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

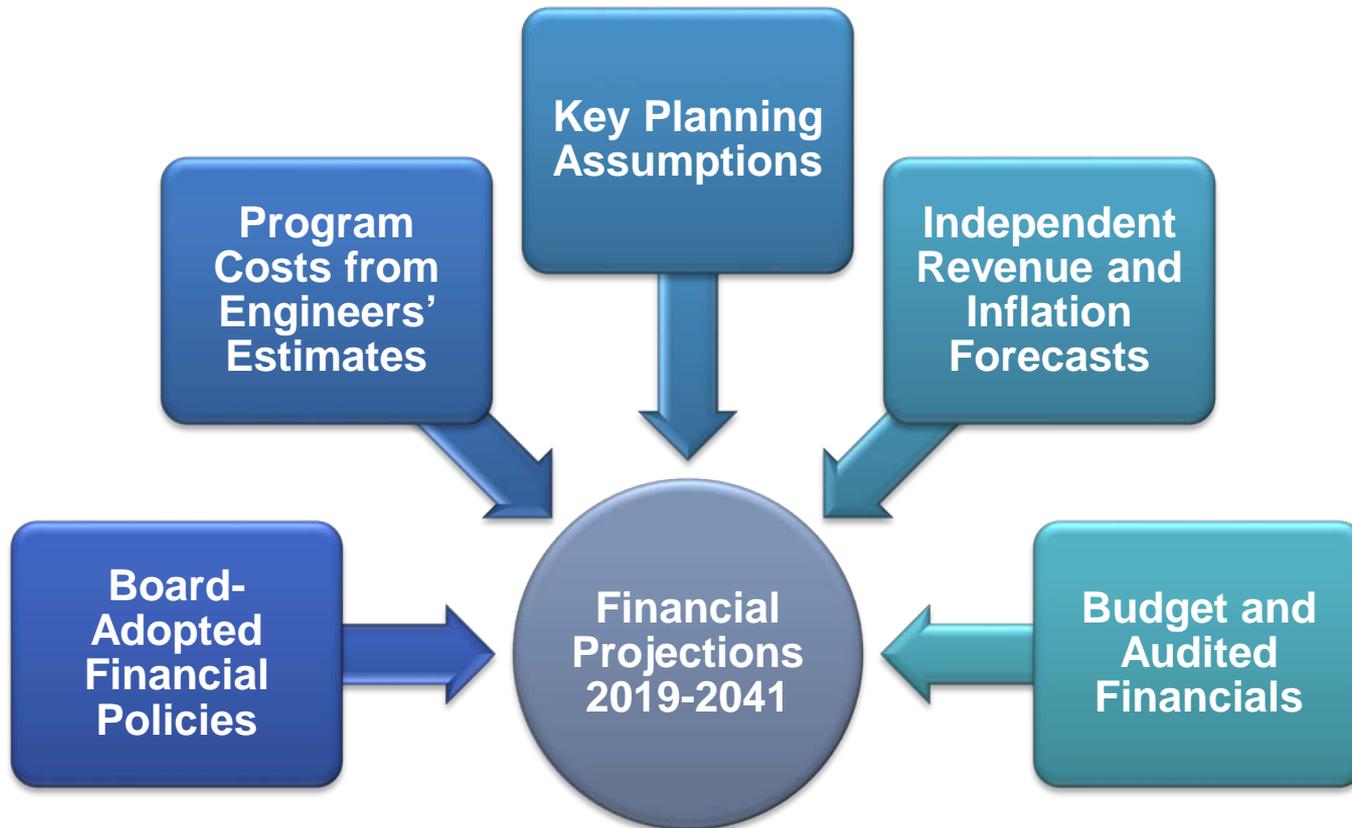- The annual appropriation for all revenues and expenditures.

