

# ***Financial Plan update & Proposed 2021 Budget***

*Finance and Audit Committee Meeting  
10/14/2020*



## *Why we are here*

*No action requested today; information only*

- Long-Range Financial Plan projections
- Proposed 2021 Budget

# *Long-Range Financial Plan projections and 2021 Budget*

## Long-Range Financial Plan Projections 2017 - 2041

- Including Sound Move, ST2, and ST3 sources and uses through 2041

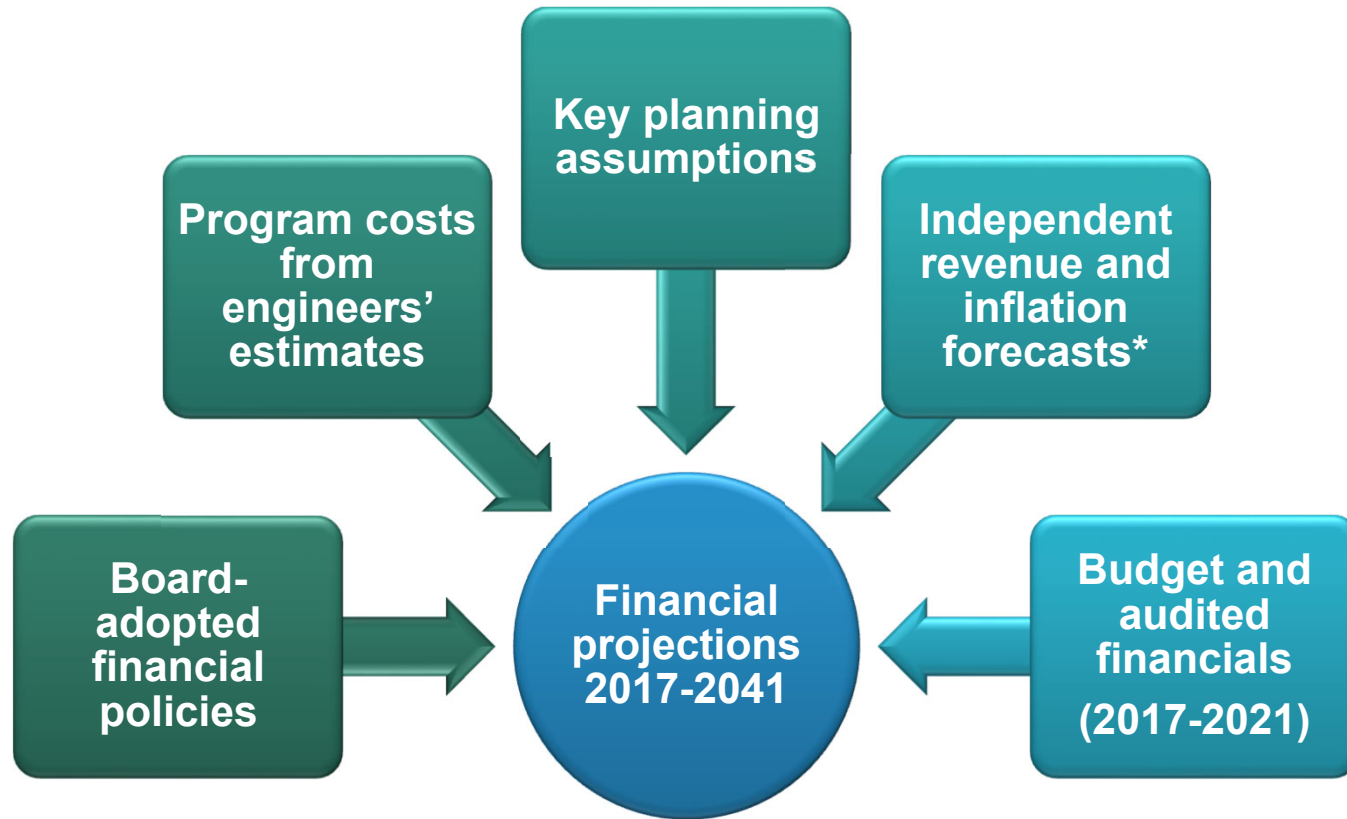
## Transit Improvement Plan to 2026

- Board-approved costs for active projects through 2026

## Budget 2021

- Annual revenue, financing sources and expenditures for 2021

# Long-Range Financial Plan projections



*We are currently updating key planning assumptions and revenue forecasts as new data becomes available*

