Proposed 2024 Budget, Transit Improvement Plan and Financial Plan Update

Community Oversight Panel

11/8/23

Why we are here

Today we are here to provide information

- Proposed 2024 Budget and Transit Improvement Plan (TIP)
    - Revenues & funding sources
    - Expenditures
    - TIP
- Service growth
- Budget timeline and next steps
- Updated Fall 2023 Financial Plan Projections

Long-Range Financial Plan projections and 2024 Budget

Long-Range Financial Plan Projections 2017 - 2046

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

Transit Improvement Plan to 2029

- Board-approved costs for active projects through 2029

Budget 2024

- Board-approved annual revenues, sources, and expenditures for 2024

Proposed 2024 Budget and Transit Improvement Plan (TIP)

Revenues & funding sources

Executive summary – revenues and financing

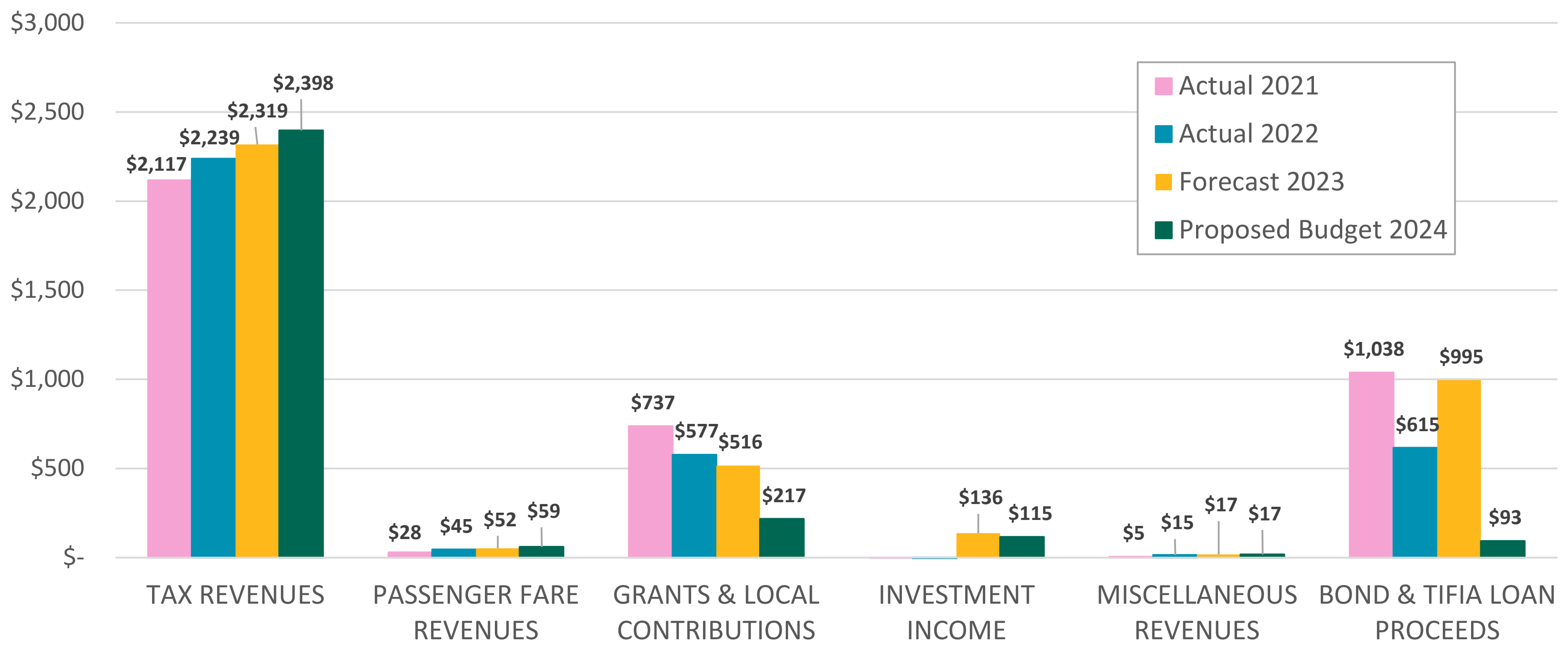
(In millions)