Board, Committee, and COP Briefing Schedule

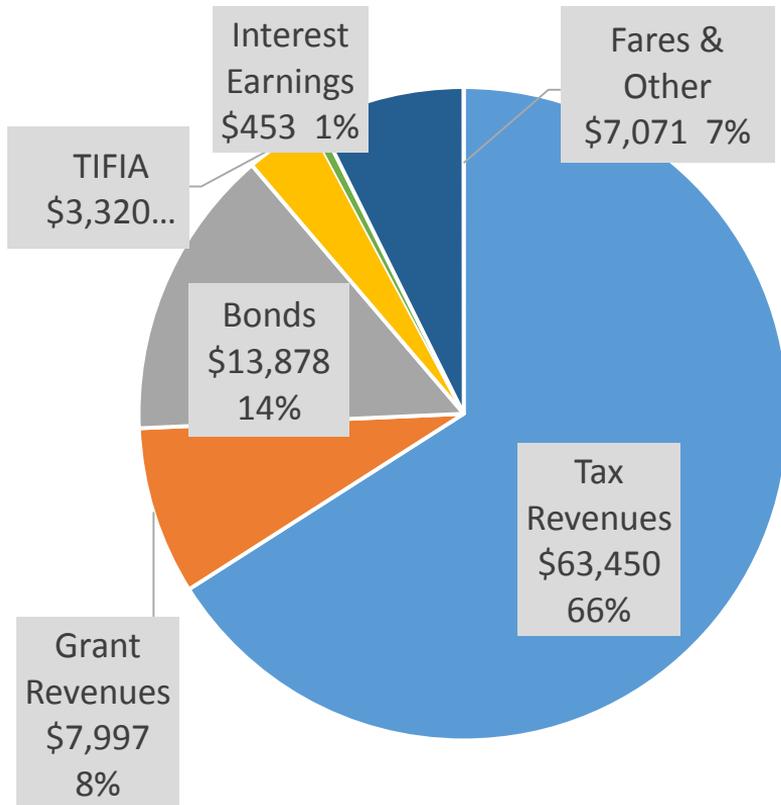| October	25	Board – Overview of Budget and Financial Plan
November	1	Budget & Property Tax Public Hearing O&A Committee – Budget Presentation
	8	Capital Committee – Budget Presentation
	15	Board – Financial Plan Presentation and Property Tax Adoption Citizen Oversight Panel – Budget Presentation
December	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

SOUND TRANSIT RIDE THE WAVE

Key Planning Assumptions

Program Costs from Engineers' Estimates

Independent Revenue and Inflation Forecasts

Board-Adopted Financial Policies

Financial Projections 2019-2041

Budget and Audited Financials

2017-2041 Sources and Uses of Funds $96.2 B
(YOE$ in Millions)

Sources

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

Uses

- Debt Service $15,336 16%
- Reserves & Other $531 1%
- SOGR $6,238 6%
- Capital $50,053 52%
- O&M $24,012 25%
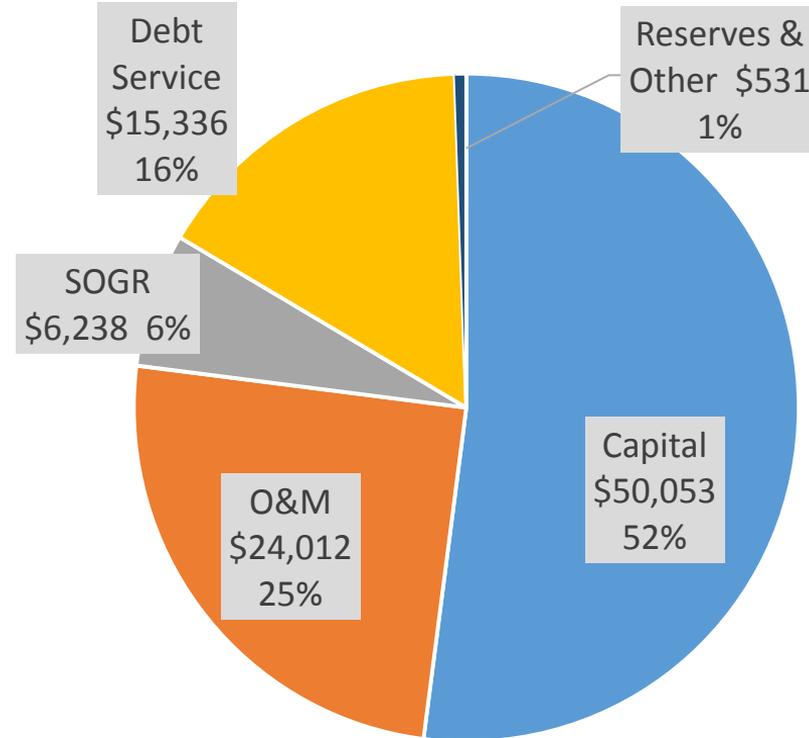
Chart: Total Projected Sources of Funds by category for 2017 (blue) and 2018 (orange): Sales tax, MVET tax, Property, Rental Car ($131 in 2017, $94 in 2018), Bonds and TIFIA, Grants, Fares and Other.

