Financial Plan update and proposed 2022 Budget

Citizen Oversight Panel

11/17/21

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Why we are here

- *Updated Long-Range Financial Plan projections*
- *Proposed 2022 Budget*

Long-Range Financial Plan projections and 2022 Budget

Long-Range Financial Plan Projections 2017 - 2046

- Including Sound Move, ST2, and ST3 sources and uses through 2046

Transit Improvement Plan to 2027

- Board-approved costs for active projects through 2027

Budget 2022

- Annual revenue, financing sources and expenditures for 2022

Basis for the Financial Plan

1. Financial Plan projections are based on affordable schedules approved in realignment
   - Staff continue to manage projects with focus on achieving target schedules

2. October updates include tax revenue, fare revenue, project inflation, operating expenditures, and debt issuance

3. Next steps in early 2022: Annual Program Review and continuing work to meet target schedules

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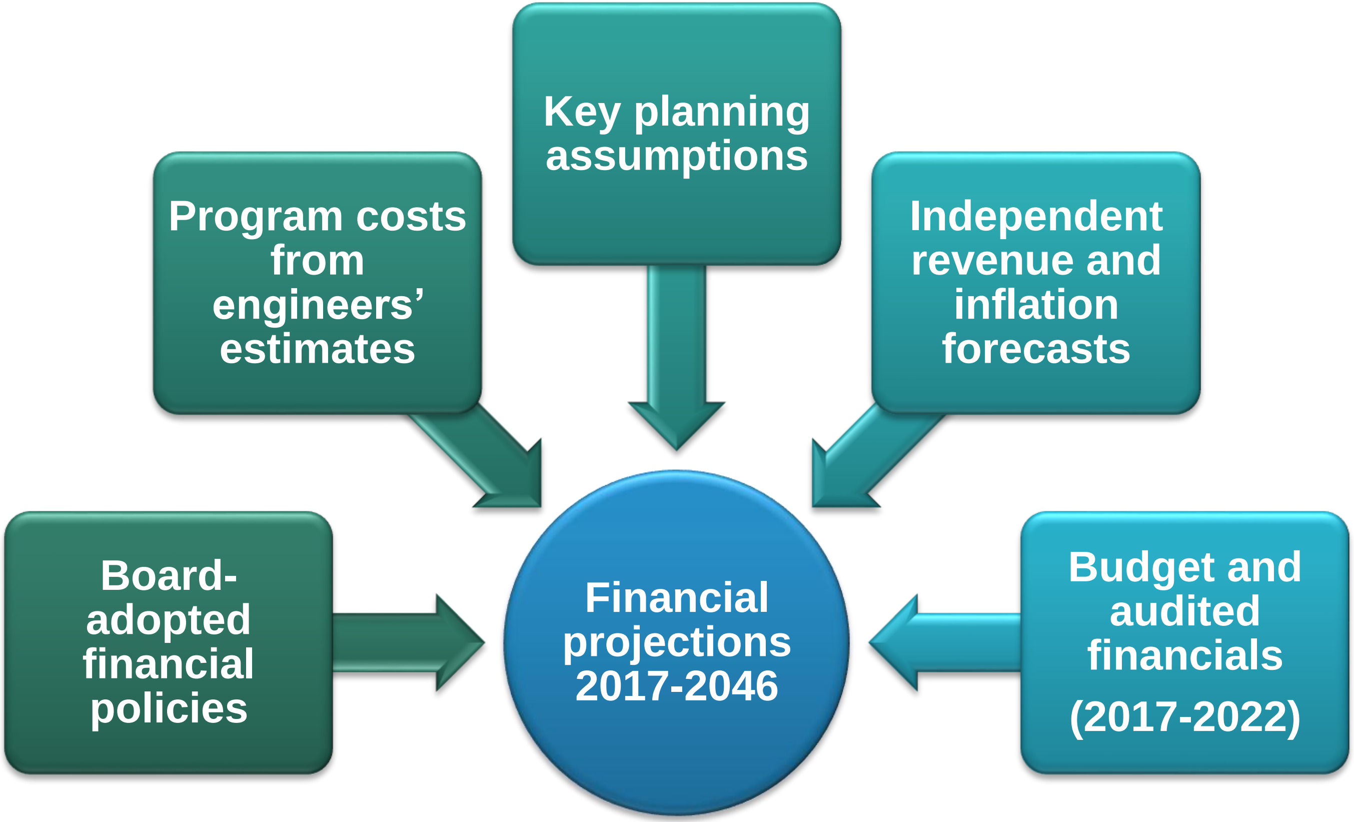
Long-Range Financial Plan projections

