Long-Range Financial Plan Projections 2019 Update

Finance and Audit Committee | 10/24/19

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Why we are here

No action requested today, we are here to provide information.

Today we will review:

- Long-range financial plan projections 2019 update

Long-range financial plan projections and budget

Long-range Financial Plan Projections 2017 - 2041

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

Transit Improvement Plan to 2025

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

Budget 2020

- Annual revenue & financing sources and appropriations for all expenditures

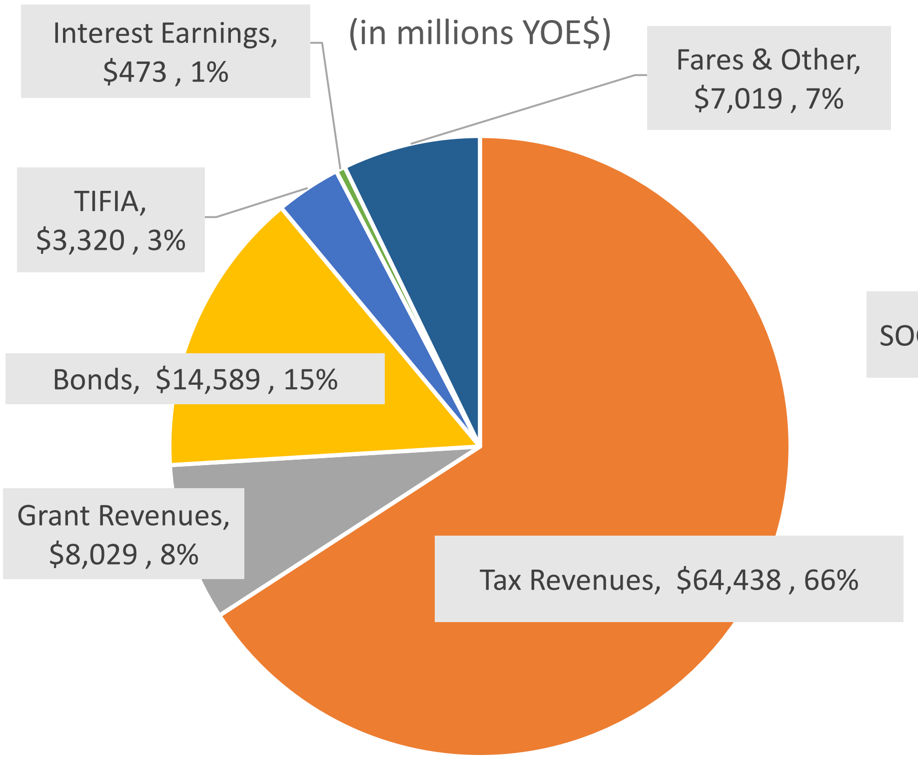
Long-range financial plan projections 2017 - 2041

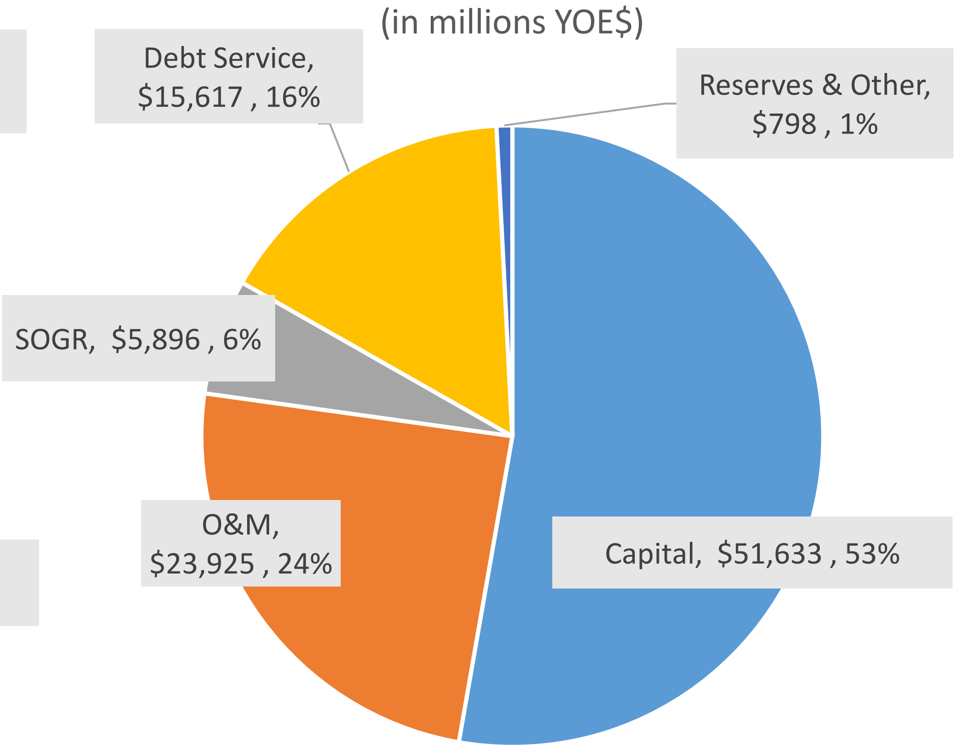
2017-2041 Sources and Uses of Funds - $97.9 B

