

2018 Financial Report

Financial Statements & Subarea Equity Report

10/17/19

Why we are here

- Today we are here to provide information regarding
 - 2018 Financial Statements (Audited)
 - 2018 Subarea Equity Report

2018 Financial Statements

Key Accounting Items

Audited by Moss Adams (1st Year)

- No findings

Significant accounting policies

- No changes in accounting policies

New Accounting Pronouncements

- Debt Disclosures (2018) – no significant impact
- Capitalized Interest (2019)
- Fiduciary Activities (2019)
- Asset Retirement Obligations (2019)
- Leases (effective 2020, system implementation underway)

Summary of Results

- **Capital project spending** of \$1.5 billion, up 1.4%, as construction continues on East, Northgate and Lynnwood Link extensions and the Operations and Maintenance Facility East
- **Passenger fare revenue** was \$96.0 million, up 11.3%, on Business Passport contract renewals and system-wide ridership growth of 1.4 million rides
- **Operating expenses**, before depreciation and amortization, of \$334.1 million, up 15.5%, due to higher provider costs and the full year impact of 2017 capacity expansion on Sounder, Link and ST Express
- **Non-operating revenues**, net of expenses, of \$1.8 billion, up 45.2%, reflect the full year impact of voter approved taxes and a strong regional economy

Statement of Net Position

**Assets of
\$13.1B;
Liabilities of
\$2.8B**

- Increased cash balances at year end (included in current assets) as tax collections have outpaced project spending (capital assets)
- No bonds issued in 2018
- First TIFIA loan draw of \$56.6 million

Statements of Net Position

(in millions)

	2018	December 31 2017	2016	% Change	
				2018-2017	2017-2016
Assets					
Current assets, excluding restricted assets	\$ 2,178.9	\$ 1,731.9	\$ 1,587.4	25.8%	9.1%
Restricted assets	97.3	94.7	89.7	2.8	5.5
Capital assets	10,436.0	9,130.1	8,000.7	14.3	14.1
Other non-current assets	397.8	393.6	395.3	1.1	(0.4)
Total assets	13,110.0	11,350.3	10,073.1	15.5	12.7
Deferred Outflows of Resources	33.6	37.1	41.2	(9.5)	(9.9)
Liabilities					
Current liabilities, excluding interest payable from restricted assets	352.7	288.2	263.0	22.4	9.6
Interest payable from restricted assets	24.9	23.9	21.8	4.2	9.7
Long-term debt	2,398.2	2,393.1	2,441.3	0.2	(2.0)
Other long-term liabilities	70.4	69.2	67.4	1.7	2.7
Total liabilities	2,846.2	2,774.4	2,793.5	2.6	(0.7)
Net Position					
Net investment in capital assets	7,831.0	6,738.6	5,567.4	16.2	21.0
Restricted net position	70.5	69.3	66.0	1.7	5.0
Unrestricted net position	2,395.9	1,805.1	1,687.4	32.7	7.0
Total net position	\$10,297.4	\$ 8,613.0	\$ 7,320.8	19.6%	17.7%