TOTAL REVENUES - 2024 Proposed Budget					
CATEGORY	Forecast 2023	Budget 2023	% Variance 2023F to 2023B	Proposed 2024	% Change 2023B to 2024B
TAX REVENUES	$2,318.7	$2,295.5	1.0%	$2,397.6	4.4%
PASSENGER FARE REVENUES	51.8	52.4	-1.1%	59.4	13.5%
GRANTS & LOCAL CONTRIBUTIONS	515.9	283.0	82.3%	216.7	-23.4%
INVESTMENT INCOME	136.0	40.4	236.6%	115.0	184.7%
MISCELLANEOUS REVENUES	17.1	10.9	57.3%	16.7	53.4%
BOND & TIFIA LOAN PROCEEDS	994.6	.0		93.3	-
Grand Total	**$4,034.2**	**$2,682.2**	**50.4%**	**$2,898.8**	**8.1%**

- *Tax revenue: 4.4% above 2023 budget*
- *Fares: East Link Starter Line and Lynnwood opening*
- *Grants: 2024 lower due to funds accelerated in 2023 originally assumed for 2024*
- *Bonds and TIFIA: Hilltop TIFIA draw*

Revenues and financing sources trends

In millions



Expenditures

Expected growth in expenses

- Costs for opening Starter Line 2
- Costs for opening Lynnwood Link Extension
- Full year of Hilltop Tacoma Link Extension operations
- Annual increases in salaries and wages, including partners’ costs
- Escalating healthcare costs
- Insurance premiums
- Additional security

Headwinds – HTLE settlement, higher contracted labor rates

Executive summary – expenditures

CATEGORY	Forecast 2023	Budget 2023	% Variance 2023F to 2023B	Proposed 2024	% Change 2023B to 2024B
TOTAL EXPENDITURES - 2024 Proposed Budget					
MODAL OPERATING EXPENSES	$455.3	$495.3	8.1%	$634.2	28.0%
SYSTEM EXPANSION PROJECTS	2,010.9	2,047.9	1.8%	1,850.7	-9.6%
NON-SYSTEM EXPANSION PROJECTS	236.0	261.3	9.7%	306.7	17.4%
DEBT SERVICE	229.4	229.4	0.0%	179.7	-21.6%
TAX COLLECTION & FEES	26.2	23.1	-13.7%	19.4	-15.7%
CONTRIBUTIONS TO PARTNER AGENCIES	5.0	5.0	0.0%	.0	-100.0%
LEASES	15.9	16.8	5.5%	12.9	-22.9%
AGENCY CONTINGENCY	-	10.6		19.0	78.5%
OTHER NON-OPERATING EXPENSES	.6	.6	6.6%	.6	2.4%
Grand Total	**$2,979.2**	**$3,089.9**	**3.6%**	**$3,023.3**	**-2.2%**

*2023 budget includes changes to the 2023 adopted budget due to Board actions.

- *Existing cash balance from 2023 TIFIA draws will be used to balance sources and uses, reducing our net cash position*
- *Agency contingency is 3% of proposed modal operating budget to help mitigate risks in escalating transportation costs*

Operating expenses by mode: $634M

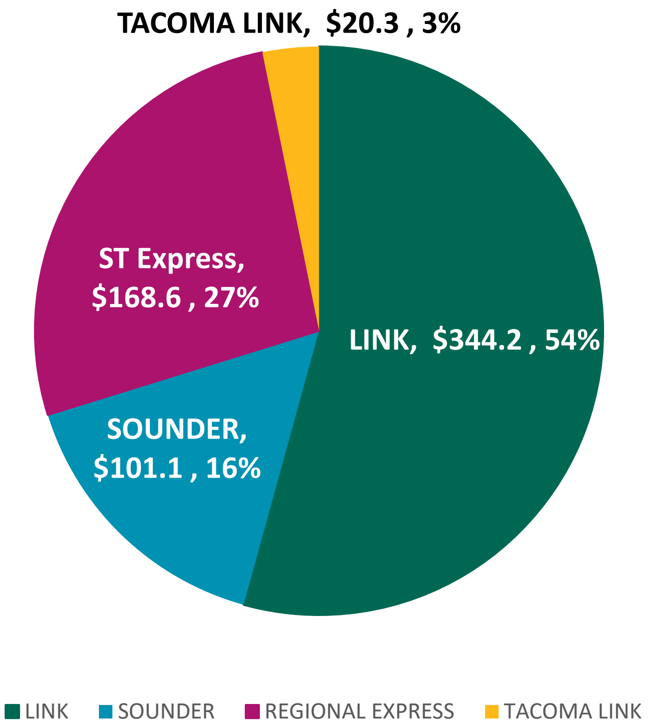
ST Express's costs are made up of:

- 87% Purchased transportation (incl. fuel)

