Proposed 2024 Budget, Transit Improvement Plan and Financial Plan Update

Finance and Audit Committee Meeting
10/19/23
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
Timeline

October – overview of Long-Range Financial Plan projections and proposed 2024 budget and TIP

- November – budget reviews by Board committees and property tax levy approval
- December – budget recommendation and approval
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
## Budgets within Committee purview

<table>
<thead>
<tr>
<th>Committee</th>
<th>Budget/TIP Sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rider Experience and Operations</td>
<td>• Modal operating&lt;br&gt;• Non-system expansion projects</td>
</tr>
<tr>
<td>System Expansion</td>
<td>System expansion projects – Link, Sounder, Regional Express, Stride</td>
</tr>
<tr>
<td>Executive</td>
<td>• System expansion projects – systemwide&lt;br&gt;• Other expenditures</td>
</tr>
<tr>
<td>Finance and Audit Committee</td>
<td>Other committees recommend budgets to FAC; FAC recommends overall budget to Board</td>
</tr>
</tbody>
</table>
Proposed 2024 Budget and Transit Improvement Plan (TIP)
Revenues & funding sources
### Executive summary – revenues and financing

*(In millions)*

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

- 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
Where the money comes from: $2,899M

(In millions)

- **TAX REVENUES**, $2,397.6
- **PASSENGER FARE REVENUES**, $59.4
- **GRANTS & LOCAL CONTRIBUTIONS**, $216.7
- **INVESTMENT INCOME**, $115.0
- **MISCELLANEOUS REVENUES**, $16.7
- **BOND & TIFIA LOAN PROCEEDS**, $93.3
Revenues and financing sources trends

In millions

<table>
<thead>
<tr>
<th>Source</th>
<th>Actual 2021</th>
<th>Actual 2022</th>
<th>Forecast 2023</th>
<th>Proposed Budget 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenues</td>
<td>$2,398</td>
<td>$2,319</td>
<td>$2,117</td>
<td>$2,239</td>
</tr>
<tr>
<td>Passenger Fare Revenues</td>
<td>$28</td>
<td>$45</td>
<td>$52</td>
<td>$59</td>
</tr>
<tr>
<td>Grants &amp; Local Contributions</td>
<td>$737</td>
<td>$577</td>
<td>$516</td>
<td>$217</td>
</tr>
<tr>
<td>Investment Income</td>
<td></td>
<td>$136</td>
<td>$115</td>
<td>$5</td>
</tr>
<tr>
<td>Miscellaneous Revenues</td>
<td></td>
<td></td>
<td>$5</td>
<td>$15</td>
</tr>
<tr>
<td>Bond &amp; TIFIA Loan Proceeds</td>
<td>$1,038</td>
<td>$615</td>
<td>$995</td>
<td>$93</td>
</tr>
</tbody>
</table>
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

- 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

### TOTAL EXPENDITURES - 2024 Proposed Budget

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

*2023 budget includes changes to the 2023 adopted budget due to Board actions.
Where the money goes: $3,023M

(In millions)

- System Expansion Projects, $1,850.7, 61%
- Modal Operating Expenses, $634.2, 21%
- Non-System Expansion Projects, $306.7, 10%
- Debt Service, $179.7, 6%
- Tax Collection & Fees, $19.4, 1%
- Leases, $12.9, 0%
- Agency Contingency, $19.0, 1%
- Other Non-Operating Expenses, $0.6, 0%
Operating expenses by mode: $634M
(In millions)

- LINK, $344.2, 54%
- SOUNDER, $101.1, 16%
- REGIONAL EXPRESS, $168.6, 27%
- TACOMA LINK, $20.3, 3%
System expansion projects by mode: $1,851M
(In millions)

- LINK, $1,419.5, 77%
- SYSTEMWIDE, $41.5, 2%
- STRIDE, $279.5, 15%
- REGIONAL EXPRESS, $15.6, 1%
- TACOMA LINK, $6.6, 0.4%
- SOUNDER, $88.0, 5%
Agency projects* by mode: $307M

(In millions)

- **SYSTEMWIDE**, $92.1, 30%
- **ADMINISTRATIVE**, $144.6, 47%
- **LINK**, $57.6, 19%
- **SOUNDER**, $10.7, 4%
- **TACOMA LINK**, $0.8, 0%
- **REGIONAL EXPRESS**, $0.9, 0%

*Excludes System Expansion projects
### Changes to Transit Improvement Plan

*(In millions)*

<table>
<thead>
<tr>
<th>TRANSIT IMPROVEMENT PLAN EXPENSES - 2024 Proposed Budget</th>
<th>Authorized Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CATEGORY</strong></td>
<td></td>
</tr>
<tr>
<td>2023 ADOPTED TRANSIT IMPROVEMENT PLAN</td>
<td>24,107.7</td>
</tr>
<tr>
<td>NEW PROJECTS / PROGRAMS</td>
<td>24.6</td>
</tr>
<tr>
<td>INCREASES TO EXISTING PROJECTS / PROGRAMS</td>
<td>1,133.0</td>
</tr>
<tr>
<td>DECREASES FROM PROJECT CLOSURES</td>
<td>(12.1)</td>
</tr>
<tr>
<td><strong>2024 Proposed Transit Improvement Plan</strong></td>
<td><strong>$25,253.2</strong></td>
</tr>
</tbody>
</table>