Sources

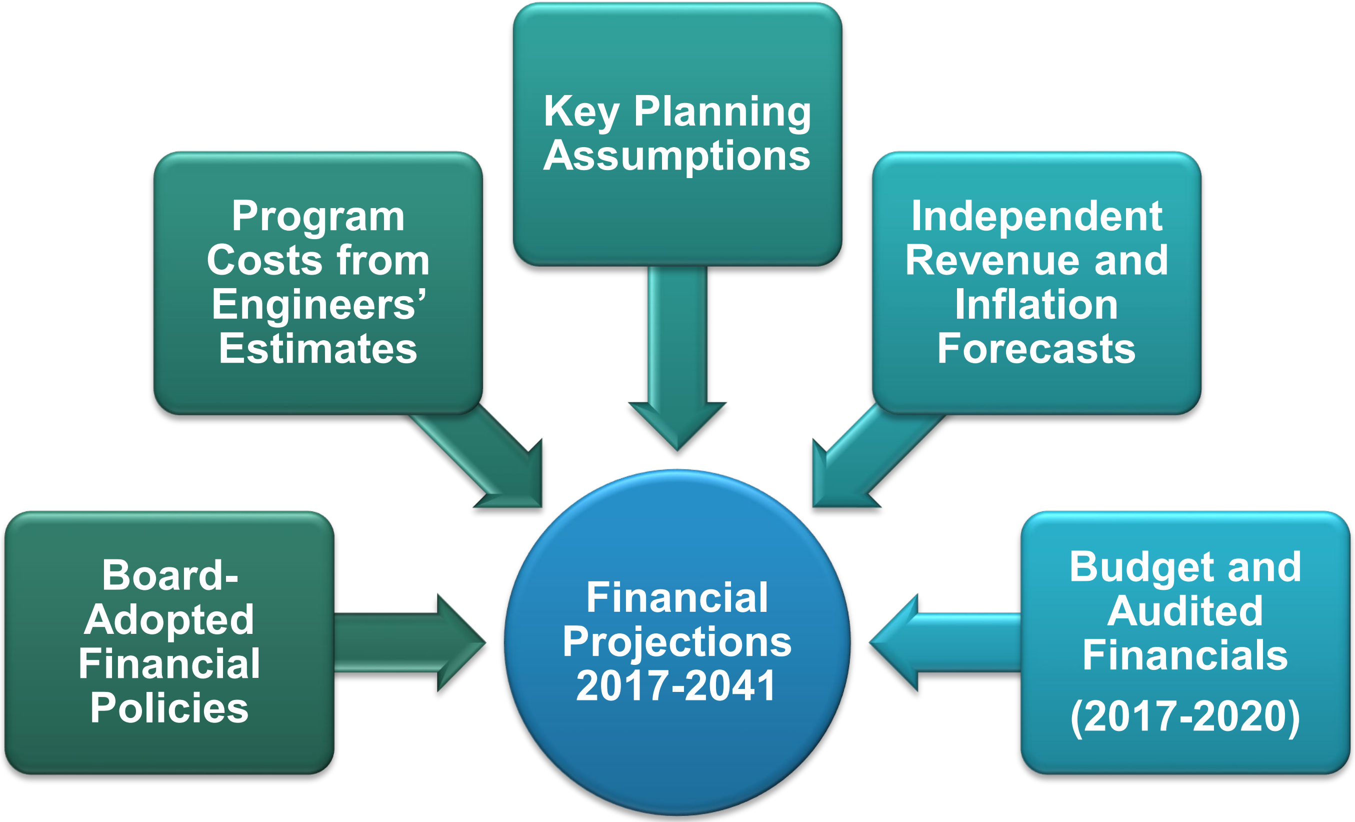
(YOE$ in Millions)