Sounder's costs are made up of:

- 37% Maintenance, materials & supplies
- 17% Purchased transportation
- 12% Insurance

(In millions)



Link's costs are made up of:

- 36% Purchased transportation
- 15% Maintenance, materials & supplies
- 13% Security & safety

Tacoma Link's costs are made up of:

- 48% Salaries & benefits
- 16 % Maintenance, materials & supplies

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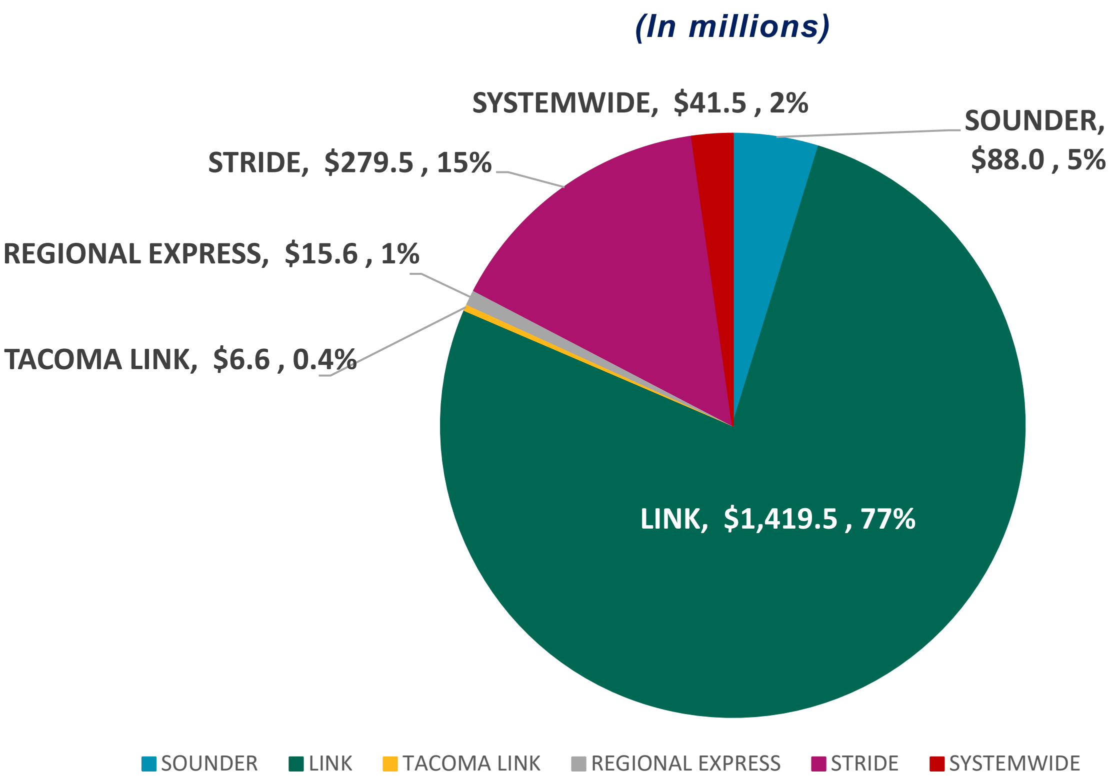
System expansion projects by mode: $1,851M



Major costs for Link in 2024:

- Construction in Federal Way Link, Downtown Redmond Link, East Link, Lynnwood Link and 130th St. Infill Station
- Planning in Tacoma Dome & OMFS, West Seattle, and Ballard Link.