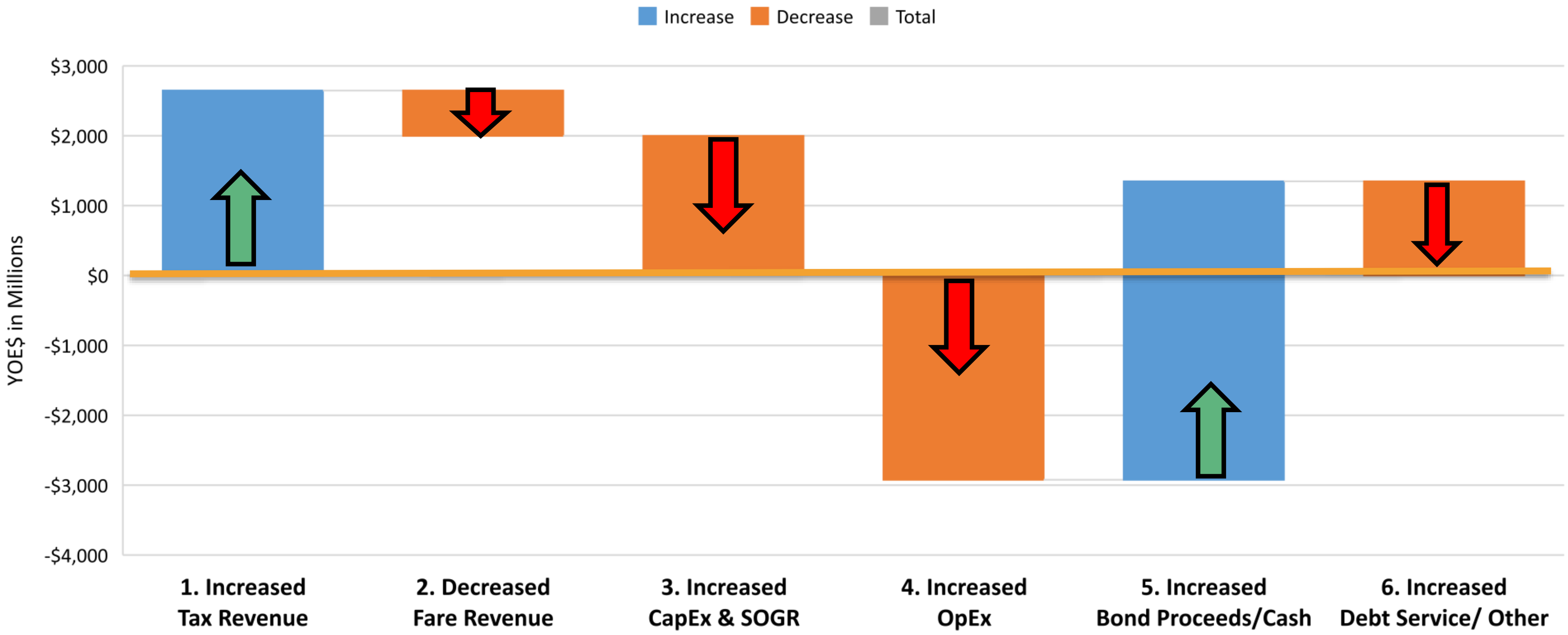


Key takeaways

Realigned Financial Plan (affordable schedule) remains affordable. Updates will have little impact on gaps for achieving target schedules.

- Projected higher tax revenue coincides with projected higher inflation (CCI and CPI)
- Higher debt capacity (AV) coincides with higher right-of-way costs (ROWI)
- Cost growth outpaced revenue growth, additional debt will be issued to cover the difference.

Major changes and impacts on the Financial Plan



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1. Increased tax revenue projection

Increased by $2.6 billion or 3.6% through 2046

- Sales tax up 3.6% driven by higher receipts and employment and consumer spending data.
- MVET up 0.1% with higher receipts and forecast data.
- Property tax up 1.8% with updated assessed value data (assumes annual Board approval of 1% statutory increase).
- Rental car tax up 84.6%, driven by higher receipts and recovery in travel.