Capital Assets

\$10.4B in capital assets, net of depreciation

- 38% CIP
- 39% Facilities
- 13% Land & Easements

Capital Assets, net

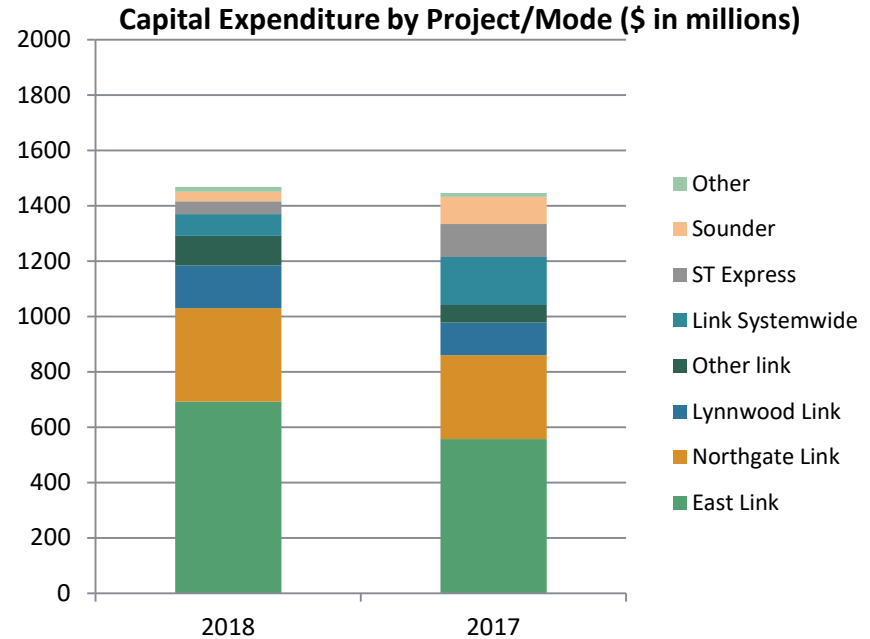
(in millions)

	December 31			% Change	
	2018	2017	2016	2018-2017	2017-2016
Land	\$ 836.3	\$ 753.2	\$ 631.7	11.0%	19.2%
Permanent easements	543.8	541.5	520.1	0.4	4.1
Capital projects in progress	3,981.7	3,001.6	2,210.1	32.7	35.8
Total non-depreciable assets	5,361.8	4,296.3	3,361.9	24.8	27.8
Transit facilities, rail and heavy equipment	4,056.9	3,885.9	3,815.0	4.4	1.9
Access rights	499.8	481.3	367.8	3.8	30.9
Revenue vehicles	498.0	446.8	438.3	11.5	1.9
Other depreciable assets	19.5	19.8	17.7	(1.5)	12.6
Total depreciable assets	5,074.2	4,833.8	4,638.8	5.0	4.2
Total capital assets, net	\$10,436.0	\$ 9,130.1	\$ 8,000.7	14.3%	14.1%

Capital Spending

Most significant spending and increase over prior year:

- East Link
- Northgate Link
- Lynnwood Link



Statement of Revenues, Expenses and Changes in Net Position

Changes in Net Position

(in millions)

	For the Year Ended December 31			% Change	
	2018	2017	2016	2018-2017	2017-2016
Operating revenues					
Passenger fares	\$ 96.0	\$ 90.3	\$ 80.6	6.3%	12.1%
Other	7.0	6.2	5.9	12.7	4.2
Total operating revenues	103.0	96.5	86.5	6.7	11.6
Operating expenses					
Total operating expenses, before depreciation	334.1	289.2	271.6	15.5	6.5
Depreciation and amortization	167.1	160.4	136.7	4.1	17.3
Total operating expenses	501.2	449.6	408.3	11.5	10.1
Loss from operations	(398.2)	(353.1)	(321.8)	12.8	9.7
Non-operating revenues, net of expenses	1,848.3	1,273.4	866.8	45.2	46.9
Income before capital contributions	1,450.1	920.3	545.0	57.6	68.9
Capital contributions	234.3	371.9	202.7	(37.0)	83.5
Change in net position	1,684.4	1,292.2	747.7	30.4	72.8
Total net position, beginning	8,613.0	7,320.8	6,573.1	17.7	11.4
Total net position, ending	\$ 10,297.4	\$ 8,613.0	\$ 7,320.8	19.6%	17.7%

Changes in Net Position - Highlights

- **Operating revenues** were up 6.7% driven by Business Passports contract renewals and growing ridership
- **Operating Expenses** were up 11.5% due to increases in partner costs (KCM and Pierce Transit) and added capacity
- **Non-operating revenues**, net of expenses, increased by 45.2% from a full year impact of voter approved ST3 taxes and a strong regional economy
- **Capital contributions** were 37% lower than prior year – includes \$100.8 million federal grant funding and \$73.3 million land bank credits utilized for the Lynnwood Link extension

