

Financial Plan update & Proposed 2021 Budget

Citizens Oversight Panel

11/04/2020



Long-Range Financial Plan projections and 2021 Budget

Long-Range Financial Plan Projections 2017 - 2041

- Including Sound Move, ST2, and ST3 sources and uses through 2041

Transit Improvement Plan to 2026

- Board-approved costs for active projects through 2026

Budget 2021

- Annual revenue, financing sources and expenditures for 2021

Key Takeaways

Current forecasts render the program unaffordable without realignment.

- Revenue declines and cost increases create capacity constraints, exceed assumed higher grant revenue and lower inflation.*
- Economic condition is highly uncertain and funding gaps will grow if recession deepens.*

Financial Plan unaffordable under current forecasts

\$5.9B in revenue gap 2017-2041 (YOE\$)

	<u>2019 fall financial projections</u>		<u>Changes in projections (2017-2041)</u>		<u>2020 fall financial projections</u>
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Available sources	\$97.9B	-	\$5.3B	=	\$92.6B	} \$5.9B in revenue gap
Expenditures	\$97.9B	+	\$0.6B	=	\$98.5B	

\$5.3 billion decrease in revenues

Comparing to 2019 projections 2017-2041 (YOE\$ in millions)

\$5.3B net decrease in revenues

- Tax revenue: -\$6.1 billion (-9.5%)
- Fares: -\$149 million (-2.2%)
- Additional federal grants: \$801 million (10.0%)
- Other: \$184 million (23.7%) largely interest income \$135 million from bond proceeds

\$3.2B additional debt will be issued to partially cover the loss in revenues.

Tax revenue projections down by \$6.1 billion

(YOES\$ in millions)

Four months of actual data; long term trend highly uncertain

2020 Revenue Forecast vs. 2019 Revenue Forecast			
	2020 - 2021	2020 - 2041	2020 - 2041 (%)
Sales Tax	\$ (256,667)	\$ (5,428,424)	-11.5%
MVET	\$ (49,183)	\$ (606,513)	-8.1%
Property Tax	\$ (121)	\$ (33,849)	-0.8%
Rental Car Tax (RCT)	\$ (4,102)	\$ (39,050)	-46.2%
Total Tax Revenues	\$ (310,073)	\$ (6,107,835)	-10.3%
Grants (Incl. CARES Act)	\$ 305,982	\$ 800,489	10.8%
Total Taxes and Grants	\$ (4,091)	\$ (5,307,346)	-8.0%

\$600 million net increase in costs

Compared to 2019 projections

- Operating and SOGR cost: \$800 million (2.7%)
- Debt service: \$1 billion (6.1%)
- Capital cost escalation: – \$1.2 billion (-2.3%)

\$800 million projected increase in operating and SOGR cost

Lower inflation not enough to offset cost growth

- Lower projected O&M CPI: (-\$481 million)
- Additional vertical conveyance and other State of Good Repair resource need: +\$555 million
- Increase in operating costs
 - Mainly due to purchased transportation cost growth: +\$562 million*
 - Higher projected insurance: +\$177 million

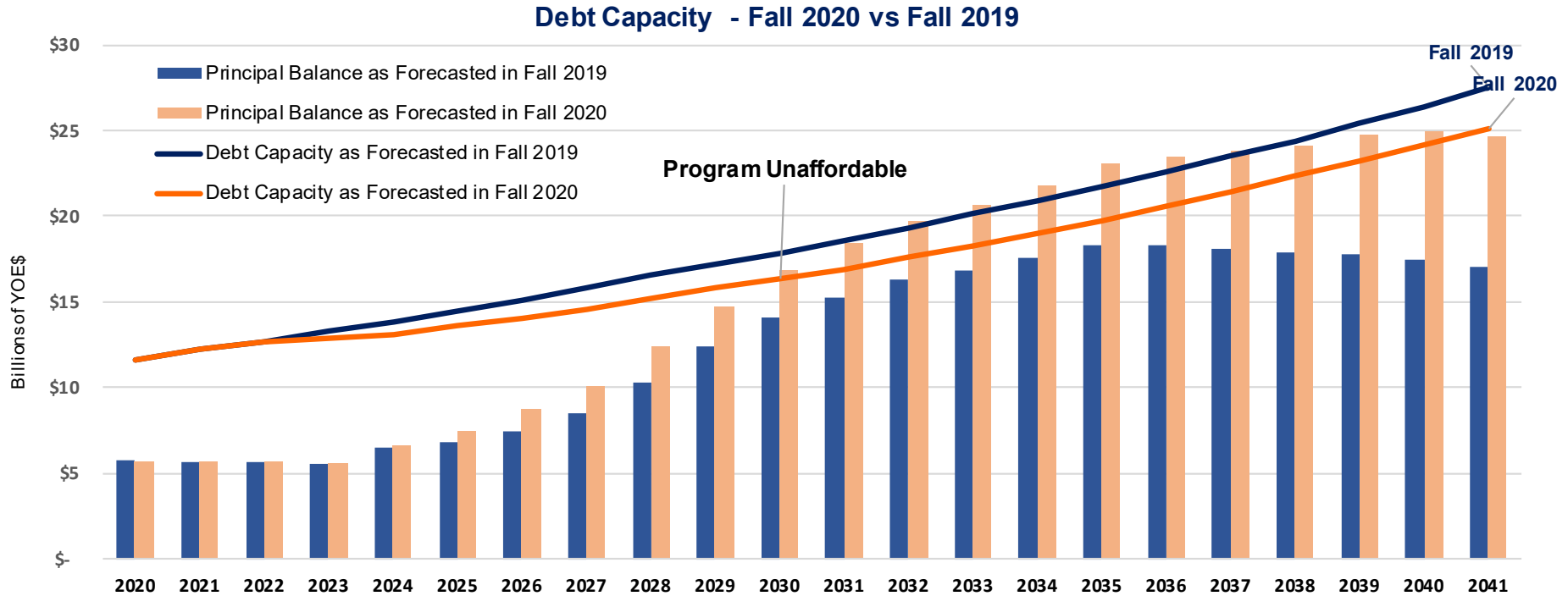
* 5% inflation assumed through 2025. 2016-2019 normalized purchased transportation inflation = 5.7%