Uses





Long-range financial plan projections



Key takeaways – long-range financial plan projections

1. Higher capital cost forecast partially offset by higher projected tax revenue; remainder funded with additional debt

2. Updated operating budget process slows spending growth

3. Available debt capacity remains largely unchanged from 2018; capacity more constrained during peak period of ST3 delivery

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Takeaway 1: Higher capital cost forecast partially offset by higher projected tax revenue; remainder funded with additional debt

Financial plan projections change from 2018

2017-2041 (YOE$)

2018
Fall Financial Plan Projections: $96.2 Billion

+

2019
Updates (Net)
$1.7B

2019
Fall Financial Plan Projections: $97.9 Billion

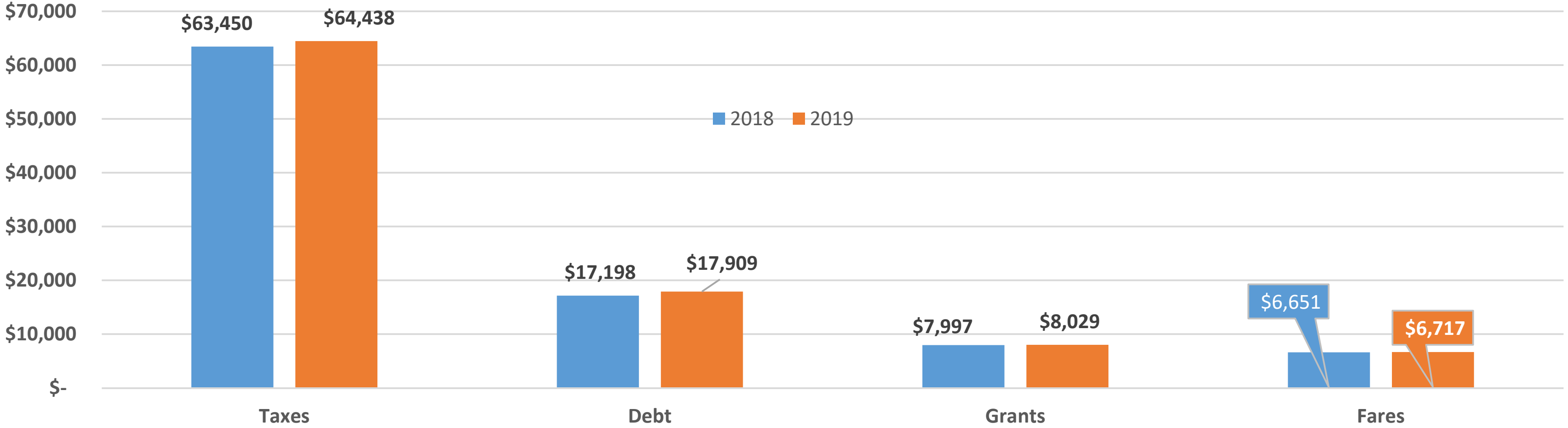
Change in sources

- Higher tax revenue forecast $1.0B
- Additional borrowing $0.7B

Change in uses

- Higher projected project costs $1.2B
- Increased debt service $0.3B
- Other $0.2B