Operating Revenue

- **Fare revenue** and continued ridership growth due primarily to:
- Increased **ridership** from UW, Angle Lake and Capital Hill stations; added Sounder and Bus capacity
- Average **fare** per boarding up 3.0% driven by Business Passport contract renewals based on 2016 fare increases and ridership growth

Passenger Fare Revenue

(in millions)

	2018	2017	2016	% Change	
				2018-2017	2017-2016
Link	\$ 41.6	\$ 38.0	\$ 30.8	9.5%	23.5%
ST Express	37.7	37.3	36.2	1.2	3.0
Sounder	16.7	15.0	13.6	11.3	10.8
Total	\$ 96.0	\$ 90.3	\$ 80.6	6.3%	12.1%

Ridership

(in millions)

	2018	2017	2016	% Change	
				2018-2017	2017-2016
Link	25.4	24.0	20.0	5.8%	20.1%
ST Express	18.2	18.4	18.5	(1.0)	(0.5)
Sounder	4.6	4.4	4.3	4.2	3.1
Total	48.2	46.8	42.8	3.0%	9.2%

Average Fare per Boarding

	2018	2017	2016	% Change	
				2018-2017	2017-2016
Link	\$ 1.70	\$ 1.65	\$ 1.61	2.9%	2.6%
ST Express	2.07	2.03	1.96	2.2	3.5
Sounder	3.60	3.38	3.15	6.4	7.5
Combined average fare per boarding	\$ 2.03	\$ 1.97	\$ 1.92	3.0%	2.5%

Operating Expenses

- Increase in O & M** reflects higher partner costs and continued service impacts of light rail extension to University of Washington and Angle Lake, added Sounder and ST Express capacity

Operations and Maintenance Expenses by Function					
<i>(in millions)</i>					
	2018	2017	2016	% Change	
				2018-2017	2017-2016
Vehicle operations	\$ 179.0	\$ 160.0	\$ 148.4	11.8%	7.8%
Vehicle maintenance	67.8	57.4	55.7	18.2	3.2
Non-vehicle maintenance	62.9	53.8	47.1	17.0	14.1
Total	\$ 309.7	\$ 271.2	\$ 251.2	14.2%	8.0%

Operations and Maintenance Expenses by Mode					
<i>(in millions)</i>					
	2018	2017	2016	% Change	
				2018-2017	2017-2016
Link	\$ 122.4	\$ 100.4	\$ 88.8	21.9%	13.1%
ST Express	136.1	125.0	117.6	8.8	6.4
Sounder	51.2	45.8	44.8	11.9	2.1
Total	\$ 309.7	\$ 271.2	\$ 251.2	14.2%	8.0%

Non-operating Revenue and Expenses

- Strong regional **economy** and full year impact of **ST3 tax** increases:
 - 0.5% Sales & Use Tax
 - 0.8% MVET
 - \$0.25 per \$1,000 AV Property Tax
- Non-operating expense reduction reflects the completion of Phase 3 I-90 bridge two-way transit and HOV lane.