Longer term capital cost trend is unclear with high uncertainty

- -\$1.2 billion projected decrease in capital cost through 2041 due to lower macro inflation factors
- However, current local market condition does not reflect macro inflation trend
 - Property value has been increasing in past months.
 - New cost estimates continue to come in higher.

Moderate recession makes program unaffordable

Decrease in AV capacity limit and increase in needed debt



Severe recession remains possible

Potential \$12B in tax revenue loss

- Steeper decline in 2021, coupled with slower and longer recovery
- Revenue decline closer to great recession level.
- 5-year delay could become unaffordable

2020 Revenue Forecast vs. 2019 Revenue Forecast			
	2020 - 2021	2020 - 2041	2020 - 2041 (%)
Sales Tax	\$ (381,141)	\$ (10,593,260)	-22.4%
MVET	\$ (50,507)	\$ (853,482)	-11.4%
Property Tax	\$ (121)	\$ (33,849)	-0.8%
Rental Car Tax (RCT)	\$ (4,102)	\$ (39,050)	-46.2%
Total Tax Revenues	\$ (435,871)	\$ (11,519,640)	-19.4%

2021 Proposed Budget

2021 Budget target and process

- Resource allocation consistent with early realignment guidance and agency priorities.
- Achieve efficiencies and fiscal discipline by tightly managing expenses.
- Service levels/budget reflect moderate ridership growth from current levels.
- Reduce spending on operating budget to maintain 2020 spending levels, with only additional dollars to support new services and assets.

Major cost-saving initiatives in 2020-2021

Position control

- Eliminated 77 vacant positions.
- Added 42 positions due to system expansions

Salary and benefit reductions

- Removed 2021 merit increase.
- Increased health premium cost share for employee dependents.

9.2% reduction of total non-labor costs (excluding purchased transportation)

2021 tax revenues: \$1.8 billion

<i>In \$million</i>	2020 Forecast	2021 Proposed	% Change
Sales & Use Tax	1,346	1,299	(4)%
MVET	337	332	(2)%
Property Tax	146	161	11%
Rental Car Tax	2	2	1%
Total Tax Revenues	\$1,830	\$1,793	(2)%

- Total tax revenues 13% below original 2021 forecast
- Total taxes = 61% of all total funding sources

*Numbers may not add correctly due to rounding.

2021 other revenue and financing sources: \$1.2 billion

<i>In \$Million</i>	2020 Forecast	2021 Proposed	% Change
Federal Grants	565	377	(33)%
Fares	33	54	62%
Investment / Other	54	33	(39)%
Total Other	\$652M	\$464M	(29)%
TIFIA	-	700	NA

- Federal grants lower in 2021 due to CARES Act funding in 2020.
- Fares up as we begin to regain ridership.
- Lower investment income due to lower cash balance.
- TIFIA draws needed to make up for lost revenue.

2021 projects budget: \$2.5 billion

2021 projects budget reflects early Board guidance on realignment

In \$million	2020 Forecast	2021 Proposed
System Expansion	2,242	2,306
Enhancements	23	36
State of Good Repair	56	46
Administrative	114	119
Total	\$2,435	\$2,507

2021 transit operations budget: \$381M

<i>In \$Million</i>	2020 Forecast	2021 Proposed
Link	150	168
ST Express	150	138
Souder	57	68
Tacoma Link	6.1	6.5
Total	\$363	\$381

- Link: primarily new services at NGL, OMFE and DSTT.
- ST Express: costs reflect services to meet current ridership levels.
- Souder: mainly due to scheduled overhaul and station maintenance, and insurance premium increase.

*Numbers may not add correctly due to rounding.

2020 forecast excludes partner reconciliations related to 2019 services.

2021 debt service and other costs: \$208M

<i>In \$Million</i>	2020 Forecast	2021 Proposed	% Change
Debt Service	143	161	13%
Dept of Revenue Fees	15	26	68%
Dept of Licensing Fees	4	5	17%
Contributions	5	5	0%
Operating Contingency	-	11	NA
Total	\$167M	\$208M	24%

- Higher DOR costs from sales tax offset fee increase driven by higher construction contract payments on ST3 projects
- Fees to DOL for MVET collection; rate increase starting July 1st

Timeline

October

- Board Budget Kickoff
-  10/31 – Citizen Oversight Panel – Budget presentation

November

- Board Budget Briefings

December

- Board Budget Adoption

Thank you.



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