- 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.
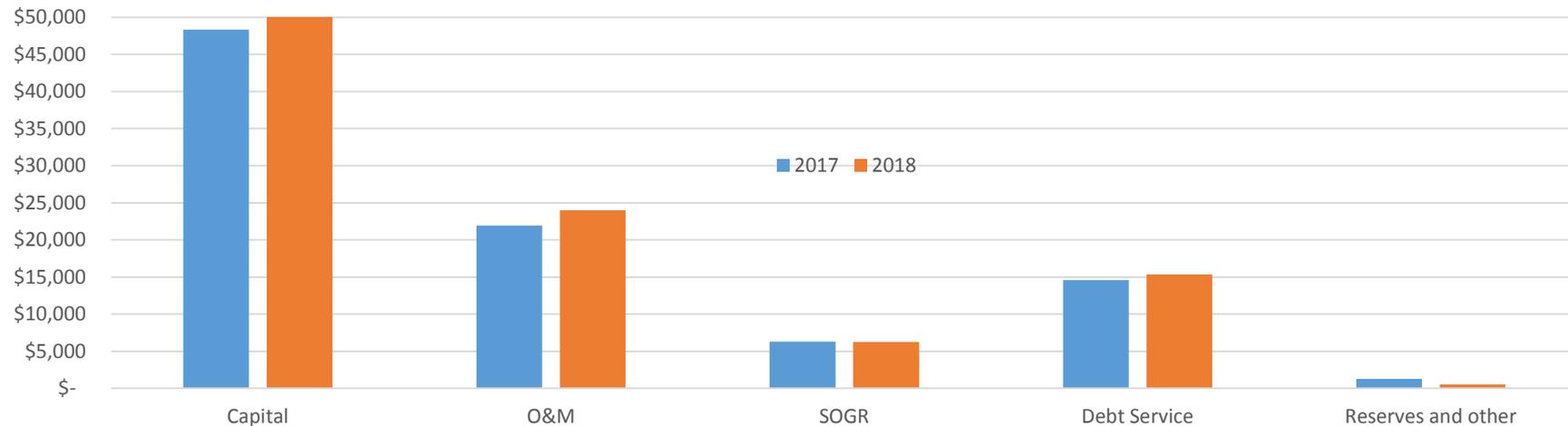
- Debt Service: $727M, 6.3% more than 2017 projection due to earlier and additional borrowing.

- 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.