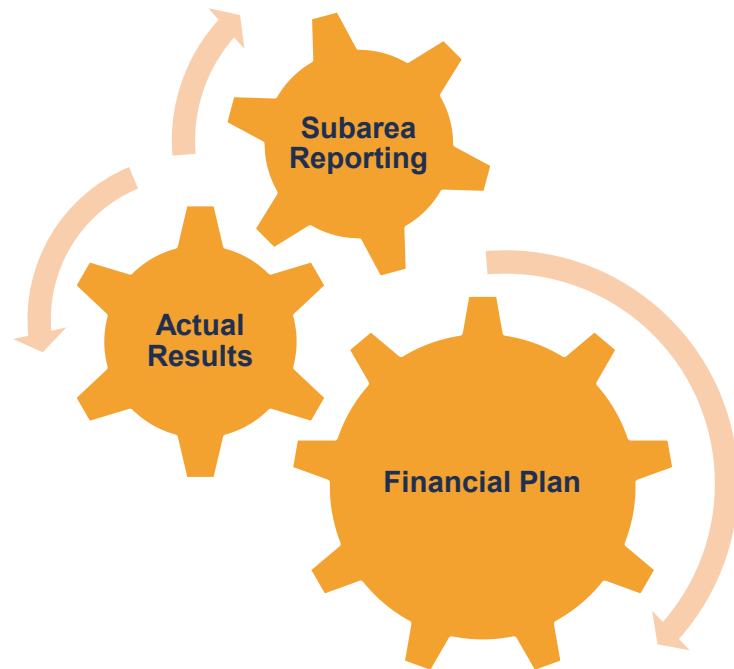
Non-Operating Revenue / Expenses					
(in millions)					
	2018	2017	2016	% Change	
				2018-2017	2017-2016
Non-operating revenues					
Sales and use tax	\$ 1,337.6	\$ 1,119.7	\$ 749.7	19.5%	49.3%
Motor vehicle excise tax	338.5	280.4	85.5	20.7	227.9
Property tax	146.3	140.9	-	3.8	100.0
Rental car tax	3.8	3.6	3.5	5.6	2.9
Investment income	37.8	16.9	12.6	123.7	33.8
Other revenues	20.1	18.5	29.8	8.5	(37.8)
Total	1,884.1	1,580.0	881.1	19.3	79.3
Non-operating expenses					
Contributions to other governments	24.5	279.3	4.7	(91.2)	5,814.6
Interest expense	-	15.6	1.7	(100.0)	782.8
Contributions to affordable housing	4.1	-	-	100.0	-
Other expenses	7.2	9.4	9.9	(23.4)	(5.1)
Loss (gain) on disposal of assets	-	0.4	(2.0)	(100.0)	(118.4)
Impairment	-	1.9	-	(100.0)	100.0
Total	35.8	306.6	14.3	(88.3)	2,036.8
Non-operating revenues, net	\$ 1,848.3	\$ 1,273.4	\$ 866.8	45.2%	46.9%

2018 Subarea Equity Report

Subarea Equity Reporting

Financial Policies

- “Sound Transit will **establish a system** that on an annual basis reports subarea revenues and expenditures”
- “Sound Transit will appoint an advisory **citizen oversight committee to monitor** Sound Transit performance under these policies”



Independent Accountant Oversight

Items to review and test

- “Agreed Upon Procedures” were developed in 2010 in consultation with the Citizen Oversight Panel and updated annually as required
- Procedures are performed by independent accountants to verify compilation of the Subarea Equity Report
 - Noted adjustment to beginning net position

Basis of Presentation

Subarea reports are prepared consistent with the Financial Plan

- Modified cash basis
 - Excludes non-cash items such as depreciation and amortization
 - Tax revenues on a cash basis
 - Bond principal and interest expense on a cash basis
 - Reconciliation to financial statements presented in Appendix A
- Reported by Subarea using drivers and rules
 - Subarea drivers and rules described in Note 3 and Appendix B

2018 Schedule of Sources & Uses of Funds by Subarea

(in millions)	Actual Results 2018						
	Snohomish	North King	South King	East King	Pierce	Systemwide	Total
Sources	272.4	720.0	279.8	622.7	356.8	40.2	2291.8
Capital Uses	76.2	403.6	59.3	735.0	54.2	1.0	1329.2
O&M Uses	27.6	84.1	70.9	65.2	62.5	28.5	338.7
Debt Service and Reserve	15.3	55.4	25.0	31.5	22.8	117.4	267.4
Systemwide Allocation	(0.6)	(1.4)	(0.6)	(1.2)	(0.8)	4.6	0.0
Total Uses	118.5	541.7	154.6	830.5	138.6	151.5	1935.4
Excess Sources / Uses	153.9	178.3	125.1	(207.8)	218.2	(111.3)	356.4
Ending Position	470.5	175.9	186.2	0.0	584.5	170.4	1587.4

Sources

- Total sources for 2018 were up \$584 million from 2017, primarily due to full year of **ST3 tax revenue increase**
- East King utilized \$111 million of unallocated **bond proceeds** from the 2016 Green Bond issue

