Long-Range Financial Plan & Proposed 2019 Budget

October 25, 2018
Long-term Financial Planning

Long-term Financial Projection to 2041

- 25-year plan including all Sound Move, ST2, and ST3 sources and uses.

Transit Improvement Plan to 2024+

- Board-approved life-to-date and future costs for active projects.

Budget 2019

- The annual appropriation for all revenues and expenditures.
<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>October 25</td>
<td>Board – Overview of Budget and Financial Plan</td>
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</tbody>
</table>
| November 1 | Budget & Property Tax Public Hearing  
O&A Committee – Budget Presentation                                           |
| 8       | Capital Committee – Budget Presentation                                             |
| 15      | Board – Financial Plan Presentation and Property Tax Adoption  
Citizen Oversight Panel – Budget Presentation                                      |
| December 6 | O&A Committee – Recommends Budget to Board                                           |
| 13      | Capital Committee – Recommends Budget and Transit Improvement Plan to Board          |
| 20      | Board – Budget and Transit Improvement Plan Adoption                                  |
Long-Range Financial Plan
2017-2041
The Long-Range Financial Plan

Key Planning Assumptions
- Program Costs from Engineers’ Estimates
- Independent Revenue and Inflation Forecasts

Financial Projections 2019-2041
- Board-Adopted Financial Policies
- Budget and Audited Financials
2017-2041 Sources and Uses of Funds $96.2 B
(YOE$ in Millions)

**Sources**
- Tax Revenues: $63,450 (66%)
- Grant Revenues: $7,997 (8%)
- Bonds: $13,878 (14%)
- Interest Earnings: $453 (1%)
- Fares & Other: $7,071 (7%)
- TIFIA: $3,320...

**Uses**
- Capital: $50,053 (52%)
- O&M: $24,012 (25%)
- Debt Service: $15,336 (16%)
- SOGR: $6,238 (6%)
- Reserves & Other: $531 (1%)

These figures represent the sources and uses of funds for the specified period.
- Tax revenues: $2.8B, 4.7% more than 2017 projection due to a strong economy.

- Federal grants: The $298M increase is related to the Federal Way Link cost increase including FTA required contingency. The FFGA funds 25% of the cost and the amount increased proportionately.

- Bond proceeds: $384M, 2.8% more than 2017 projection due to increase in funding needs.

- Fare and other revenue: $529M, 8.8% more than 2017 projection. Fare revenue assumptions are updated in accordance with Board-adopted fare-box recovery ratios.
### Total Projected Uses of Funds 2017-2041 (in millions, $YOE)

- **Capital Expenditures:** $1.7B, 3.6% more than 2017 projection.
  - $1.1B due to Federal Way and Lynnwood cost increases.
  - $600M due to inflation increases and expenditure timing on all non-baselined projects.

- **Operating Expenses:** $2.1B, 9.5% more than 2017 projection.
  - $1.4B due to Link and Bus purchased transportation services.
  - $230M due to increases in public safety related costs.
- Debt Service: $727M, 6.3% more than 2017 projection due to earlier and additional borrowing.
- State of Good Repair: $62M, 1.0% less than 2017 projection due to reduced overhead cost assumptions as recommended from third party audit.
- Reserves: $57M more than 2017 projection, $28M due to increase in reserves for additional bond issuance, and $24M due to increase in O&M reserves per financial policy requirement.
Agency Remains in Strong Financial Condition

- Voter approved plan is affordable based on updated projections.

- Ongoing operating expenses, state of good repair, and reserves are fully funded.