Projected Tax Revenues (2017-2046) YOE$ in Millions				
Tax Type	**Prior Plan**	**Updated Plan**	**$ Change from Prior Plan**	**% Change from Prior Plan**
Sales Tax	$ 69,261	$ 71,724	$ 2,464	3.6%
MVET	$ 10,728	$ 10,742	$ 14	0.1%
Property Tax	$ 6,165	$ 6,276	$ 111	1.8%
Rental Car Tax	$ 69	$ 127	$ 58	84.6%
Total Tax Revenues	**$ 86,223**	**$ 88,869**	**$ 2,646**	**3.1%**

2. Decreased fare revenue projection

Fare revenue projections lower by $0.6 billion or 7.2% through 2046

- Lower near-term ridership update resulted in projected $0.6 billion fare revenue decrease combined for all modes.

Projected Fare Revenues, YOE$ in Millions		
Tax Type	**$ Change from Prior Plan, 2017-2046**	**% Change from Prior Plan**
Light Rail	$ (59)	-0.9%
Tacoma Link	$ (23)	-15.3%
Sounder	$ (155)	-21.6%
STEX	$ (180)	-31.2%
Stride	$ (230)	-36.3%
Total	**$ (646)**	**-7.2%**

- Long term ridership update will be available towards the end of the year.
- Farebox recovery does not meet policy requirements.

3. Increased capital and State of Good Repair (SOGR)cost projections

$2.0 billion or 2.5% increase in capital and SOGR cost forecasts through 2046

- Higher inflations drive projected capital cost increase: $1.5 billion
  - Right-of-way (ROWI): +$0.7 billion
  - Cost of construction index (CCI): +$0.6 billion
  - CPI: +$0.2 billion

- Higher inflations drive projected SOGR cost increase: $0.5 billion
  - CCI: +$0.4 billion
  - CPI: +$0.2 billion
  - Update of assumptions based on actuals/ TIP: -$0.1 billion

4. Increased operating cost projections

$3.0 billion or 9.1% projected increase in Operating Cost through 2046

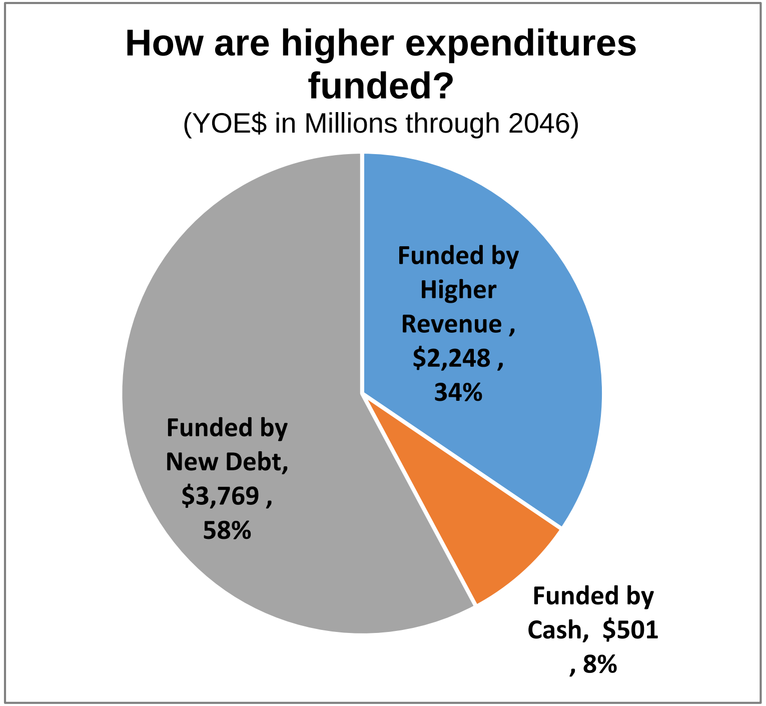
- Projected purchased transportation cost growth: +$2.1 billion
  - East Link staffing adds: $0.5B
  - Forecasted additional Link staffing adds (LLE, FW, DRLE): $0.7B
  - Long term purchased transportation cost inflation*: $0.9B
- Projected Agency costs to keep pace with system growth: +$0.9 billon
  - Insurance cost: $0.4 billion
  - Agency operations: $0.3 billion
  - ORCA Next Gen Regional costs: $0.2 billion (this cost is reimbursed)