Total projected sources of funds *2017-2041 (YOE$ in millions)*



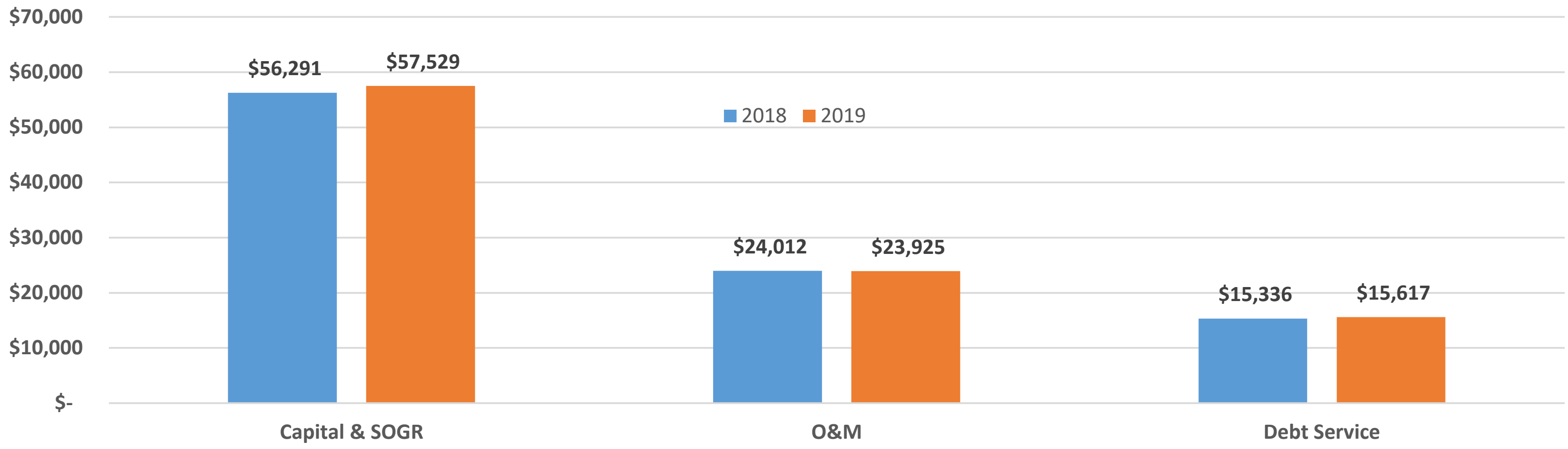
- ***Tax revenue:*** $988M (1.6%) more than 2018 projection
- ***Debt:*** $711M (4.1%) more than 2018 projection
- ***Federal grants:*** $32M (0.4%) more than 2018 projection
- ***Fares:*** $65M (1.0%) more than 2018 projection

Local economy slightly stronger than projected in 2018 (2017-2041)

Total increase: $1.0B (1.6%)

- Increase primarily due to higher forecasts for sales taxes: +$0.8B
- MVET, property, and rental car taxes projected increase: +$0.2B

Total projected uses of funds *2017-2041 (YOE$ in millions)*



- ***Capital & SOGR expenses:*** $1.2B (2.2%) more than 2018 projection
- ***Operating expenses:*** -$87M (-0.4%) less than 2018 projection
- ***Debt service:*** $282M (1.8%) more than 2018 projection

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Construction market conditions drive higher capital cost forecasts (2017-2041)

Total increase: $1.2B (2.2%)

- Increase primarily due to local construction market conditions: +$1.3B
- Slight decrease in Consumer Price Index (CPI) inflation: -$0.1B

Takeaway 2: Updated operating budget process slows spending growth

Operating projections down slightly from 2018 projections (2017-2041)