2018 Sources by Subarea



Capital Uses

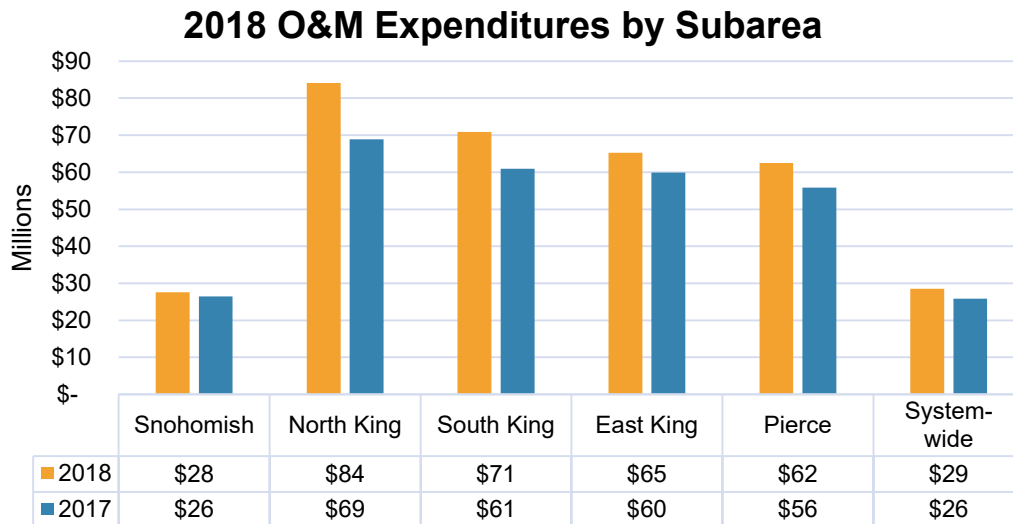
- Total capital outlays in 2018 were up 9% from 2017 as activity continues to increase on *East Link and Lynnwood Link*

2018 Capital Expenditures by Subarea



Operating & Maintenance (O&M) Uses

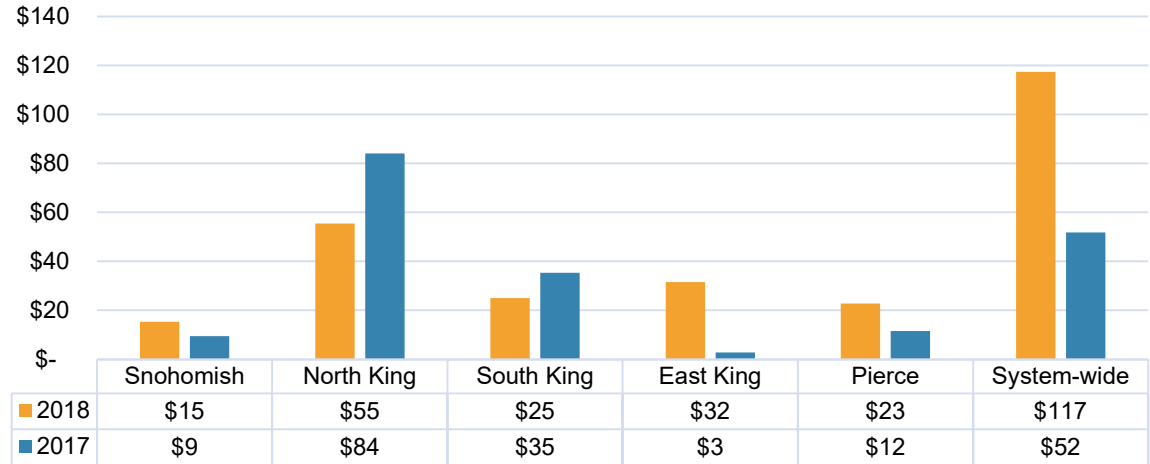
- O&M increased \$41 million or 14% overall from 2017, including **22% increase in Link** (Service providers such as purchased transportation and security as well as overhead)



Debt Service and Change in Reserves

- \$134 million **Interest and Principal** payments
- \$111 million in unallocated **bond proceeds** used by East King County

2018 Debt Service and Change in Reserve by Subarea



Thank you.



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