- New projects include the So. Warehouse Facility ($12M) and the UCC ($3M)
- Increases mainly from Stride baseline ($950M), TDLE/ OMFS PE and ROW ($208M), offset by reduction in funding for in-service projects.
- Closed out projects include the LRV Overhaul ($5M) and the Conv. Pl. retrofit ($4M)
2024 Transit Improvement Plan by mode: $25B

- LINK, $17.8, 70%
- SYSTEMWIDE, $3.0, 12%
- STRIDE, $2.4, 9%
- REGIONAL EXPRESS, $0.6, 3%
- TACOMA LINK, $0.3, 1%
- SOUNDER, $1.2, 5%
Service growth
Service: Platform hour growth by mode
Thoughts and concerns

• Proposed 2024 budget under original long-term forecast and target
• Expansion project delivery management remains critical
• Service openings and maintaining ST3 service levels continue to pressure costs
• Resourcing (labor and materials) continue to be a headwind to supporting growth
Budget timeline and next steps
Timeline

October – budget and Financial Plan kickoff

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
Timeline continued

December – budget recommendation and approval

• 12/7 – Rider Experience and Operations Committee – recommends to FAC
• 12/14 – Executive Committee – recommends to FAC
• 12/14 – System Expansion Committee – recommends to FAC
• 12/15 – Finance and Audit Committee – recommends to Board
• (to be scheduled) – 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
How is the Long-Range Financial Plan used?

• **Monitor program affordability.** Provides holistic view of program affordability and gives ST ability to act if the program is unaffordable.

• **Support decision making.** Provides financial impact of decisions presented to the Board.

• **Federal reporting.** Required for federal loans and grants.

• **Credit ratings.** Analysis from Financial Plan provided to ratings agencies.

• **Legislative Proposals and Initiatives.** Used to analyze bills that may impact Sound Transit’s financial projections.
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 inflation forecasts
- Consumer Price Index (CPI)
- Construction Cost Index (CCI)
- Right of Way Index (ROWI)

Financial Plan

Independent tax revenue forecasts
- Assessed values
- Sales tax
- MVET

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

**Goal is to be above 15%**

Current minimum remaining available debt capacity is 13.1%
Major changes and impacts in this Financial Plan update (2017-2046)

$505M funding gap to be filled with new debt

$1,760M more revenue

$2,265M more expenditures

(2017-2046 millions in YOE$)
Changes in bond issuance

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

- 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

(2017-2046 millions in YOEs)
Tax revenue

$2,341M (2.5%) increase compared to Spring 2023

- +$2,083M sales tax due to increased regional growth
- +$250M MVET mostly due to increased CPI assumptions
- +$26M increase in rental car tax due to travel recovering post pandemic
- -$18M property tax experienced a slight decrease due to decline in assessed value forecast
Fare revenue

$931M (16.9%) decrease compared to Spring 2023

• -$210M due to decreased ridership forecast, from known in-service date delays
• -$721M due to decreased boardings with fare media
  • Link: Updated to short-term rate of 55% and long-term rate of 75%
  • Pre-pandemic assumption of 80%

<table>
<thead>
<tr>
<th>Mode</th>
<th>Fare</th>
<th>Ridership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Link</td>
<td>(523)</td>
<td>(164)</td>
</tr>
<tr>
<td>Tacoma Link</td>
<td>(49)</td>
<td>(5)</td>
</tr>
<tr>
<td>Sounder</td>
<td>(109)</td>
<td>(40)</td>
</tr>
<tr>
<td>ST Express</td>
<td>(1)</td>
<td>15</td>
</tr>
<tr>
<td>BRT</td>
<td>(39)</td>
<td>(16)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>(721)</strong></td>
<td><strong>(210)</strong></td>
</tr>
</tbody>
</table>
Grants & other revenues

$350M (2.0%) increase compared to Spring 2023

• Grants increased $117M due primarily to additional federal appropriation for Federal Way and Lynnwood Link
• Interest earnings increased $333M, due to higher cash balances and short-term interest rates
• Other revenue decreased $100M
Capital expenditures & State of Good Repair

$2,055M (2.4%) increase from Spring 2023

- +$1,634M due to inflation index updates and latest project schedules
- +$288M due to Stride baseline project costs (R2023-18)
- +$133M Enterprise Resource Planning (ERP)/ Enterprise Asset Management System (EAMS) assumptions update
- *No project cost estimates were updated (e.g. OMFS)*
Operating expenses

$210 million (0.5%) increase from Spring 2023

• +$240M due to enhanced janitorial/cleaning, STEX/Sounder service restoration, and insurance increases
• +$159M due to inflation, labor and benefit market increases
• -$189M due to updating BRT in-service dates to baseline dates
<table>
<thead>
<tr>
<th>Headwinds</th>
<th>Tailwinds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Labor market (ST &amp; contracted)</td>
<td>• New carbon credit market sales revenues</td>
</tr>
<tr>
<td>• Cost increases for projects in planning (e.g. OMFS)</td>
<td>• Increased CIG grants assumptions</td>
</tr>
<tr>
<td>• Scope changes for projects in planning (e.g. West Seattle and Ballard PA, LRFP assumes 3rd party funding)</td>
<td></td>
</tr>
<tr>
<td>• Additional LRV needs, OMF capacity, and associated operating costs</td>
<td></td>
</tr>
<tr>
<td>• Fare revenues</td>
<td></td>
</tr>
<tr>
<td>• Claims on construction projects</td>
<td></td>
</tr>
</tbody>
</table>
Thank you.

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