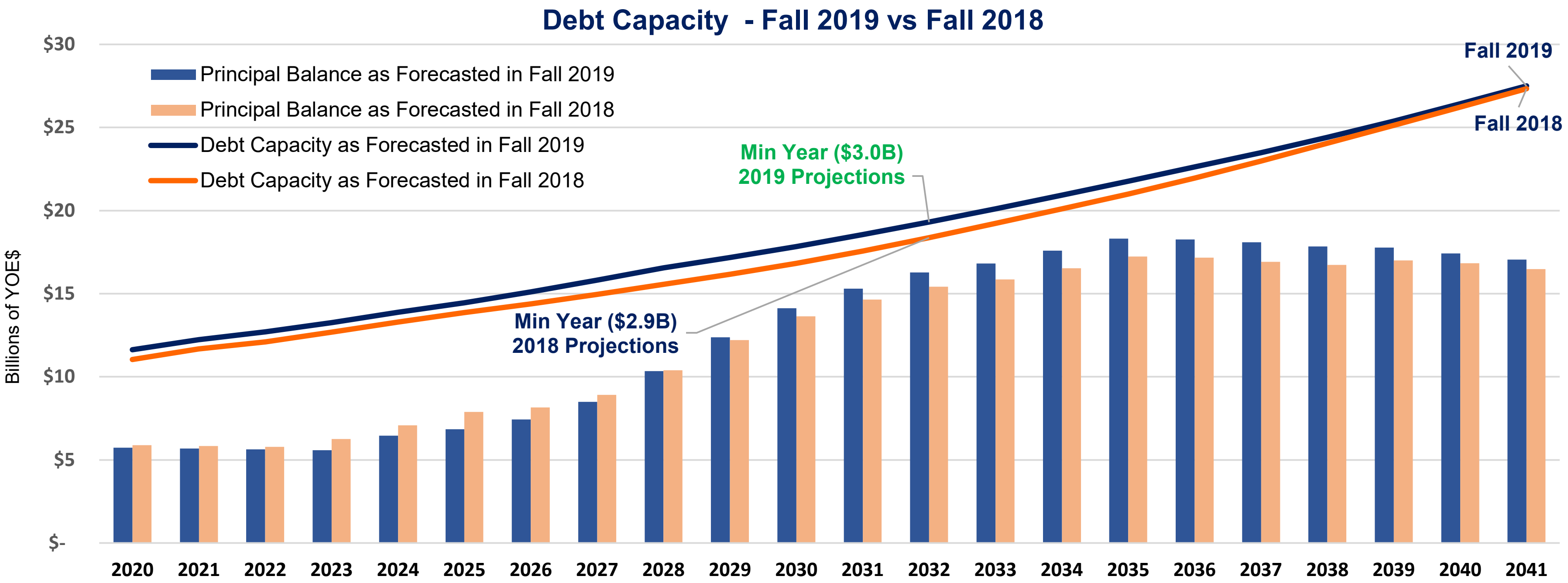
Total decrease: $-87M (-0.3%)

- Decrease primarily due to implementing tight, affordability based operating targets: -$325M
- Lower projected Consumer Price Index (CPI): -$223M
- Downtown Seattle Transit Tunnel (DSTT) and vertical conveyance maintenance cost increase: +$256M
- Projected increase in security spending: +$205M

Takeaway 3: Available debt capacity remains largely unchanged from 2018; capacity more constrained during peak period of ST3 delivery

Projected capacity similar to 2018 forecast

Slight increase on assessed value (AV) growth offset by increased borrowing



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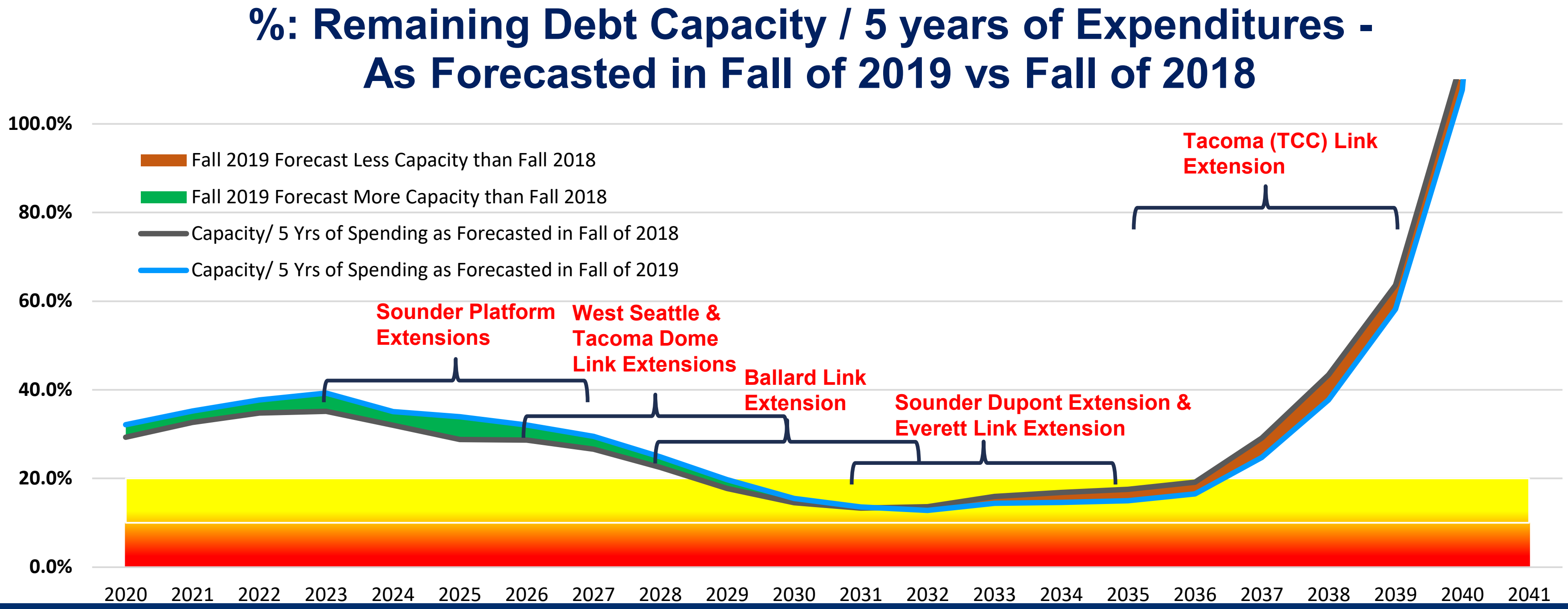
Capacity more constrained during peak period of ST3 construction spending