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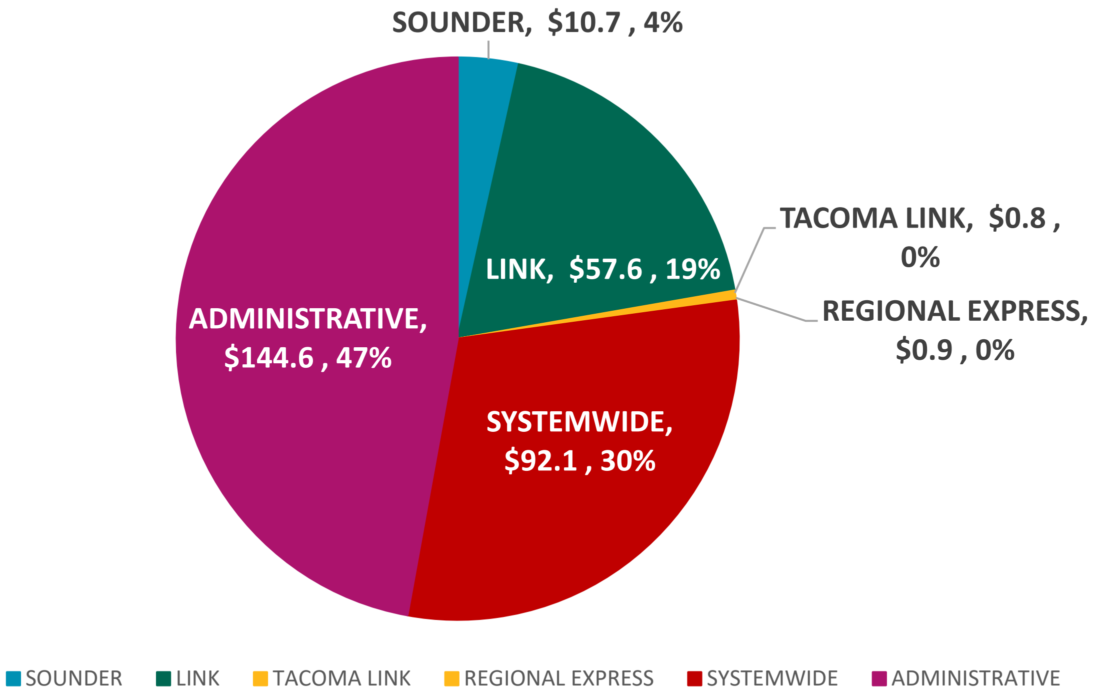
Agency projects by mode: $307M*

Non-system expansion projects in 2024:

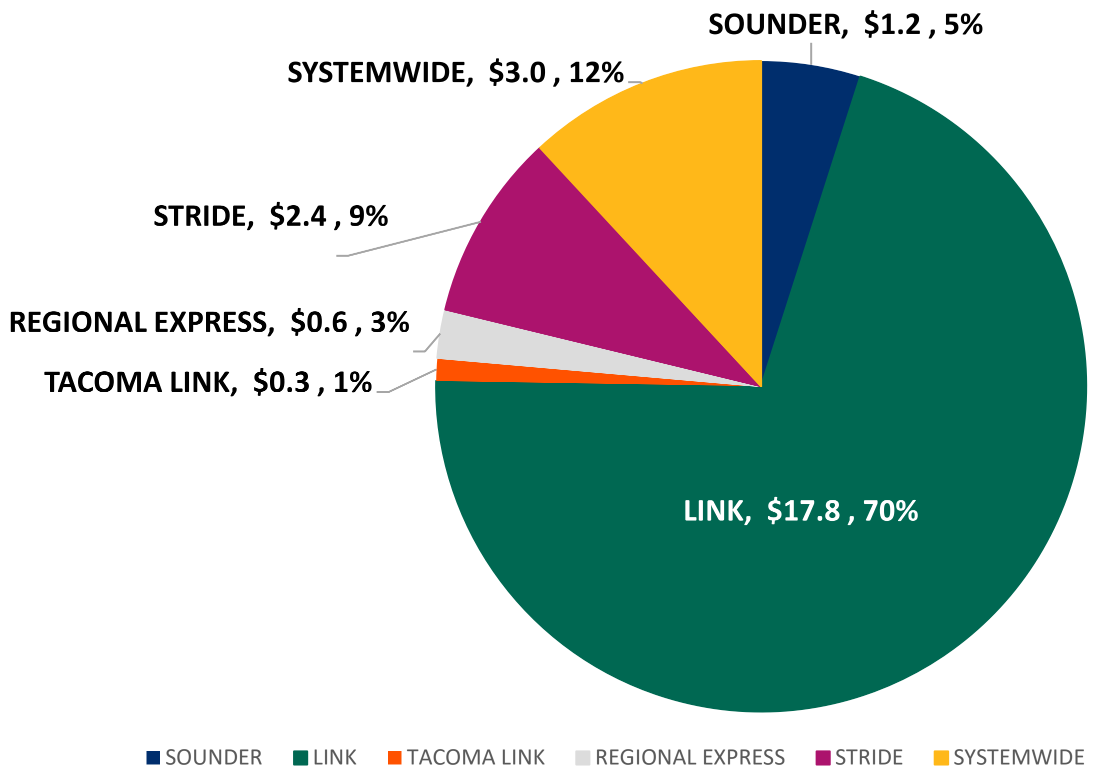
- State of Good Repair, Enhancements, and Administrative project types
- 135 projects
- Administrative funds general and administrative expenses, eventually capitalized with individual projects
- Systemwide benefits all modes

