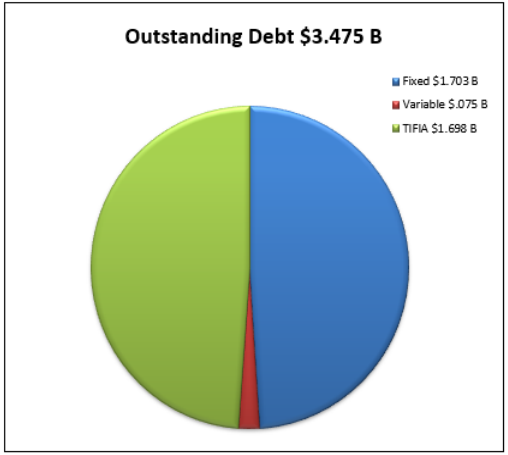
Financial planning & budgeting efforts

- Pilot zero-based budgeting (ground up prioritization) to ensure limited resources dedicated to highest priorities
- Setting expectation of resourcing limits, aligning FTE vacancies with priority roles
- Evaluating Service Delivery Projects (SDP) to prioritize resource allocation for State-of-Good-Repair projects

Asset and Liability Management Snapshot



The Agency has ~$5.2B in investments as of the end of Q1 2024, of which ~$4.5B is unrestricted.



Outstanding Debt as of the end of Q1 2024 is ~$3.5B. Available TIFIA draws are an addition $2.47B.

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Financing Preparation

In preparation for active debt issuance, staff is:

- Engaging an external financing advisor
- Exploring utilizing 3rd party funding or financing
- Exploring financing alternatives
- Optimizing federal funding sources
- Staying informed on market conditions and market opportunities

Staff will continue to adjust the timing and nature of investments and debt issuances depending on market conditions

Grants & federal loans in financial plan

LRFP plan assumes three main grant categories

- Capital Investment Grants (CIG) for major expansion projects (i.e. Ballard, Everett, Tacoma Dome, etc.)
- Federal Transit Administration (FTA) funding distributed by *formula* via Puget Sound Regional Council (PSRC), based on service data.
- Other national and regional grant competitions

Loans from two main federal sources

1. Transportation Infrastructure Finance and Innovation Act (TIFIA) loans (33% – 49%) of major projects (incl. major facilities)
2. Railroad Rehabilitation and Improvement Financing (RRIF) loans

Potential strategies to increase grant & federal loan funding

Explore Expedited Project Delivery (EPD) grant for West Seattle Link.

- Does not require New Starts rating and can be secured faster.

Partner with WSDOT to pursue FRA funds for track & signal improvements in Sounder South Capacity Expansion.

- Improvements benefit Amtrak Cascades and Sounder service.
- FRA funds not assumed in Financial Plan. FRA grants would be additive.

Pursue additional/new TIFIA and RRIF loans.

- Consider increasing future TIFIA loans from 33% to 49% of cost.
- TIFIA TOD projects

Grants Risk & Opportunities

Risks

- Overall federal share is low (20% of capital program), but ST has multiple, large CIG projects happening around the same time, requesting high annual appropriations.
- Project delays/spending generally delays grant revenue, impacting Financial Capacity.
- FTA Formula funding projection is based on ST's service projection. Delays or reductions in service (ie less frequent headways) adds risk to Formula funding.
- National funding levels and reauthorization of Bipartisan Infrastructure Law (after 2026).

Opportunities

- FTA Formula funding and Other Competitive grant assumptions are modest, mitigating the risk of CIG assumption.
- Potential for additional/new TIFIA and RRIF loans.

Thank you.

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