# ***Takeaway 1:***

***Current forecasts render the program unaffordable without realignment.***

- ***Revenue declines and cost increases create capacity constraints, exceed assumed higher grant revenue and lower inflation.***

# Financial Plan unaffordable under current forecasts

**\$2.7B in unfunded expenditures 2017-2041 (YOE\$)**

	<u>2019 fall financial projections</u>		<u>Changes in projections (2017-2041)</u>		<u>2020 fall financial projections</u>		
Available sources	\$97.9B	-	\$2.1B	=	\$95.8B	}	<b><u>Unfunded expenditures: \$2.7B</u></b>
Expenditures	\$97.9B	+	\$0.6B	=	\$98.5B		

# **\$2.1 billion decrease in available funds**

**Comparing to 2019 projections 2017-2041 (YOE\$ in millions)**

## **Loss in tax and fares revenue**

- Tax revenue: -\$6.1 billion (-9.5%)
- Fares: -\$149 million (-2.2%)

## **Partially offset by**

- Additional federal grants: \$801 million (10.0%)
- Additional debt: \$3.2 billion (17.9%)
- Other: \$184 million (23.7%) largely interest income \$135 million from bond proceeds

**= \$2.1 billion net decrease in available funding**

# Tax revenue projections down by \$6.1 billion

(YOES\$ in millions)

**Four months of actual data; long term trend highly uncertain**

2020 Revenue Forecast vs. 2019 Revenue Forecast			
	2020 - 2021	2020 - 2041	2020 - 2041 (%)
Sales Tax	\$ (256,667)	\$ (5,428,424)	-11.5%
MVET	\$ (49,183)	\$ (606,513)	-8.1%
Property Tax	\$ (121)	\$ (33,849)	-0.8%
Rental Car Tax (RCT)	\$ (4,102)	\$ (39,050)	-46.2%
<b>Total Tax Revenues</b>	<b>\$ (310,073)</b>	<b>\$ (6,107,835)</b>	<b>-10.3%</b>
Grants (Incl. CARES Act)	\$ 305,982	\$ 800,489	10.8%
<b>Total Taxes and Grants</b>	<b>\$ (4,091)</b>	<b>\$ (5,307,346)</b>	<b>-8.0%</b>



## ***Fare revenue projections lower by \$149M***

- Sound Move, ST2 and ST3 plans assume fare revenues as an essential revenue source to fund the program.
- Fare revenue assumes needed fare increases to meet farebox recovery ratio based on the fares policy.

## ***Grant assumption increased by \$800 million***

- \$166M CARES Act in 2020.
- \$634M additional grant funding assumed for 2021 through 2041.
- Currently pursuing additional grants and other federal assistance.

## ***\$3.2 billion additional debt is projected***

- The debt capacity is projected to be completely depleted
- Available debt capacity is insufficient to meet funding needs without program re-alignment
- Additional debt leads to increased program costs, widening the funding gap.

# ***\$600 million net increase in costs*** ***Compared to 2019 projections***

## ***Increase in costs***

- Operating and SOGR cost – \$800 million (2.7%)
- Debt service – \$1 billion (6.1%)

## ***Partially offset by***

- Decrease in capital cost escalation: – \$1.2 billion (-2.3%)

***= \$600 million net increase in program costs through 2041***

# ***\$800 million projected increase in operating and SOGR cost***

## ***Lower inflation not enough to offset cost growth***

- Lower projected O&M CPI: (-\$481 million)
- Additional vertical conveyance and other State of Good Repair resource need: +\$555 million
- Increase in operating costs
  - Mainly due to purchased transportation cost growth: +\$562 million\*
  - Higher projected insurance: +\$177 million

\* 5% inflation assumed through 2025. 2016-2019 normalized purchased transportation inflation = 5.7%

## ***\$1 billion increase in projected debt service through 2041***

- Additional borrowing increases debt service cost therefore increases the cost of the entire program and further widens the funding gap.
- Total debt service cost increase is much higher than \$1B beyond 2041 - \$4.5B for the life of the bonds.