(In millions)



***Excludes System Expansion projects**

2024 Transit Improvement Plan by mode: $25B

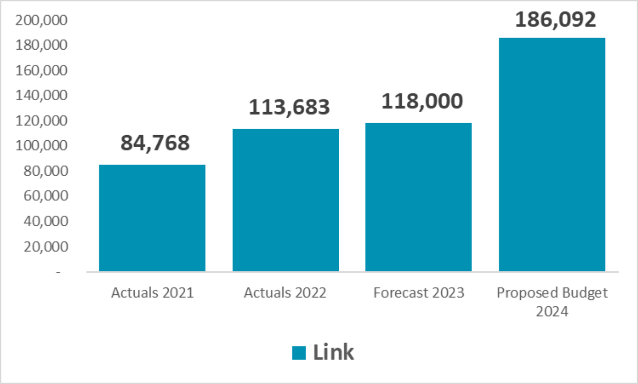


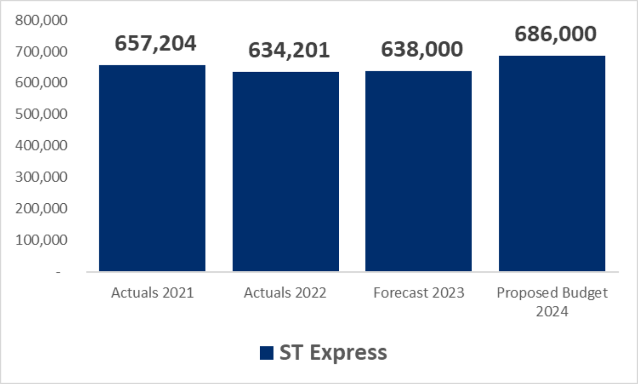
Transit Improvement Plan (TIP):

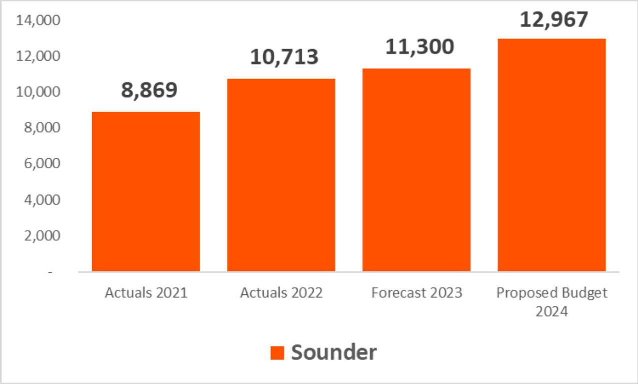
- Total authorized project allocation (including past actuals) for active projects only
- Largest projects currently in the TIP for Link include East Link, Lynnwood Link, and Federal Way Link

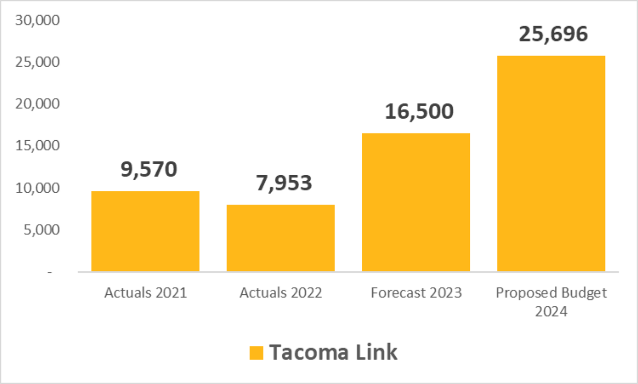
Service growth

Service: Platform hour growth by mode









Budget timeline and next steps

Board / Committee Timeline

October – budget and Financial Plan kickoff

- **10/19** – Finance and Audit Committee – Overview of Long-Range Financial Plan projections and Proposed 2024 budget and TIP
- **10/26** – Board Meeting – Overview of Long-Range Financial Plan projections and Proposed 2024 budget and TIP

November – budget overview and property tax levy approval

- **11/2** – Public hearing – budget and property taxes.
- **11/2** – Executive Committee – budget overview and property tax levy
- **11/2** – Rider Experience and Operations Committee – budget overview
- **11/9** – System Expansion Committee – budget overview
- **11/16** – Board Meeting – request for approval of the property tax levy

Board / Committee Timeline continued

December – budget recommendation and approval

- **12/7** – Rider Experience and Operations Committee – recommends to FAC
- **12/7** – Executive Committee – recommends to FAC
- **12/14** – System Expansion Committee – recommends to FAC
- **12/15** – Finance and Audit Committee – recommends to Board
- **12/15 – Board – adoption of the Proposed 2024 Budget and Transit Improvement Plan**

Updated Financial Plan Projections

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

What are the inputs to the 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

Financial Plan

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

Fall 2023 Updates

Key Takeaways

Debt capacity is lower and coverage is not materially improving…

- Capital expenditures increased, due to inflation and Stride baseline.
- Decrease in fare revenues from decreased boardings with fare media.
- Increase in tax revenues help offset the increase in expenditures.