- Agency’s financial performance is consistent with its AAA Rating from two rating agencies.
  - 3.55x debt service coverage ratio vs. 1.5x parity bonds covenant requirement.
  - Slightly increased from 3.26x projected in 2017.
Capacity “Pinch Year” Shifted From 2035 to 2032

- Strong economy and property value increases create additional capacity.
- Higher cost growth creates earlier financial burden.
The Next Recession May Be Around the Corner

According to the Aug. 28 – Sept. 17 poll of 51 forecasters issued by the National Association for Business Economics,

“Two-thirds of business economists in the U.S. expect a recession to begin by the end of 2020…”
Earlier Recession Could Increase the Likelihood of Program Adjustment

Financial Capacity - Fall 2018 Projection + Recession Scenario

Billions of YOE$
Key Risks

- Near-term recession (loss of tax revenue and debt capacity).
- Continued inflation on capital and operating costs.
- Loss of federal grant funding.
- Loss of expected MVET revenue.

One or a combination of these scenarios threatens our ability to deliver the program as planned.
Dynamic Program Will Require Ongoing Board Balancing of Risks & Priorities

- New Finance Committee in 2019 will receive regular updates on financial capacity and risk status.

- Financial Policies provide framework for Board management of voter-approved program.

- Board can utilize existing tools to ensure system affordability and on-schedule program delivery.

- Maintaining project scope discipline is critical to preserving long term financial capacity.

- Detailed financial plan discussions with the Board in November and December 2018.
### 2019 Sources and Uses of Funds $2.9B

#### Sources In Millions

- **Unrestricted Cash Balance** $487 17%
- **TIFIA Loan** $100 3%
- **Passenger Fare Revenue** $103 4%
- **Property Tax,** $152 5%
- **Federal Grants** $318 11%
- **Motor Vehicle Excise Tax** $335 11%
- **Retail Sales and Use Tax** $1,366 47%
- **Other** $51 2%

#### Uses In Millions

- **System Expansion Projects** $2,200 75%
- **Transit Modes Operating Expense** $345 12%
- **Debt Service** $135 5%
- **Fees, Donations, and Reserves** $33 1%
- **Other Projects** $198 7%
- **Unrestricted Cash Balance** $487 17%
- **Other** $51 2%
Proposed 2019 Revenues and Financing: $2.4B

- **Taxes**: Sales Tax is the largest funding source - $55M, 4% projected growth in 2019 due to the strong local economy.

- **Federal grants**: Anticipated grant drawdowns are primarily for Lynnwood Link Extension and Federal Way Link Extension.

- **TIFIA loan proceeds**: $100M TIFIA draws are expected in 2019 for all closed TIFIA loans.

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<tbody>
<tr>
<td>Retail Sales and Use Tax</td>
<td>1,239</td>
<td>1,311</td>
<td>1,366</td>
<td>127</td>
<td>10%</td>
<td>55</td>
<td>4%</td>
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<tr>
<td>Motor Vehicle Excise Tax</td>
<td>312</td>
<td>327</td>
<td>335</td>
<td>23</td>
<td>7%</td>
<td>8</td>
<td>3%</td>
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<tr>
<td>Property Tax</td>
<td>150</td>
<td>144</td>
<td>152</td>
<td>2</td>
<td>1%</td>
<td>8</td>
<td>5%</td>
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<tr>
<td>Federal Grants</td>
<td>172</td>
<td>217</td>
<td>318</td>
<td>146</td>
<td>85%</td>
<td>102</td>
<td>47%</td>
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<tr>
<td>TIFIA Loan Proceeds</td>
<td>57</td>
<td>57</td>
<td>100</td>
<td>43</td>
<td>77%</td>
<td>43</td>
<td>77%</td>
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<tr>
<td>Passenger Fares</td>
<td>90</td>
<td>93</td>
<td>99</td>
<td>9</td>
<td>10%</td>
<td>3</td>
<td>3%</td>
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<tr>
<td>Other*</td>
<td>38</td>
<td>47</td>
<td>47</td>
<td>9</td>
<td>23%</td>
<td>0</td>
<td>1%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$2,065</strong></td>
<td><strong>$2,205</strong></td>
<td><strong>$2,424</strong></td>
<td><strong>$359</strong></td>
<td><strong>17%</strong></td>
<td><strong>$219</strong></td>
<td><strong>10%</strong></td>
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*Rental car is included in “Other”. Numbers may not add correctly due to rounding.
Balancing funding for voter-approved capital program and ongoing operating and maintenance costs is critical.