## ***Longer term capital cost trend is unclear with high uncertainty***

- -\$1.2 billion projected decrease in capital cost through 2041 due to lower macro inflation factors
- However, current local market condition does not reflect macro inflation trend
  - Property value has been increasing in past months.
  - New cost estimates continue to come in higher.

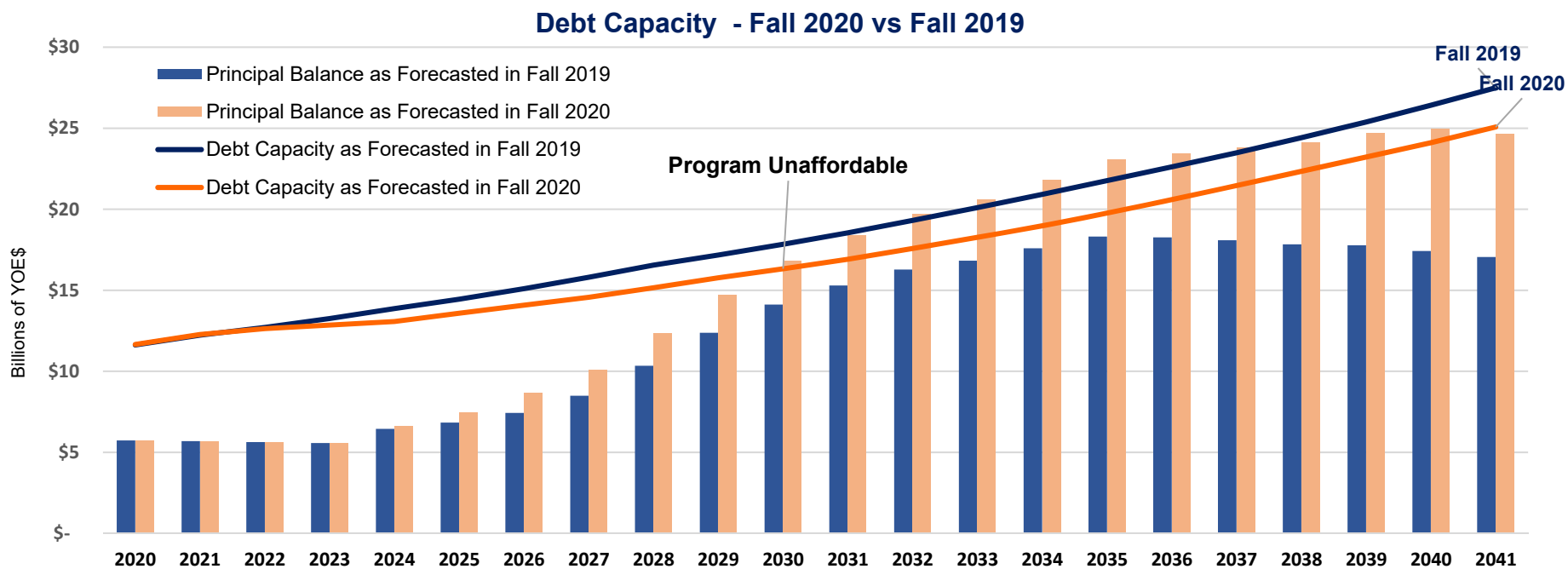
## ***Lower inflation leads to lower cost, but also lower property tax and debt limit***

- Debt limit (based on property value) declined \$2.4B in 2041.
- \$33M lower property tax projected through 2041.