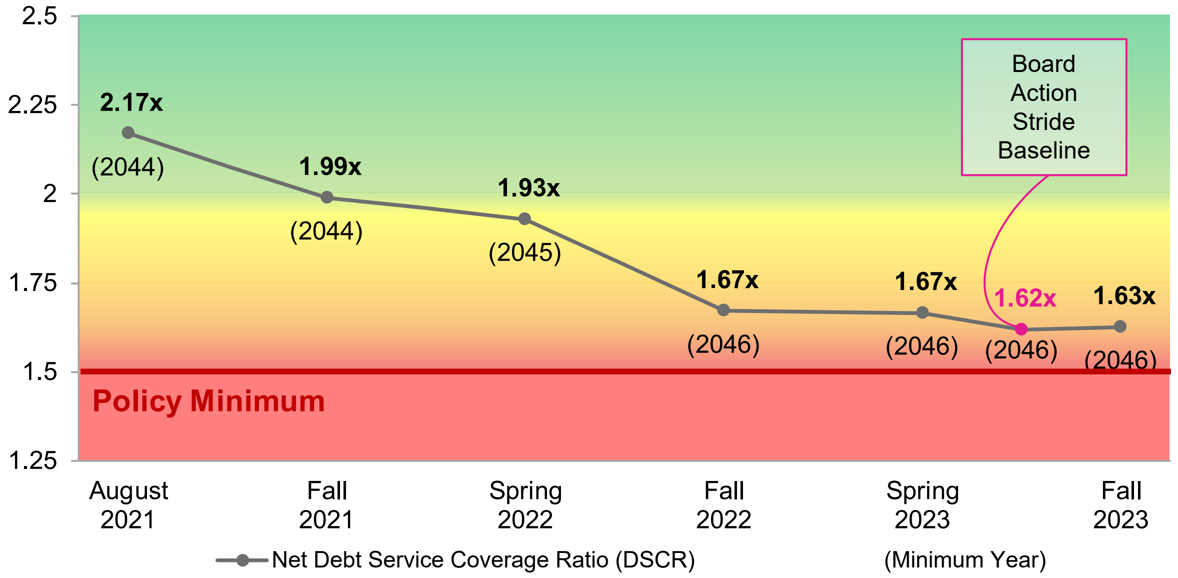
- ***Elevated Risks - Costs to provide ST3 service levels and cost estimates for expansion projects in planning.***

Net Debt Service Coverage Ratio (DSCR)

Current minimum Net DSCR is 1.63x

Net DSCR is the Agency's ability to pay back debt after paying for operating costs in any given year

Goal is to be above 2.00x



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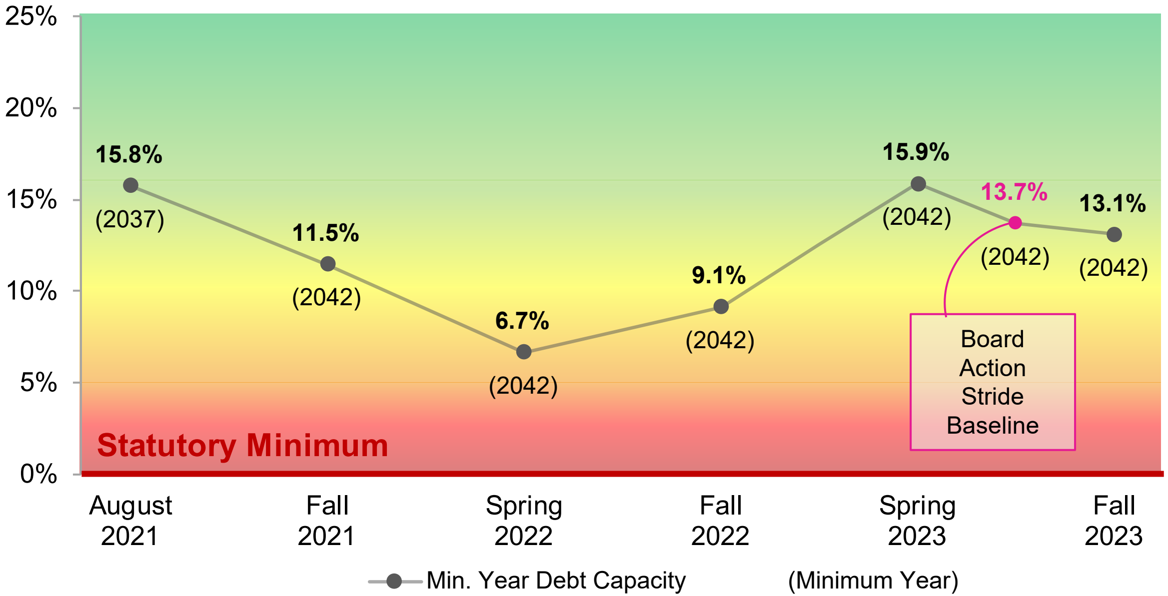
Debt Capacity