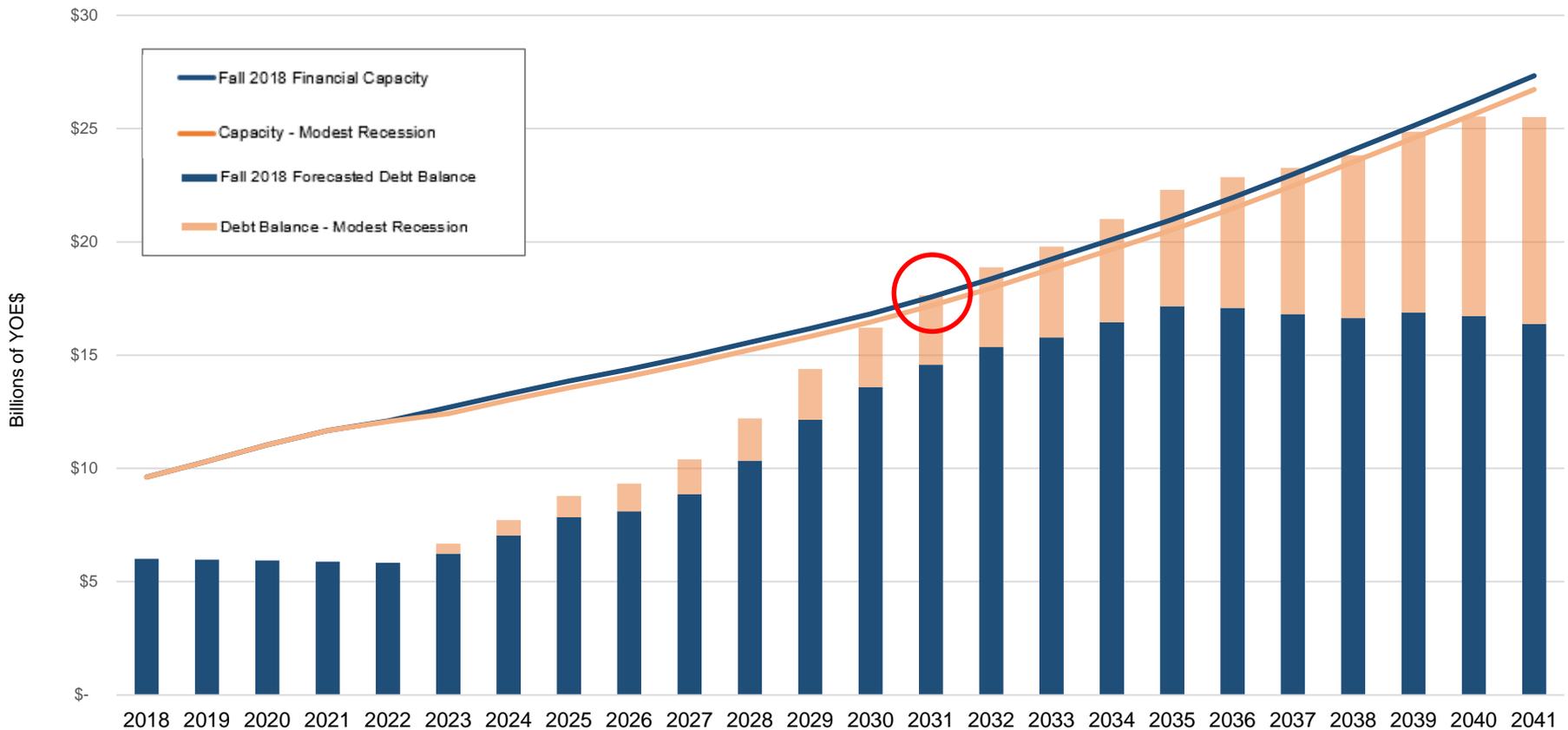# The Next Recession May Be Around the Corner
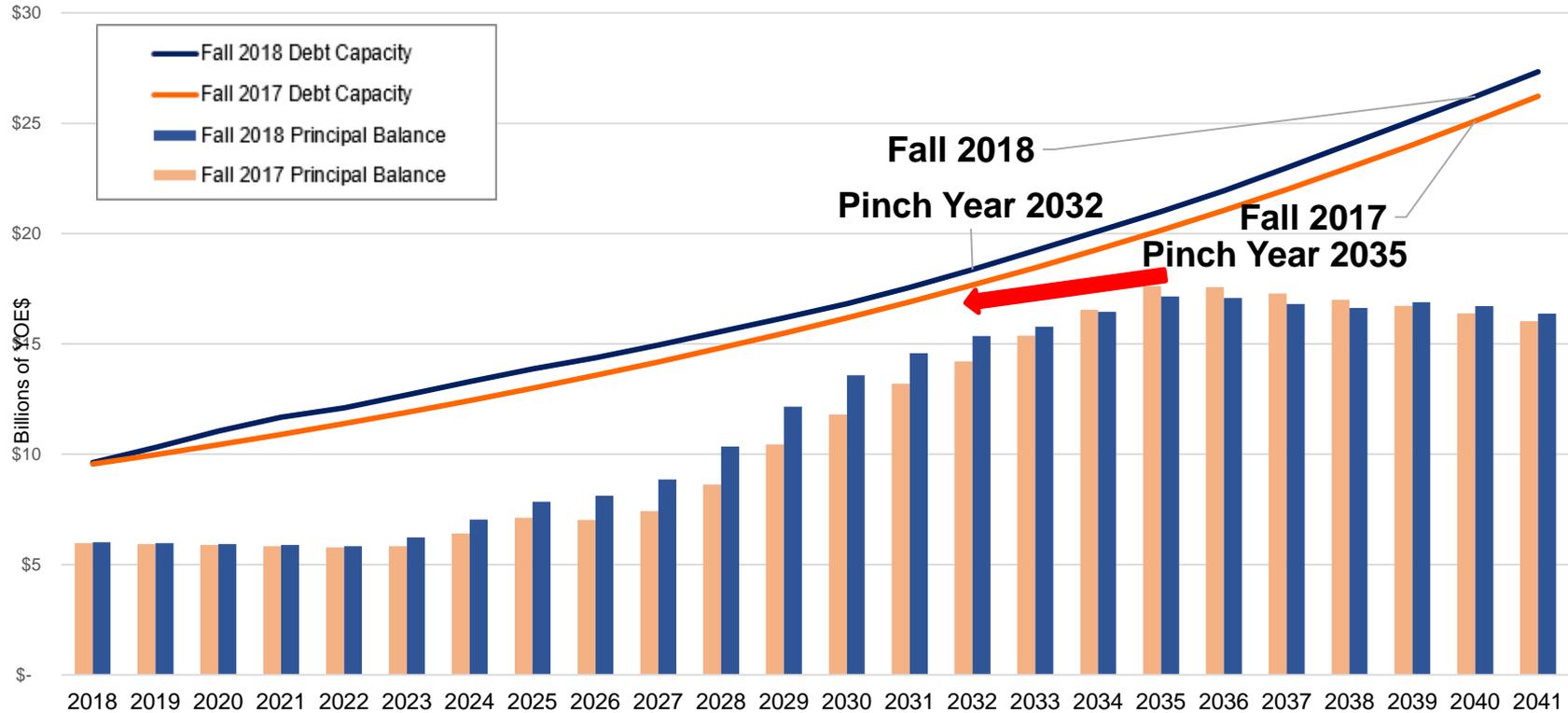
According to the Aug. 28 – Sept. 17 poll of 51 forecasters issued by the National Association for Business Economics,

