Financial Plan update & Proposed 2021 Budget

Board Meeting
10/22/2020

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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

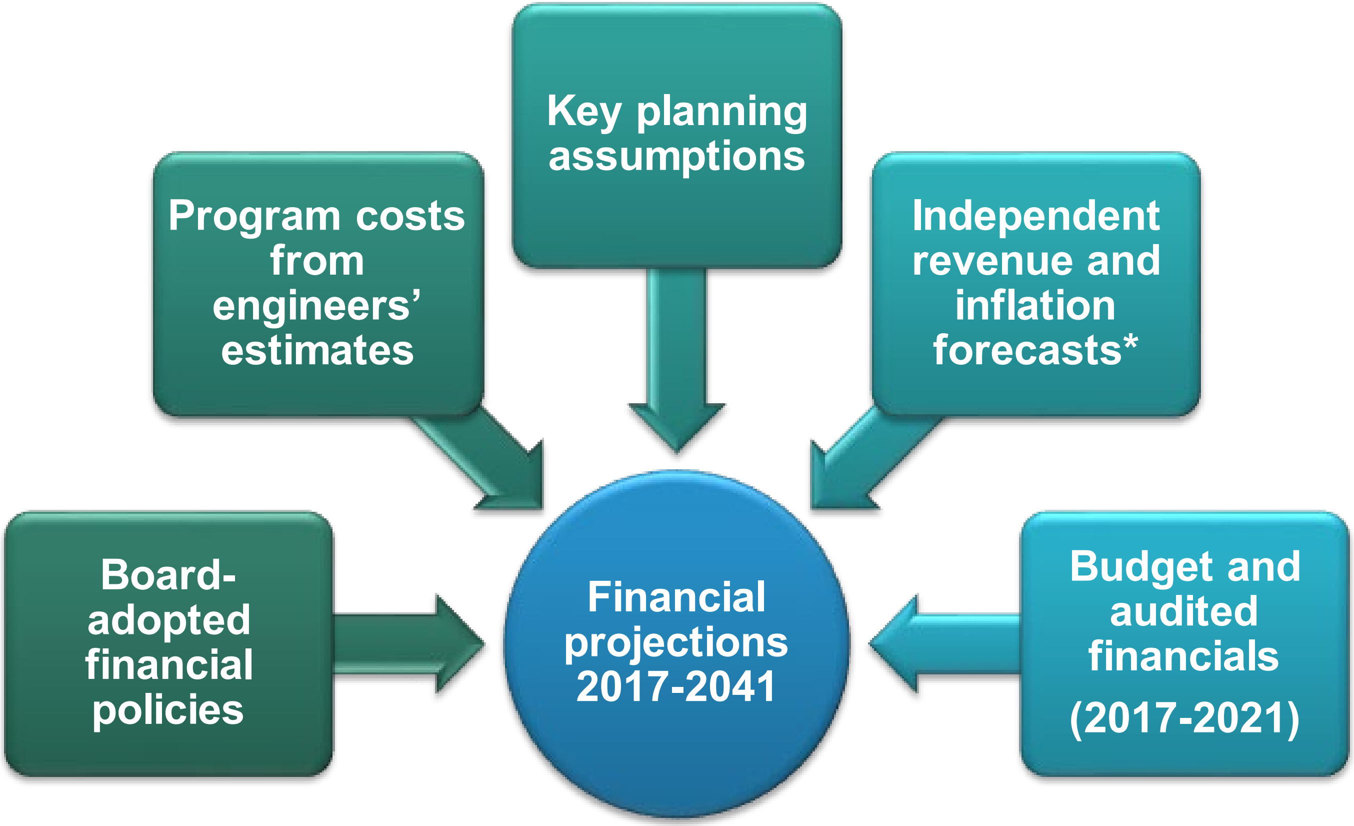
Transit Improvement Plan to 2026

- 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

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

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

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$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

(YOE$ 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%
Total Tax Revenues	**$ (310,073)**	**$ (6,107,835)**	**-10.3%**
Grants (Incl. CARES Act)	$ 305,982	$ 800,489	10.8%
Total Taxes and Grants	**$ (4,091)**	**$ (5,307,346)**	**-8.0%**