Long-range financial capacity and program affordability were used to develop 2019 operating budget target for the agency.

Realistic budget ask intended to align budget to actual performance.
### 2019 Operations & Maintenance Budget: $504M

- **Link**: higher purchased transportation costs ($6M), public safety costs ($11.4M), DSTT transition costs ($3M), and new service launch related costs.

- **Sounder**: higher materials and supplies ($1M), and higher purchased transportation ($0.5M)

- **ST Express**: higher purchased transportation costs ($10M).

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<tr>
<td>Link &amp; Tacoma Link</td>
<td>126</td>
<td>110</td>
<td>143</td>
<td>18</td>
<td>15%</td>
<td>33</td>
<td>30%</td>
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<tr>
<td>Sounder</td>
<td>54</td>
<td>52</td>
<td>55</td>
<td>1</td>
<td>2%</td>
<td>3</td>
<td>6%</td>
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<tr>
<td>ST Express</td>
<td>142</td>
<td>139</td>
<td>148</td>
<td>6</td>
<td>4%</td>
<td>9</td>
<td>6%</td>
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<tr>
<td>Transit Mode O&amp;M</td>
<td>321</td>
<td>301</td>
<td>345</td>
<td>24</td>
<td>8%</td>
<td>44</td>
<td>15%</td>
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<td>Allocation to Projects</td>
<td>146</td>
<td>141</td>
<td>159</td>
<td>13</td>
<td>9%</td>
<td>18</td>
<td>12%</td>
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<tr>
<td><strong>Total Departments</strong></td>
<td><strong>$468</strong></td>
<td><strong>$443</strong></td>
<td><strong>$504</strong></td>
<td><strong>$37</strong></td>
<td><strong>8%</strong></td>
<td><strong>$62</strong></td>
<td><strong>14%</strong></td>
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*Numbers may not add correctly due to rounding.
ST2 peaks and ST3 continues to increase in 2019

ST2 and ST3 Capital Spending Plan

ST2 Peak

2008 2019 2043
Proposed 2019 Capital Projects Budget: $2.4B

- **System expansion**
  - Link - $2B or 86% of the capital projects budget is for Link projects: East Link, downtown Redmond, Northgate, Federal Way, and Lynnwood.
  - Sounder – Sounder Maintenance Base ($2M) in Lakewood, and six station access projects ($8M) across subareas: Puyallup, Sumner, Mukilteo, Kent, Auburn and Edmonds
  - ST Express and BRT – BRT projects will begin property acquisition and design.

- **Enhancement**: Projects expected to be completed in 2019 include renovations and a second lift at the Link OMF.

- **State of Good Repair**: costs for replacement buses ($34M), vehicle overhauls ($6M), and DSTT capital improvement ($5M).

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<tbody>
<tr>
<td>System Expansion</td>
<td>1,679</td>
<td>1,465</td>
<td>2,200</td>
<td>521</td>
<td>31%</td>
<td>734</td>
<td>50%</td>
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<tr>
<td>Enhancement</td>
<td>57</td>
<td>16</td>
<td>37</td>
<td>(20)</td>
<td>(35)%</td>
<td>21</td>
<td>125%</td>
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<tr>
<td>State of Good Repair</td>
<td>55</td>
<td>19</td>
<td>73</td>
<td>18</td>
<td>33%</td>
<td>54</td>
<td>290%</td>
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<tr>
<td>Administrative</td>
<td>78</td>
<td>77</td>
<td>89</td>
<td>11</td>
<td>14%</td>
<td>12</td>
<td>15%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$1,868</strong></td>
<td><strong>$1,578</strong></td>
<td><strong>$2,398</strong></td>
<td><strong>$521</strong></td>
<td><strong>28%</strong></td>
<td><strong>$820</strong></td>
<td><strong>52%</strong></td>
</tr>
</tbody>
</table>

*Numbers may not add correctly due to rounding.*