



2023 Annual Program Review

*Board of Directors
05/25/23*



Why we're here

- Provide overview of Annual Program Review
- Discuss key takeaways:
 - Financial capacity
 - Cost drivers
 - Portfolio performance

Information only — no Board action at this time

***Annual Program Review
overview***

Reporting to the Board

- Monthly dashboard & CEO report-out

- Next year's budget
- Updated Financial Plan & cost drivers info
- Monthly dashboard & CEO report-out



- Annual Program Review w/ cost drivers
- Updated Financial Plan
- Monthly dashboard & CEO report-out

- Monthly dashboard & CEO report-out

Overall key takeaways



ST's program remains affordable on the “affordable schedule,” and the “target schedule” remains unaffordable. ST's ability to issue debt has increased, and its ability to pay back debt has not improved.



Inflation is coming down off historical highs; however, operations and maintenance costs continue to rise.



Project costs are trending higher, and schedules are trending longer.

- *Changes to the Ballard (schedule delay) and Tacoma Dome Link extensions (schedule and cost increase) have increased capital costs.*
- *Stride BRT cost estimates are trending high.*

Financial capacity

Financial capacity key takeaways



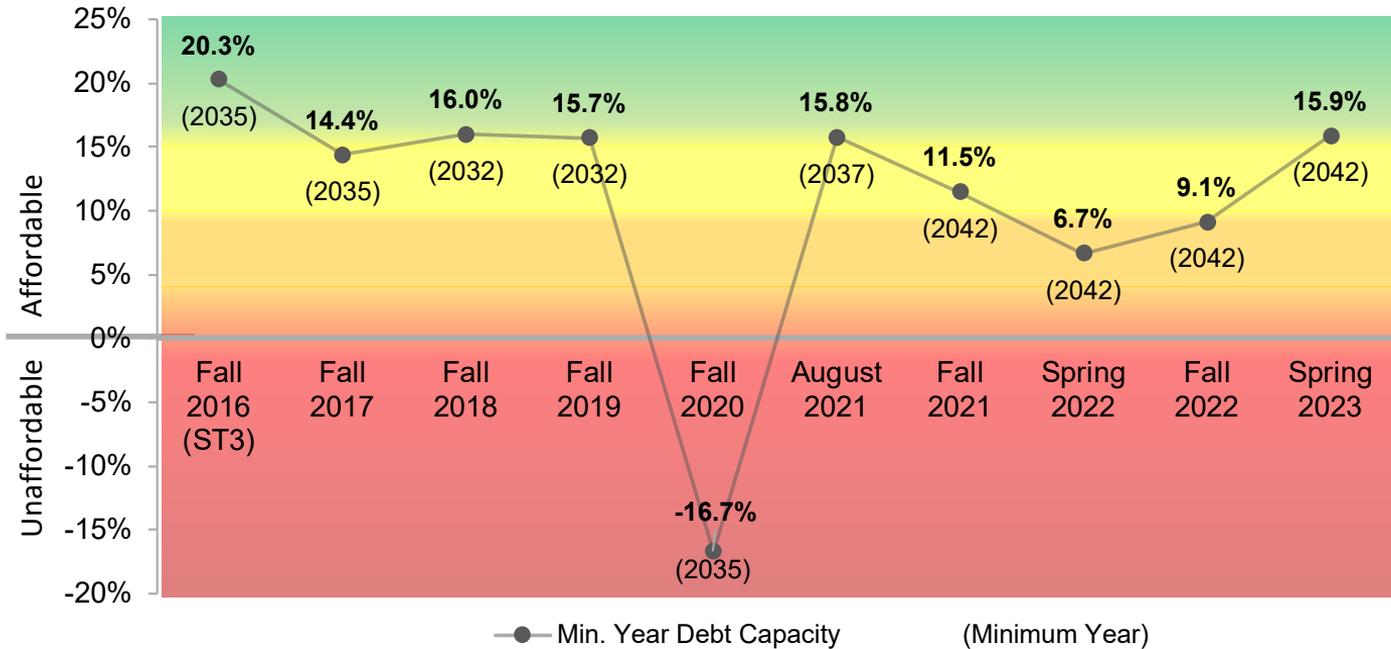
As compared to fall 2022:

- Capital expenditures increased, mainly due to new Tacoma Dome Link alternatives and impact of inflation on project delays.
- Operating costs increased due to higher staffing needs.
- Decrease in total tax revenues, primarily due to MVET.

Debt capacity (ability to issue debt) has increased, and coverage (ability to pay back debt) has not improved. Increased O&M costs will continue to be a risk to coverage.

