

CFO Report

Finance and Audit Committee

March 19, 2020



Purpose of this report:

- 2019 Financial Performance (Q4 Financial Performance and Asset Liability Management Reports)
- Spring Financial Plan Update
- Economic and Financial Impacts of COVID-19
- 2020 Audit Schedule

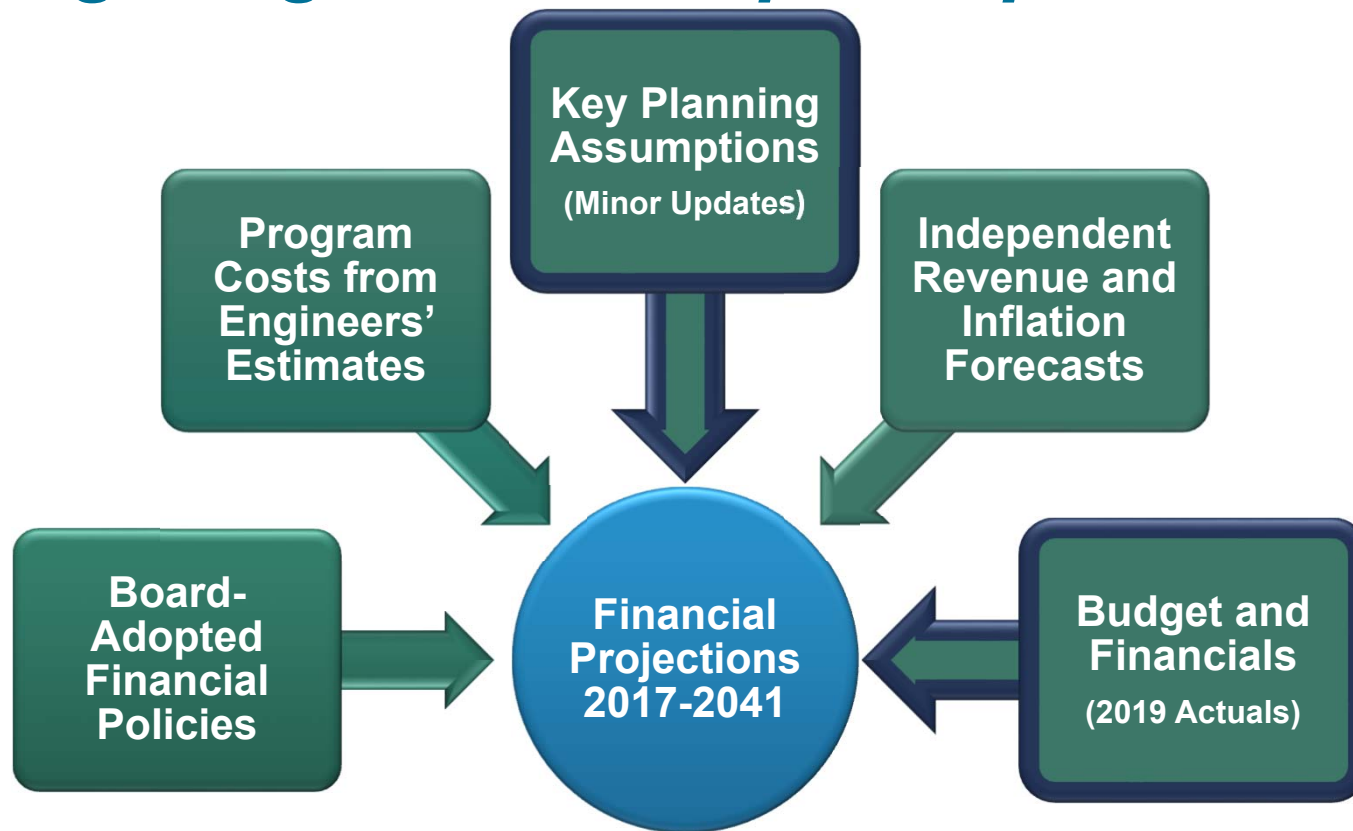
***2019 Financial Performance
Report***

Key Takeaways for 2019

- 1. Tax revenues 104% of budget***
- 2. Fare revenue 95% of budget due to lower ridership comparing to budget across all modes***
- 3. Project spending 82% of budget mainly due to delays in project approvals and ramp-up of construction***
- 4. Transit operating expense at 97% of budget***

Spring Financial Plan update

Long-range financial plan update



Key Takeaways for Current FP Update

- 1. 2019 revenues and expenditures did not have material impact on the current long term financial forecasts***
- 2. Economic conditions have changed drastically in the past weeks. High uncertainty on economic outlook due to recent social and market developments***

***Economic and financial
impacts of COVID-19***

General Market Updates

COVID-19 has caused significant financial market volatility.

- 11 year bull market ended on 3/12, steepest one day decline on 3/16 since 1987. 10-year Treasury yield drops below 1% for the first time in history.
- Federal Reserve cut rates to zero and launched a massive \$700 billion quantitative easing program.

Economists across the country now predict a coronavirus-driven recession, some believe the US is likely already in a recession.