"Two-thirds of business economists in the U.S. expect a recession to begin by the end of 2020…"

Financial Capacity - Fall 2018 Projection + Recession Scenario

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 the these scenarios threatens our ability to delivery the program as planned.

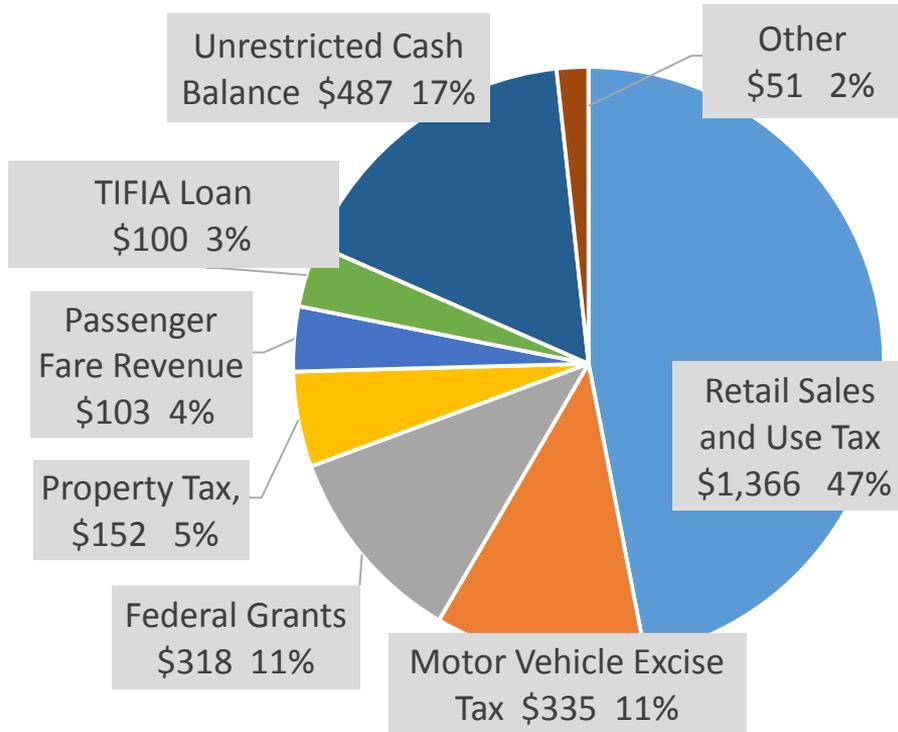# Dynamic Program Will Require Ongoing Board Balancing of Risks & Priorities

- 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.