Current minimum remaining available debt capacity is 13.1%

Debt Capacity is the Agency's ability to issue debt, constrained by assessed values in the district

Goal is to be above 15%



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Total sources through 2046

Fall 2023 Financial Plan

2017 through 2046; YOE Dollars in Millions

	Snohomish	North King	South King	East King	Pierce	System-wide	Total
Sources of Funds							
Tax Revenues							
Sales and Use	9,198	24,533	9,898	20,640	13,341	-	**77,610**
Motor Vehicle Excise Tax	1,438	2,179	1,324	2,734	2,078	-	**9,753**
Property Tax	671	2,168	663	1,846	835	-	**6,182**
Rental Car Tax	8	21	129	14	11	-	**183**
Total Tax Revenues	**11,315**	**28,900**	**12,013**	**25,234**	**16,266**	**-**	**93,728**
Other Revenue							
Grant Revenue	2,590	4,327	2,761	2,375	2,030	1,179	**15,262**
Fare Revenue	402	3,107	752	794	451	-	**5,505**
Other Revenue	17	148	65	85	68	234	**616**
Interest Earnings	-	-	-	-	-	1,134	**1,134**
Total Other Revenue	**3,009**	**7,582**	**3,579**	**3,253**	**2,549**	**2,547**	**22,518**
Bond Proceeds (with DSRF)	7,830	12,373	5,579	468	283	-	**26,531**
TIFIA / RRIF Proceeds	479	1,259	1,014	1,398	174	-	**4,325**
Changes in Cash (addtl funding to offset deficits)	874	216	540	(452)	(124)	-	1,053
Total Sources	**23,506**	**50,329**	**22,724**	**29,901**	**19,147**	**2,547**	**148,154**

Total uses through 2046

Fall 2023 Financial Plan

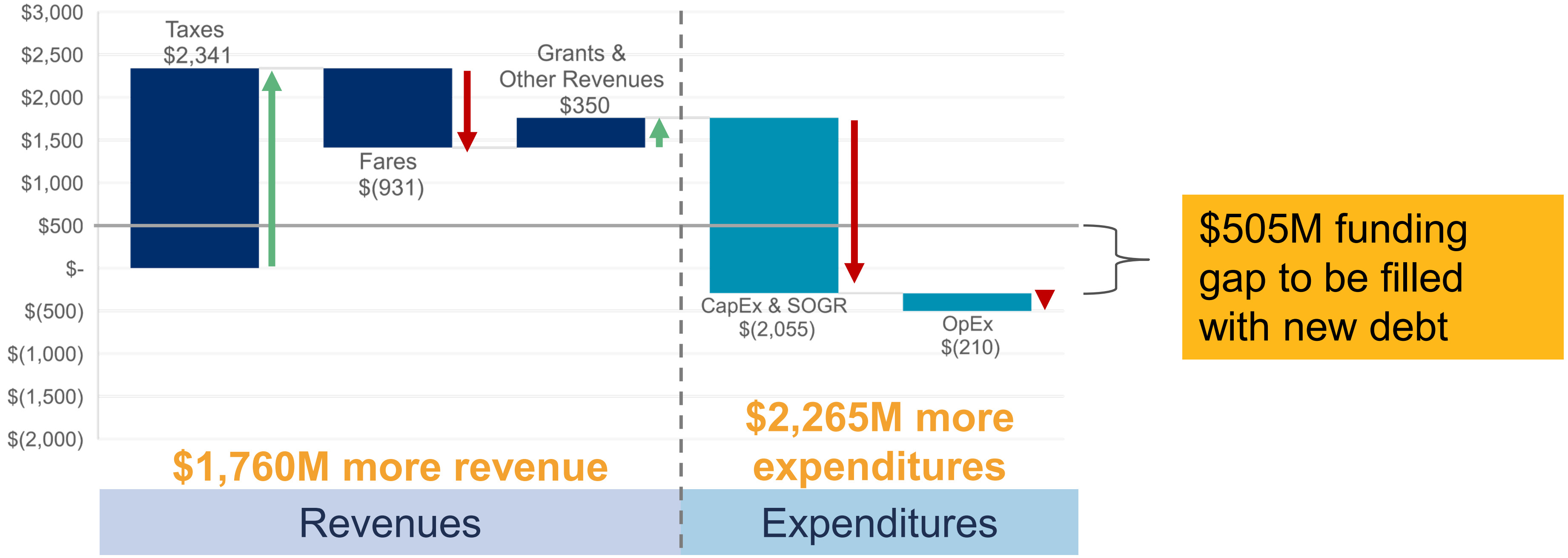
2017 through 2046; YOE Dollars in Millions