* Inflation: 5% through 2027, ~4% thereafter. 2016-2019 normalized purchased transportation inflation was 5.7%

5. Increased bond proceeds

Additional costs funded by revenue, cash and additional $3.8 billion or 16% in bond proceeds

- Cost growth outpaces revenue growth.
- $3.8B in additional debt projected to be issued to fund increased costs not covered by revenue growth and cash.
- Additional debt capacity to cover projected debt increase made available through increased assessed valuation.



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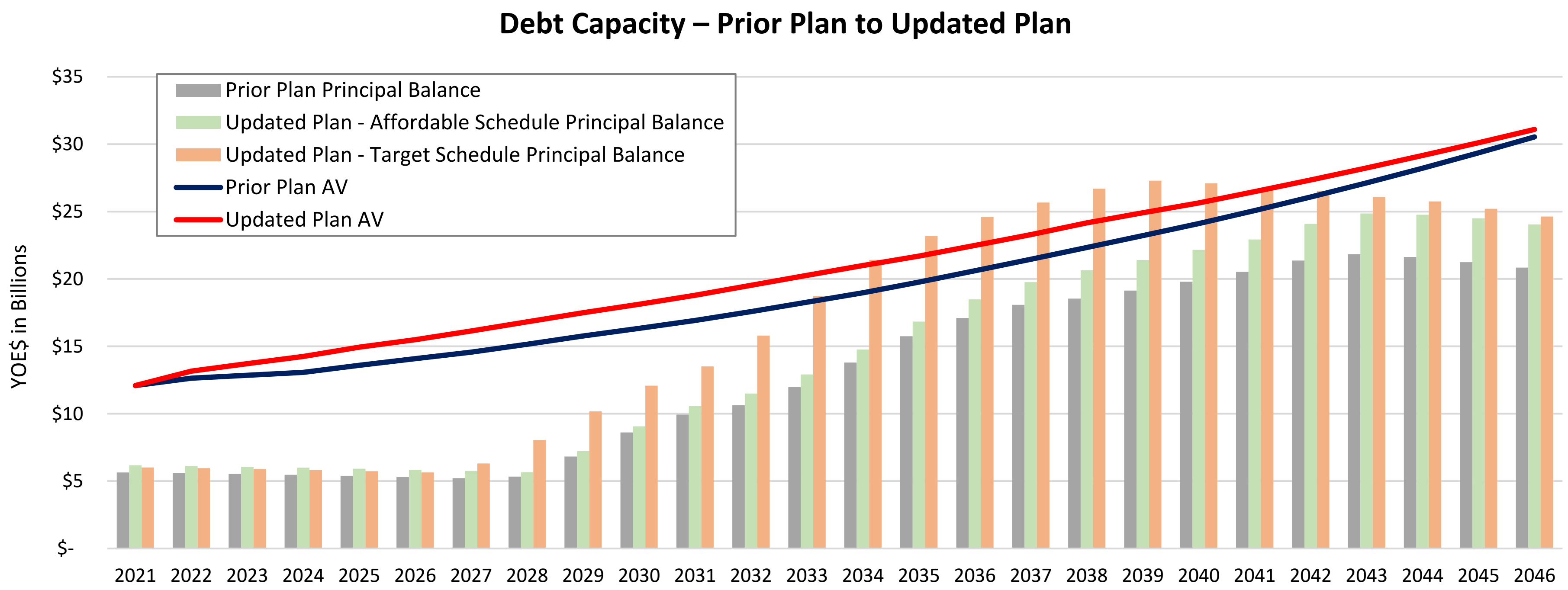
6. Increased debt service

- Debt service through 2046 projected to increase $1.3 billion or 6.6%
    - Principal and interest payment required through 2046 for the additional debt issued to fund difference between expenditures and revenues growth.

Higher assessed value creates capacity to fund increased costs with additional debt through 2046. Realigned Financial Plan (affordable schedule) remains affordable. Target schedule remains unaffordable with gap roughly unchanged.