Proposed 2019 Annual Budget

2019 Sources and Uses of Funds $2.9B

Sources In Millions

- Unrestricted Cash Balance $487 17%
- Other $51 2%
- 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%

Uses In Millions

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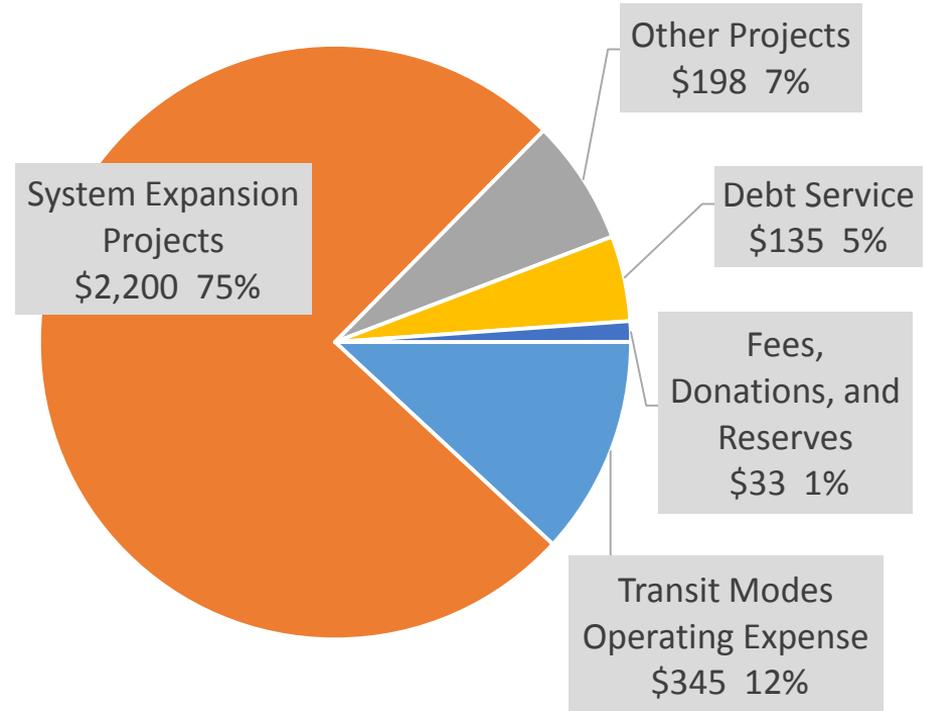
Proposed 2019 Revenues and Financing: $2.4B

- **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

Revenues and Financing (in $M)	2018 Budget	2018 Forecast	**2019 Budget**	'19B v '18B ($)	'19B v '18B (%)	'19B v '18F ($)	'19B v '18F (%)
Retail Sales and Use Tax	1,239	1,311	**1,366**	127	10%	55	4%
Motor Vehicle Excise Tax	312	327	**335**	23	7%	8	3%
Property Tax	150	144	**152**	2	1%	8	5%
Federal Grants	172	217	**318**	146	85%	102	47%
TIFIA Loan Proceeds	57	57	**100**	43	77%	43	77%
Passenger Fares	90	93	**99**	9	10%	3	3%
Other*	38	47	**47**	9	23%	0	1%
Total	**$2,065**	**$2,205**	**$2,424**	**$359**	**17%**	**$219**	**10%**

*Rental car is included in "Other". Numbers may not add correctly due to rounding.

2019 Operating Budget Driven by Current Needs and Long-Term Affordability

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- 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).

Transit Modes (in $M)	2018 Budget	2018 Forecast	**2019 Budget**	'19B v '18B ($)	'19B v '18B (%)	'19B v '18F ($)	'19B v '18F (%)
Link & Tacoma Link	126	110	**143**	18	15%	33	30%
Sounder	54	52	**55**	1	2%	3	6%
ST Express	142	139	**148**	6	4%	9	6%
Transit Mode O&M	**321**	**301**	**345**	**24**	**8%**	**44**	**15%**
Allocation to Projects	146	141	**159**	13	9%	18	12%
Total Departments	**$468**	**$443**	**$504**	**$37**	**8%**	**$62**	**14%**

*Numbers may not add correctly due to rounding.