	Snohomish	North King	South King	East King	Pierce	System-wide	Total
Uses of Funds							
Total Capital Expenditures	**12,484**	**19,749**	**8,672**	**15,646**	**9,669**	**8,632**	**74,851**
Total O&M Expenditures	**4,184**	**13,222**	**6,365**	**7,425**	**5,506**	**3,886**	**40,590**
SOGR	542	3,060	1,669	1,969	1,295	1,347	**9,882**
System-Wide Activities	1,364	3,492	1,458	3,043	1,962	(11,319)	**-**
Reserve Contributions (O&M, DSRF)	333	584	281	133	94	-	**1,426**
Debt Service (Excludes TIFIA / RRIF)	4,197	8,562	3,286	622	395	-	**17,062**
TIFIA / RRIF Debt Service	348	946	740	1,023	170	-	**3,227**
Debt Restructuring Activities	53	713	253	41	56	-	**1,115**
Changes in Cash (cumulative surplus)	-	-	-	-	-	-	-
Total Uses	**23,506**	**50,329**	**22,724**	**29,901**	**19,147**	**2,547**	**148,154**

**Includes Other O&M and Emergency Reserve*

Note: Totals may be different due to rounding

Major changes and impacts in this Financial Plan update (2017-2046)



(2017-2046 millions in YOE$)

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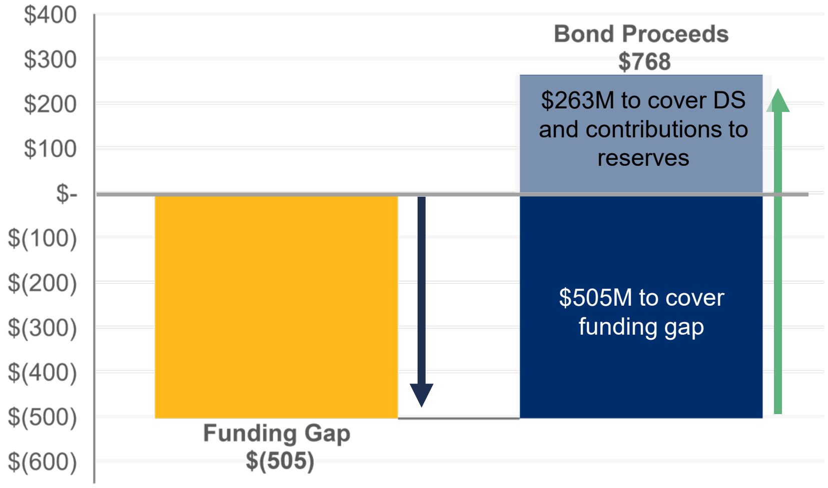
Changes in bond issuance

$768M in bond issuance required to cover $505M in funding gap



(2017-2046 millions in YOE$)

- Change in expenditures greater than change in revenues by $505M
- Bond proceeds required to cover increased costs and interest on debt: $768M
- New debt service and reserve contributions totals $263M

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Headwinds & Tailwinds

Headwinds

- Labor market (ST & contracted)
- Cost increases for projects
- Scope changes for projects
- Additional capacity needs
- Fare revenues
- Claims on construction projects

Tailwinds

- New carbon credit market sales revenues
- Increased grants assumptions

Thank you.

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