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2022 Proposed Budget

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2022 budget priorities

- Maintain long term financial sustainability
- Resource allocation consistent with realignment resolution and agency priorities
- Adequate resources to support new services and assets
- Service levels/budget reflect current ridership demand

Revenues & funding sources

2022 tax revenues: $2.3 billion

In $million	2021 Forecast	2022 Proposed	% Change
Sales & Use Tax	1,577	1,685	7%
MVET	387	404	5%
Property Tax	157	165	5%
Rental Car Tax	3	3	3%
Total Tax Revenues	**$2,124**	**$2,258**	**6%**

- Sales and use tax = 49% of all 2022 total revenue and financing sources
- Total tax revenues 6% above 2021 forecast

*Numbers may not sum due to rounding.

2022 other revenue and financing sources: $1.2 billion

In $Million	2021 Forecast	2022 Proposed	% Change
Federal Grants	793	498	(37)%
Fare Revenues	20	36	79%
Investment / Misc Revenues	27	31	18%
Total Other	**$840M**	**$566M**	**(33)%**
TIFIA	87	615	NA

- Federal grants lower in 2022 due to CRRSAA /ARP funding in 2021
- Fare revenues assumed up with Northgate and as we begin to regain ridership
- Higher ORCA regional reimbursement
- TIFIA draws for OMFE in 2021 & Northgate in 2022

*Numbers may not sum due to rounding.

Expenditures

2022 proposed expenditures: $3.0 billion

In $million	2021 Forecast	2022 Proposed
Projects	2,204	2,365
Transit Operating	368	444
Debt Service & Other	199	220
Total	**$2,770**	**$3,029**

Other includes debt service, tax collection & fees, contributions to partner agencies, operating leases, and operating contingency

*Numbers may not add correctly due to rounding.

2022 projects budget: $2.4 billion

Reflects Board realignment resolution

In $million	2021 Forecast	2022 Proposed
System Expansion	2,057	2,135
Enhancements	22	48
State of Good Repair	28	70
Administrative	112	132
Less charges to Transit Operating	*(15)*	*(21)*
Total	**$2,204**	**$2,365**

*Numbers may not add correctly due to rounding.

2022 transit operating budget: $444 million

$M	2021 Forecast	2022 Proposed	Increase ($)	Increase (%)
Transit Operating	$368	$444	$77	21%

2022 budget is 21% growth over 2021 forecast

- Growth to support service expansion, 11%
- Service increase to accommodate 2022 ridership demand and cost escalation due to inflation, 7%
- State of good repair and other maintenance, 2%
- Insurance, 1%

Transit operating by mode

In $Million	2021 Forecast	2022 Proposed
Link	163	201
ST Express	136	151
Sounder	63	81
Tacoma Link	6	11
Total	**$368**	**$444**

- Link: full year of Northgate service
- ST Express: increase in platform hours to accommodate ridership demand
- Sounder: recovery of South trips, maintenance, and vehicle overhaul
- Tacoma Link: Tacoma Hilltop service begins
- All modes: cost escalation due to inflation and agency support costs

Note: Numbers may not add correctly due to rounding.

2022 debt service and other: $220 million

In $Millions	2021 Forecast	2022 Proposed
Debt Service	150	157
Tax Collection Fees	10	9
Sales & Use Tax Offset Fee	17	20
Partner Contributions	5	5
Leases	16	17
Operating Contingency*	2	13
Total	**$201**	**$220**

- Debt service includes principal repayment, interest expense and financing expenses
- Tax collection fees to WA DOR for rental car and sales & use taxes; DOL for MVET collection
- Sales & use tax offset fee based on 3.25% of eligible construction costs for FWLE and DRLE
- Contributions: First Hill Street Car payment to the City of Seattle

Note: Numbers may not add correctly due to rounding.
*Operating Contingency budget is equivalent to 2.0% of proposed operating budget.

Budget timeline and next steps

Potential budget adjustment needed in 2022

Mid year budget adjustment may be requested from the Board:

- Increased service to meet higher ridership demand
- Continued COVID-related cost increases
- Adjustment to projects resulting from Annual Program Review

Timeline

- October – overview of Long-Range Financial Plan projections and budget
- November – budget reviews by Board committees
- December – budget recommendation and approval

Thank you.

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