ST2 and ST3 Capital Spending Plan
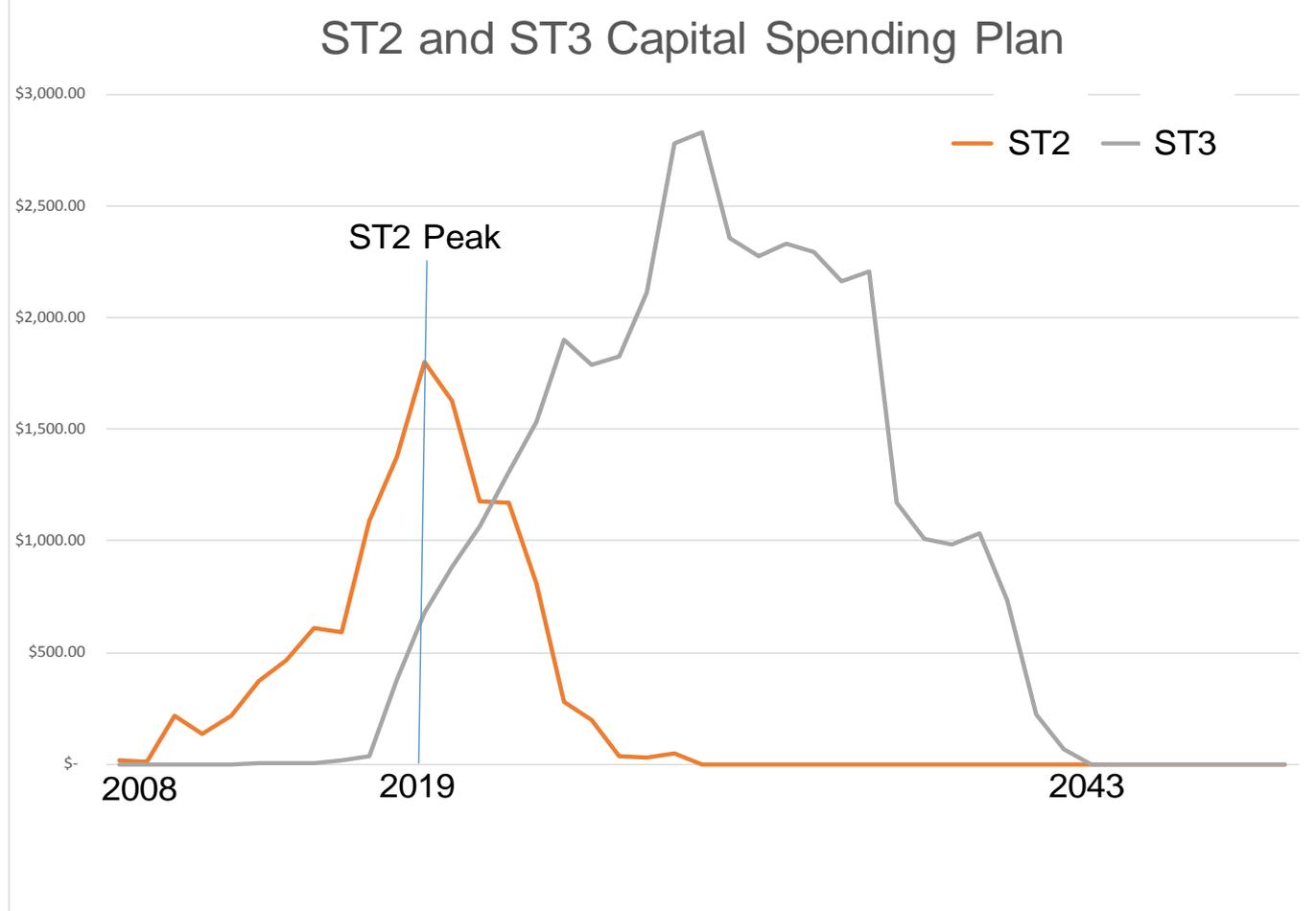
Proposed 2019 Capital Projects Budget: $2.4B

SOUND TRANSIT
RIDE THE WAVE

- **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).

Project Types (in $M)	2018 Budget	2018 Forecast	**2019 Budget**	'19B v '18B ($)	'19B v '18B (%)	'19B v '18F ($)	'19B v '18F (%)
System Expansion	1,679	1,465	**2,200**	521	31%	734	50%
Enhancement	57	16	**37**	(20)	(35)%	21	125%
State of Good Repair	55	19	**73**	18	33%	54	290%
Administrative	78	77	**89**	11	14%	12	15%
Total	**$1,868**	**$1,578**	**$2,398**	**$521**	**28%**	**$820**	**52%**

*Numbers may not add correctly due to rounding.