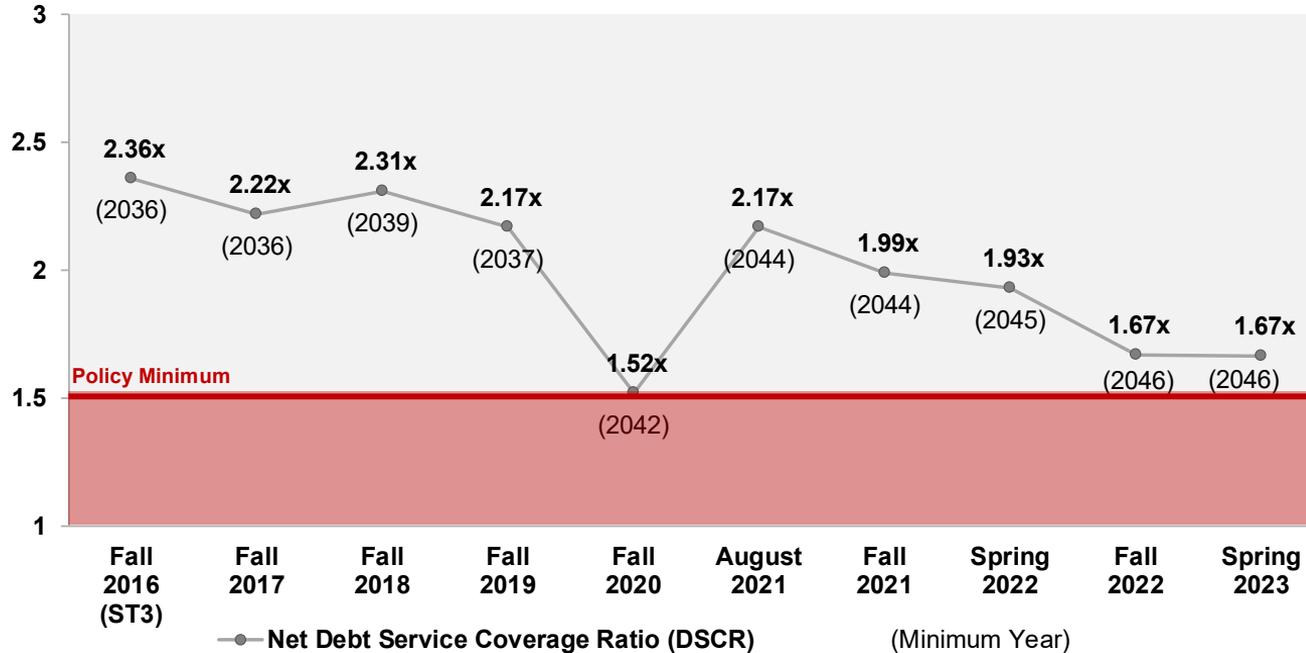
Debt capacity historical trend

Current minimum remaining available debt capacity is 15.9%.



Net debt service coverage ratio over time

Current minimum of 1.67x, moving close to policy limit of 1.5x.



DSCR is total revenue, minus operations costs, divided by debt service. This ratio ensures enough revenue to pay back debt.

Project affordability gaps: 2023 update



- Affordability gaps will “account for agency financial capacity, subarea affordability, and required system facilities.”
- To meet "Board Target Schedules", funding gap apportioned to each project based upon total agency affordability gap.
- Ballard Link is unable to advance into Target Schedule, **requiring reassessment of the total agency affordability gap and apportionment criteria.**

Cost drivers

Current cost drivers key takeaways



Current cost drivers remain high but are plateauing.

- Historically high **construction costs are slowing** due to a stabilizing global economy.
- Scope changes remain **a significant risk to the agency's Financial Plan estimates.**
- Due to higher interest rates and other market factors, **real estate values are cooling.**

Anticipated cost drivers key takeaways



Cost drivers are shifting to O&M costs to support a growing system with emerging and evolving needs.

- With new extensions, **operational conditions evolve**, and forecast **costs are trending higher than originally planned and modeled** (staffing, passenger expectations, service and storage requirements, state of good repair needs).
- Post-pandemic transit environment requires **more resources** (partner staffing shortages, security, cleaning, fare ambassadors).

Portfolio performance

Assessment: Projects in planning

Experiencing headwinds causing cost estimate increases and/or delays.



- **Scope changes** later in the process.
- Working with partner agencies and jurisdictions to obtain **agreements and/or permits**.
- Changes to **environmental evaluations** due to extended review durations or changes to the evaluation process.
- **Limited resourcing** for federal partners' review processes.

Assessment: Projects in construction



Experiencing quality and building challenges, along with activation needs.

- Pressures from **a doubling system** in the next few years.
- **Operational impacts** from East Link Extension's construction challenges.
- **Critical activities and resources** for activation and pre-revenue service.

Next steps

Strategies to manage cost and schedule impacts:

- Robust **collaboration** with local jurisdictions.
- **Monitor and manage** project risk registers and explore an agencywide enterprise risk program.
- **Enhance** Project Performance Tracker with additional metrics.
- **Incorporate** recommendations from the Board's Technical Advisory Group.
- **Continuous improvement** on Annual Program Review to better meet Board expectations for transparent portfolio and financial information.

Thank you.



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