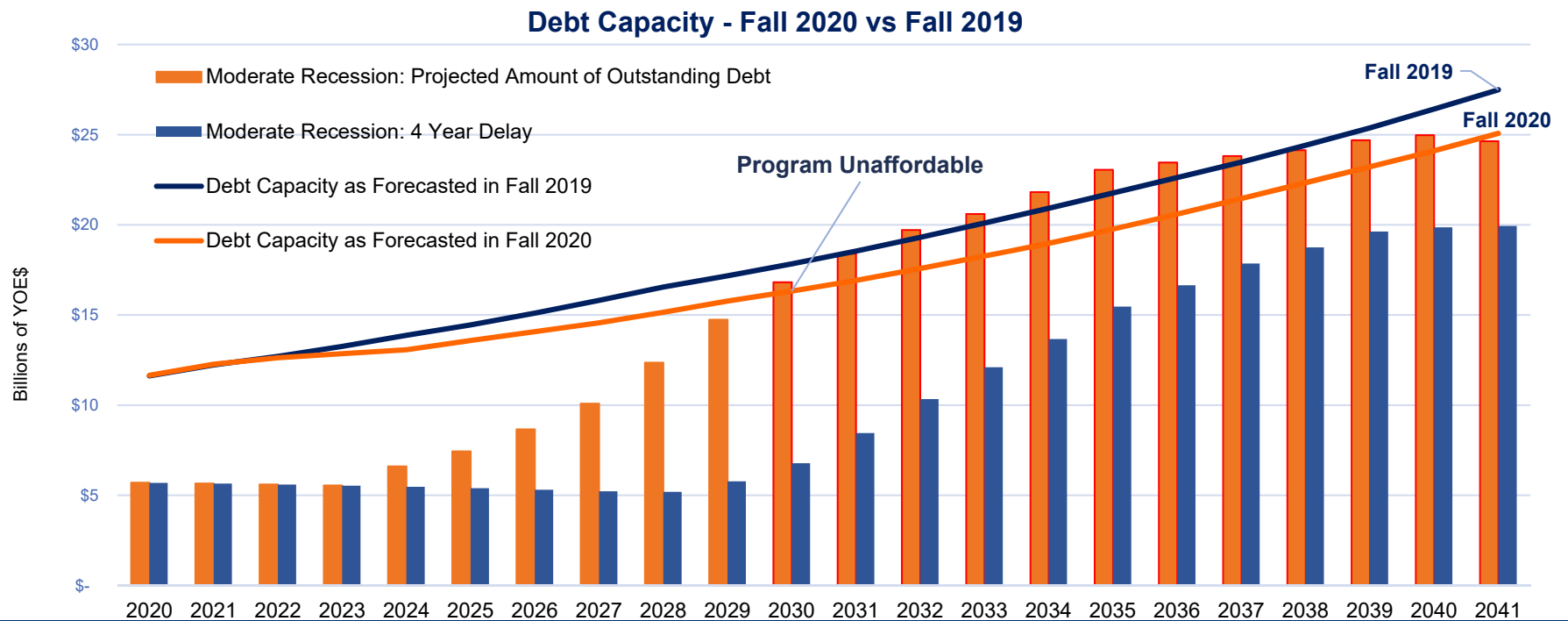
# Moderate recession makes program unaffordable