More capacity earlier in projection (2021-2029), less capacity 2031 and beyond



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Key risks and management considerations

Agency remains in strong financial condition, but key risks remain

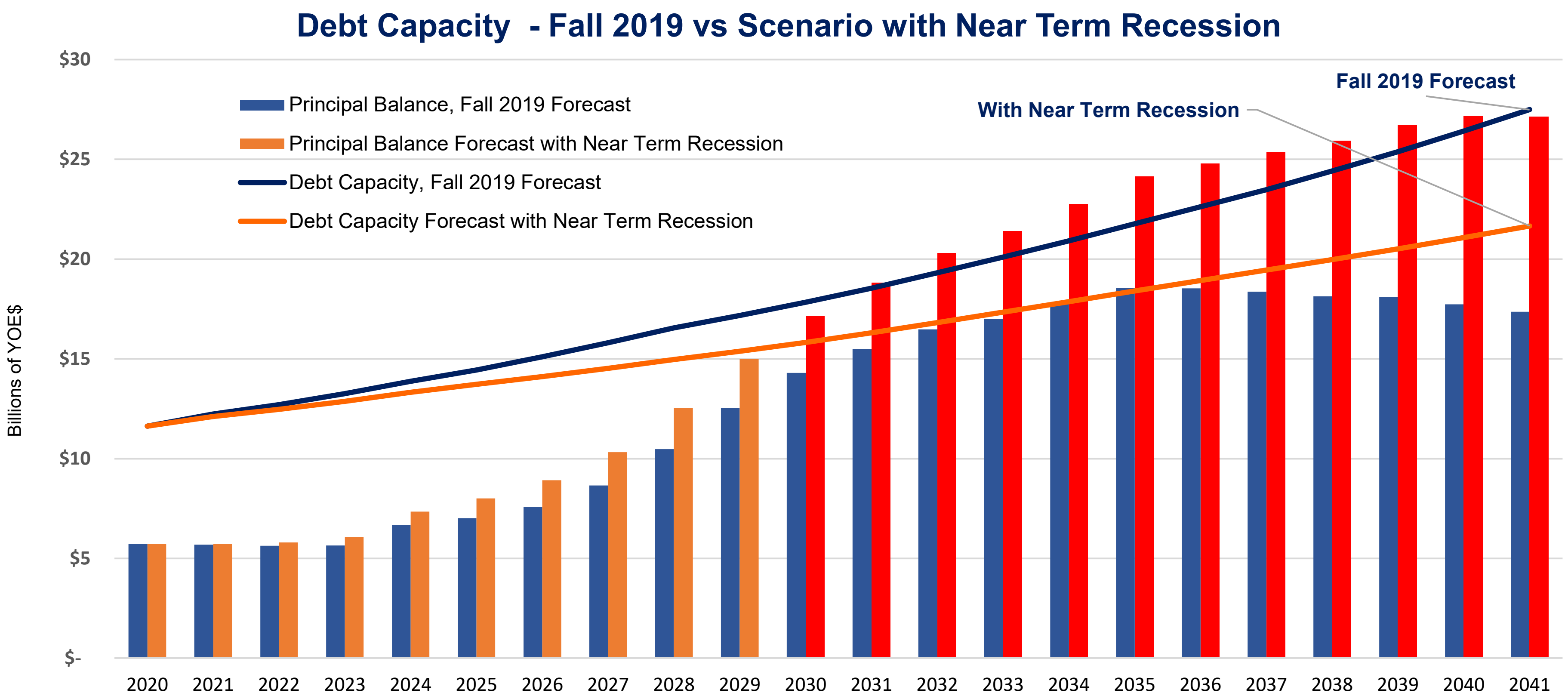
- Voter approved plan remains affordable based on updated projections
- Operating expenses, state of good repair, and reserves are fully funded
- Agency’s financial condition is consistent with its AAA Rating from two rating agencies
- Key risks remain