Financial Impact on Sound Transit – Program Delivery

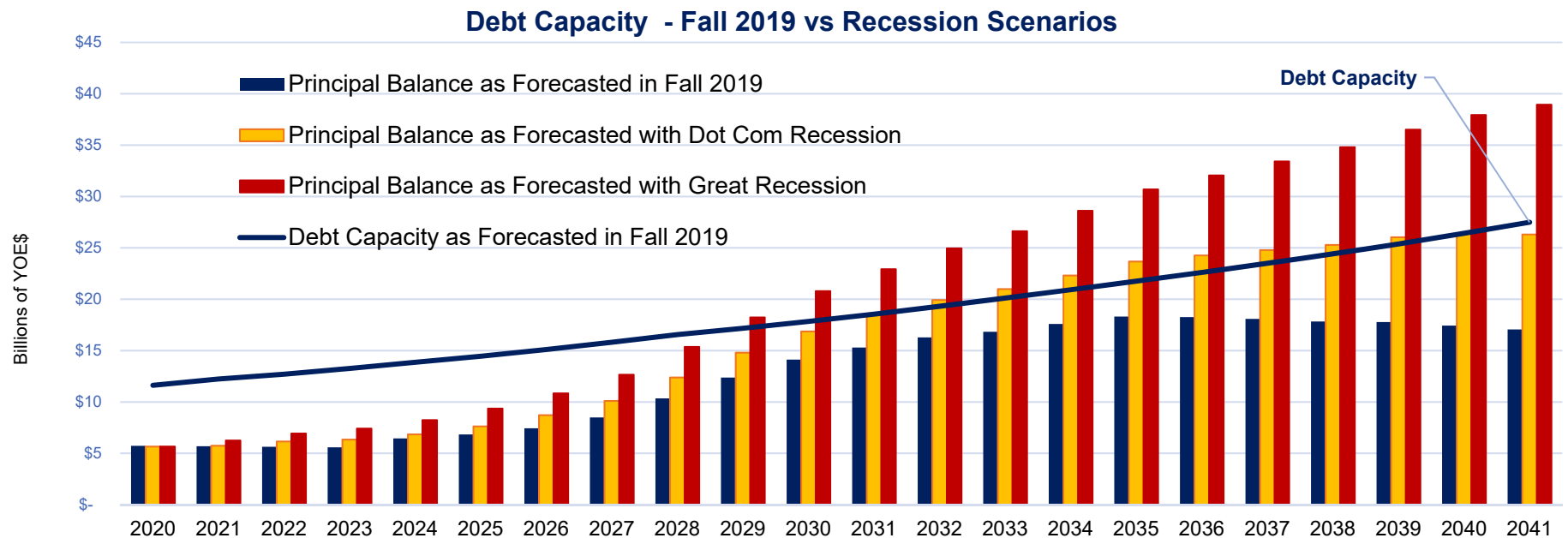
- In the near term, supply chain disruption could negatively affect schedule and cost of current projects
- In the intermediate term, a potential recession that leads to loss of revenues and financial capacity could jeopardize the affordability of the voter-approved program

A potential recession would threaten 81% of the program funding sources

- ***Taxes fund 66% of voter approved program (2017-2041)***
 - 52.2% Sales Tax
 - 8.6% MVET
 - 5.0% Property Tax
 - 0.1% Rental Car Tax
- ***Debt funds 15% of voter approved program (2017-2041)***
 - Debt capacity is defined by availability of future revenues (all pledged taxes) and growth of Assessed Value of properties (property value and tax)

Potential Impact on Program Affordability

- **Scenario 1: Mild recession similar to 2002 dot com recession**
- **Scenario 2: Severe recession similar to 2008 great recession**



Financial Impact on Sound Transit – other funding sources and revenues

- The program will not be able to benefit from the current interest rate environment as the access to capital market is extremely limited and premiums are priced in for all securities with the exception of Treasury bonds.
- Investment returns will be significantly lower
- Lower farebox revenue due to steep drop in ridership

Impact on ST Ridership

- ***Ridership decline as of March 16 over February ridership***

System Total: -69%

Link: -69%

ST Express (all partners): -70%

Souder: -72%

Tacoma Link: -62%

Impact on ST Fare Revenue and Farebox Recovery

- **Fare revenue loss:** Assuming the steep ridership declines last until June with a ramp back up over time, boardings would be 35% under budget and fare revenue would be 26% under budget for 2020
- **Forecasted 2020 Farebox recovery ratio could be below policy target for all models**

Mode	Policy	2019 Actuals	2020 Forecast
Link	40%	34%	<u>23%</u>
ST Express	20%	25%	<u>18%</u>
Souder	23%	31%	<u>22%</u>

2020 Audit Schedule

Audits facilitated by the Finance Dept.

Compliance Audits:

- ORCA Audit
- National Transit Database Audit
- Subarea Audit

Accountability Audits:

- State Auditor's Office Financial Audit Review

Financial Statement Audits:

- Financial Statement & Single Audit (A-133)

Q1	Q2	Q3	Q4
	✓		
	✓		
		✓	
Q1	Q2	Q3	Q4
		✓	
Q1	Q2	Q3	Q4
	✓		

Audits facilitated by Internal Audit

Performance Audits:

- Workforce Performance Management
- Oversight and Management of Sound Transit Projects
- Construction Performance Metrics Management

Internal Audit Division Audits:

- Audits in Internal Audit work plan

Q1	Q2	Q3	Q4
✓			
	✓		
	✓		
Q1	Q2	Q3	Q4
✓	✓	✓	✓

Thank you.



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