Decrease in AV capacity limit and increase in needed debt



# Realignment can make program affordable

Moderate recession scenario with 0 and 4 year program delay



## ***Takeaway 2.***

***Economic condition is highly uncertain  
and funding gaps will grow if recession  
deepens.***

## Severe recession remains possible

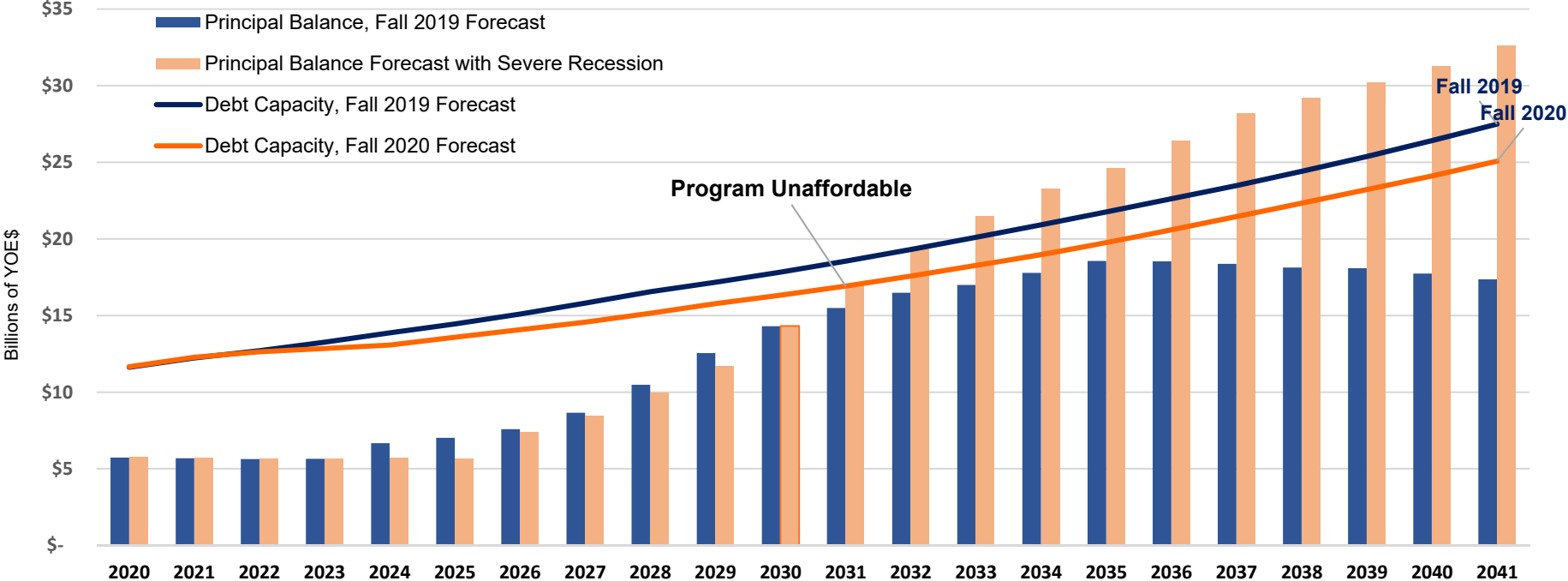
### Potential \$12B in tax revenue loss

- Steeper decline in 2021, coupled with slower and longer recovery
- Revenue decline closer to great recession level.

2020 Revenue Forecast vs. 2019 Revenue Forecast			
	2020 - 2021	2020 - 2041	2020 - 2041 (%)
Sales Tax	\$ (381,141)	\$ (10,593,260)	-22.4%
MVET	\$ (50,507)	\$ (853,482)	-11.4%
Property Tax	\$ (121)	\$ (33,849)	-0.8%
Rental Car Tax (RCT)	\$ (4,102)	\$ (39,050)	-46.2%
<b>Total Tax Revenues</b>	<b>\$ (435,871)</b>	<b>\$ (11,519,640)</b>	<b>-19.4%</b>