Key risks

- Near-term recession (loss of tax revenue and debt capacity)
- Continued cost pressure on capital program
- Continuing cost growth for 3rd party services

One or a combination of the these risks would threaten Sound Transit's ability to delivery the program as planned

Near term recession scenario



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Key management considerations

- Scope discipline for the entire program remains imperative; decisions we make today have significant impacts on the future
- Contain operating expense growth to ensure program affordability
- Consider expanding funding sources through partnership
- Optimize financing strategy to minimize borrowing costs

Annual operating budget methodology

Purpose of the methodology

Achieve efficiencies and fiscal discipline by effectively managing operating expenses

Maintain financial sustainability to deliver the voter-approved plan

Affordability/priority-based budgeting

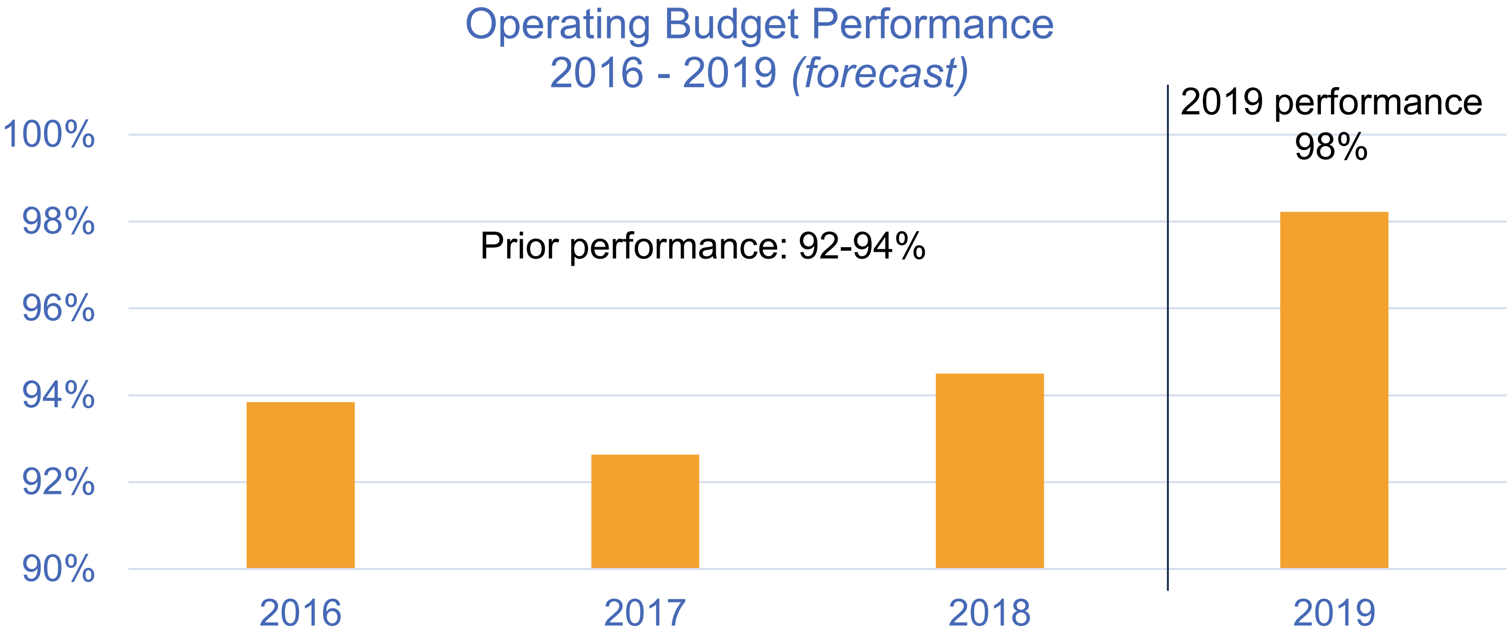
Prior process

- Incremental basis: new budget based on prior year's spending plus inflation
- Request-driven resource allocation

Updated process

- Operating budget target developed based on financial projections, constraints, and risks
- Resources allocated in alignment with agency priorities

Effects of updating operating budget process: improved budget performance



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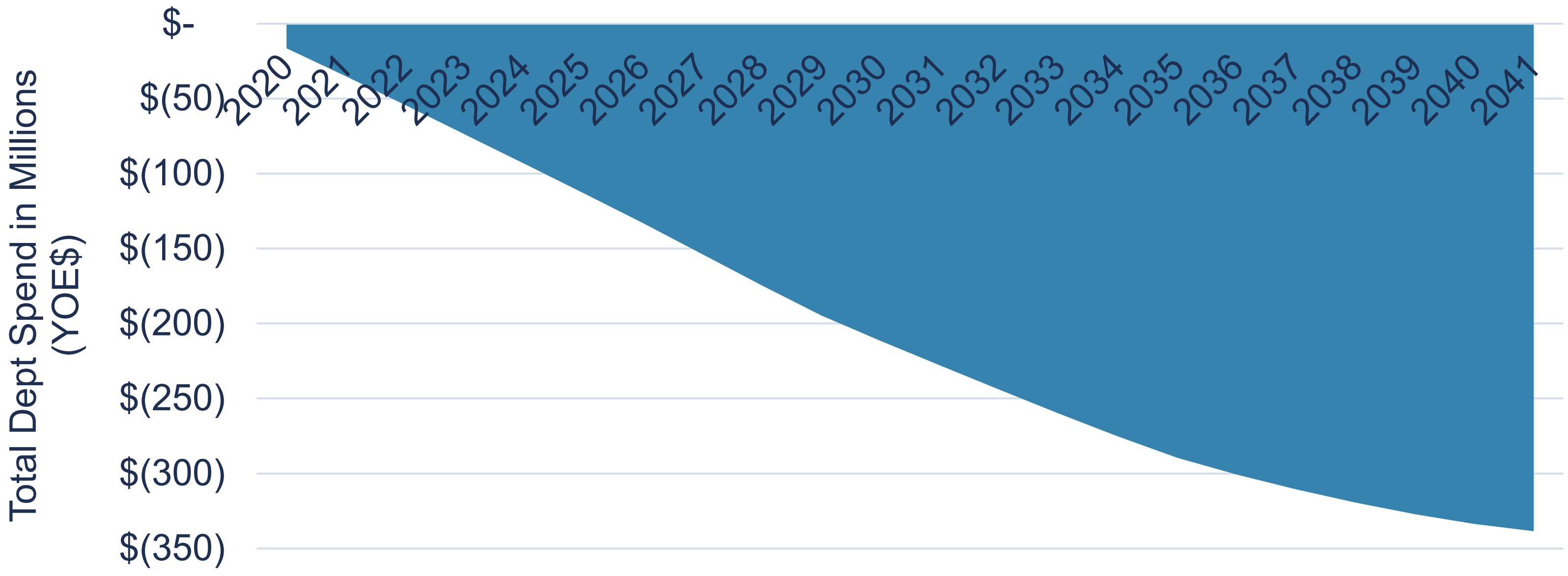
Effects of updating operating budget process: $325M projected budget reduction through 2041



Thank you.

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