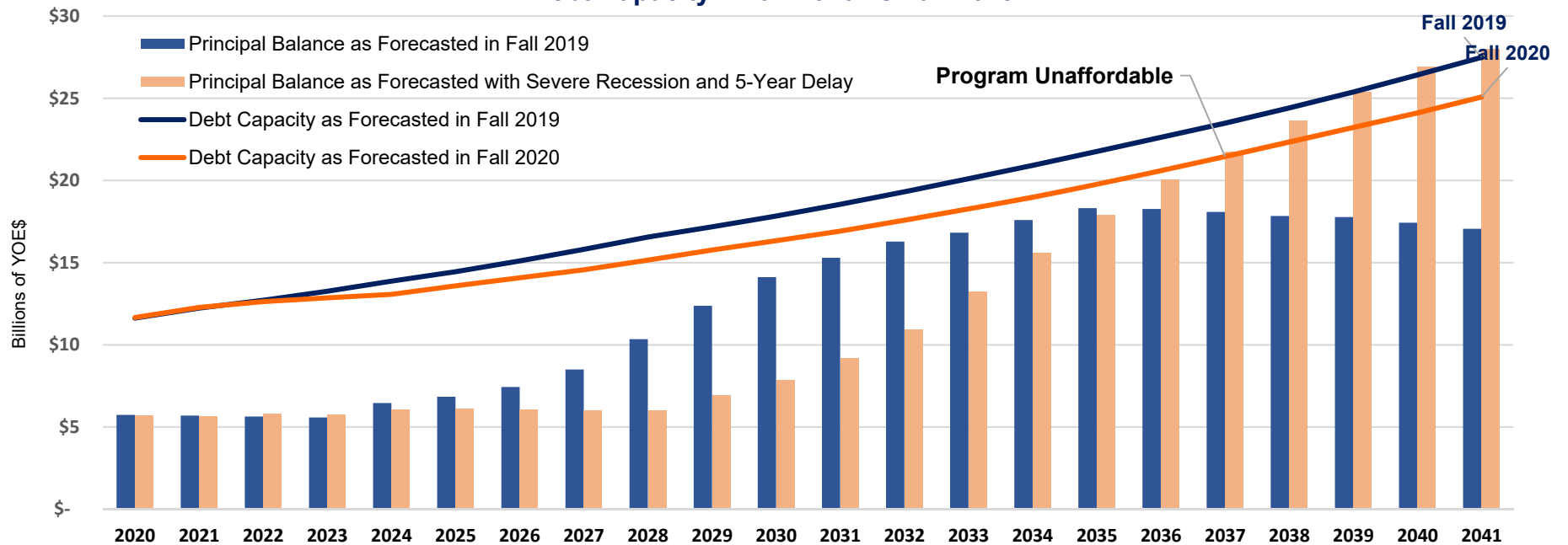
# More severe recession further lessens capacity

Debt Capacity - Fall 2020 vs Fall 2019



# Severe recession could make 5-year delay unaffordable

Debt Capacity - Fall 2020 vs Fall 2019



***Key takeaways and  
management considerations***

## ***Key takeaways – Long-Range Financial Plan projections***

- 1. Current forecasts render the program unaffordable without realignment.***
- 2. Economic condition is highly uncertain and funding gaps will grow if recession deepens.***



## *Key management considerations*

- Long-term economic and financial trajectory highly uncertain.
- Scope discipline for the entire program remains imperative;
- Contain operating expense growth to ensure program affordability.
- Pursue additional options to increase funding and capacity.

# ***2021 Proposed Budget***

## ***2021 Budget goals***

- Achieve efficiencies and fiscal discipline by tightly managing expenses.
- Follow program realignment guidance.
- Maintain long term financial sustainability.

## ***2021 Budget target and process***

- Resource allocation consistent with early realignment guidance and agency priorities.
- Service levels/budget reflect current ridership demand.
- Reduce spending on operating budget to maintain 2020 spending levels, with only additional dollars to support new services and assets.

# ***Major cost-saving initiatives in 2020-2021***

## ***Position control***

- Eliminated 77 vacant positions.
- Added 42 positions due to system expansions.

## ***Salary and benefit reductions***

- Removed 2021 merit increase.
- Increased health premium cost share for employee dependents.

## ***9.2% reduction of total non-labor costs (excluding purchased transportation)***

# *Revenues & funding sources*

## 2021 tax revenues: \$1.8 billion

<i>In \$million</i>	2020 Forecast	2021 Proposed	% Change
Sales & Use Tax	1,346	1,299	(4)%
MVET	337	332	(2)%
Property Tax	146	161	11%
Rental Car Tax	2	2	1%
<b>Total Tax Revenues</b>	<b>\$1,830</b>	<b>\$1,793</b>	<b>(2)%</b>

- Total tax revenues 13% below original 2021 forecast
- Total taxes = 61% of all total funding sources

\*Numbers may not add correctly due to rounding.

## 2021 other revenue and financing sources: \$1.2 billion

<i>In \$Million</i>	2020 Forecast	2021 Proposed	% Change
Federal Grants	565	377	(33)%
Fares	33	54	62%
Investment / Other	54	33	(39)%
<b>Total Other</b>	<b>\$652M</b>	<b>\$464M</b>	<b>(29)%</b>
TIFIA	-	700	NA

- Federal grants lower in 2021 due to CARES Act funding in 2020.
- Fares up as we begin to regain ridership.
- Lower investment income due to lower cash balance.
- TIFIA draws needed to make up for lost revenue.



## 2021 projects budget: \$2.5 billion

2021 projects budget reflects early Board guidance on realignment

<i>In \$million</i>	2020 Forecast	2021 Proposed
System Expansion	2,242	2,306
Enhancements	23	36
State of Good Repair	56	46
Administrative	114	119
<b>Total</b>	<b>\$2,435</b>	<b>\$2,507</b>

\*Numbers may not add correctly due to rounding. 2020 forecast is as of September.

# ***Key assumptions in 2021 project budget and TIP***

**Capital program reflects the early path forward on project realignment.**

- Current construction continues.
- Equal amount of delay as a placeholder in projects not already in construction or baselined. Project readiness maintained for delayed projects.
- 2021 mid-year budget update based upon Board realignment direction.

**SOG and non-system expansion projects funded to support agency priorities.**

## 2021 transit operations budget: \$381M

<i>In \$Million</i>	2020 Forecast	2021 Proposed
Link	150	168
ST Express	150	138
Sounder	57	68
Tacoma Link	6.1	6.5
<b>Total</b>	<b>\$363</b>	<b>\$381</b>

- Link: primarily new services at NGL, OMFE and DSTT.
- ST Express: costs reflect services to meet current ridership levels.
- Sounder: mainly due to scheduled overhaul and station maintenance, and insurance premium increase.

\*Numbers may not add correctly due to rounding.

2020 forecast excludes partner reconciliations related to 2019 services.

## ***Key assumptions in 2021 transit operations budget:***

- Agency operating costs maintained at 2020 levels, with growth to support system expansions (i.e. Northgate and OMFE).
- Purchased transportation service level adjusted to meet current ridership demand
- Additional budget may be requested from the Board in 2021 in response to potential ridership increase.

## 2021 debt service and other costs: \$208M

<i>In \$Million</i>	2020 Forecast	2021 Proposed	% Change
Debt Service	143	161	13%
Dept of Revenue Fees	15	26	68%
Dept of Licensing Fees	4	5	17%
Contributions	5	5	0%
Operating Contingency	-	11	NA
<b>Total</b>	<b>\$167M</b>	<b>\$208M</b>	<b>24%</b>

- Higher DOR costs from sales tax offset fee increase driven by higher construction contract payments on ST3 projects
- Fees to DOL for MVET collection; rate increase starting July 1<sup>st</sup>

***Budget timeline  
and next steps***

## *Potential budget adjustment needed in 2021*

- 2021 mid-year budget will be updated based upon Board realignment decisions
- Budget adjustments may be requested from the Board to meet incremental realignment decisions and unforeseeable needs such as increased ridership demand, and COVID-related cost increases.

## *Budgets within Committee purview*

Committee	Budget/TIP Sections
Rider Experience and Operations	<ul style="list-style-type: none"><li>• Transit operations</li><li>• Non-system expansion projects</li></ul>
System Expansion	System expansion projects – Link, Sounder, Regional Express, Stride
Executive	System expansion projects – Other
<b>Finance and Audit Committee</b>	<b>Other committees recommend budget to FAC FAC recommends to Board</b>



# Timeline

## **October – budget and Financial Plan kickoff**

- **10/22** – Board Meeting – Overview of Long-Range Financial Plan projections and budget

## **November – budget overview and property tax levy approval**

- **11/5** – Public hearing – budget and property taxes.
- **11/5** – Executive Committee – budget overview and property tax levy.
- **11/5** – Rider Experience and Operations Committee – budget overview.
- **11/12** – System Expansion Committee – budget overview.
- **11/19** – Board Meeting – request for approval of the property tax levy.

## *Timeline continued*

### *December – budget recommendation and approval*

- **12/3** – Executive Committee – recommends to FAC.
- **12/3** – Rider Experience and Operations Committee – recommends to FAC.
- **12/10** – System Expansion Committee – recommends to FAC.
- **12/17** – **Finance and Audit Committee – recommends to Board.**
- **12/17** – Board – adoption of the Proposed 2021 Budget and Transit Improvement Plan.

*Thank you.*



 [soundtransit.org](https://www.soundtransit.org)