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

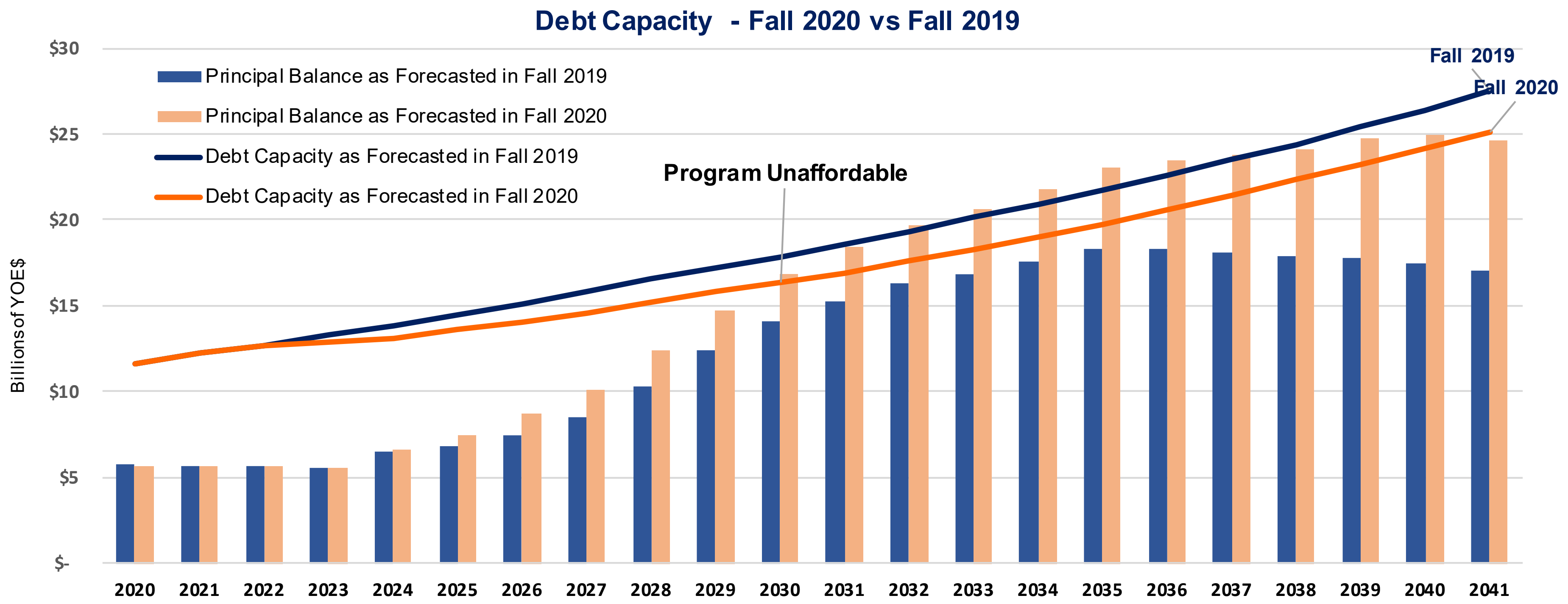
- -$1.2 billion projected decrease in capital cost through 2041 due to lower macro inflation factors
- However, current local market condition does not reflect macro inflation trend
  - ➢ Property value has been increasing in past months.
  - ➢ New cost estimates continue to come in higher.

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



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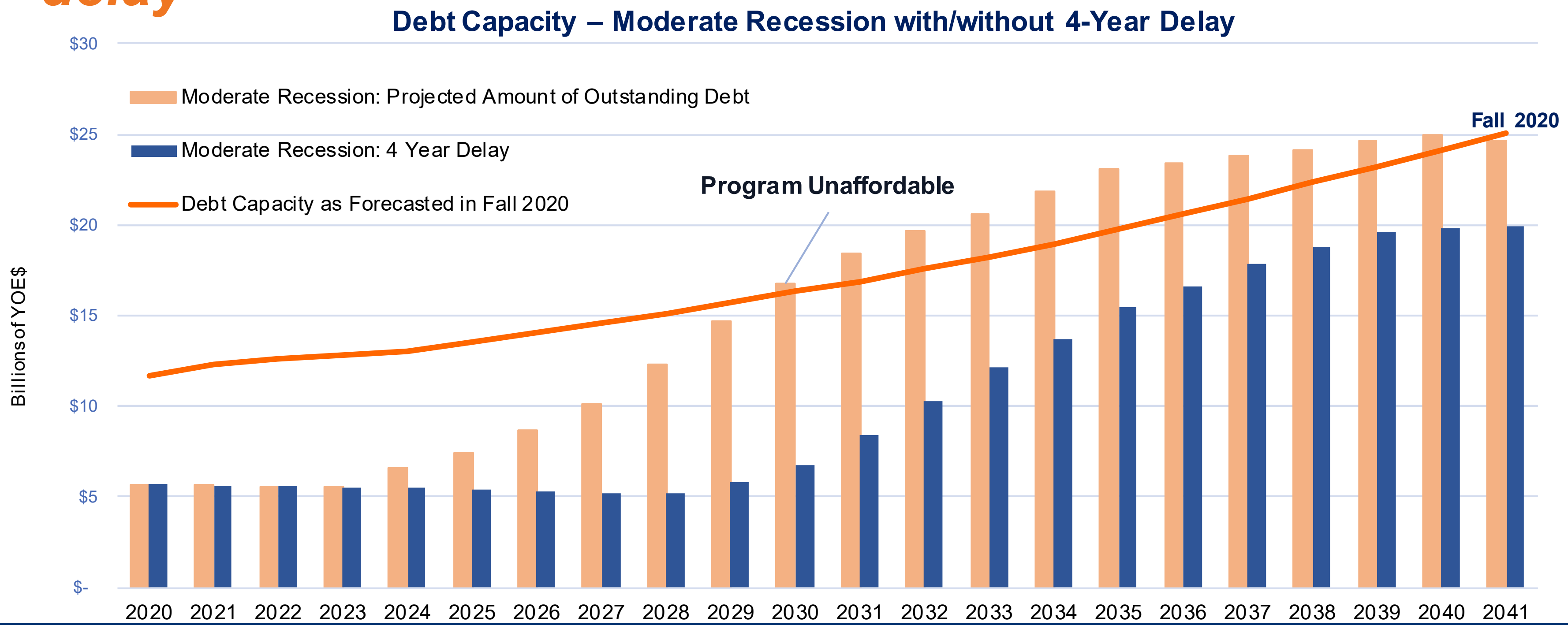
Realignment can make program affordable

Moderate recession scenario with 0 and 4-year program delay



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Takeaway 2.

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

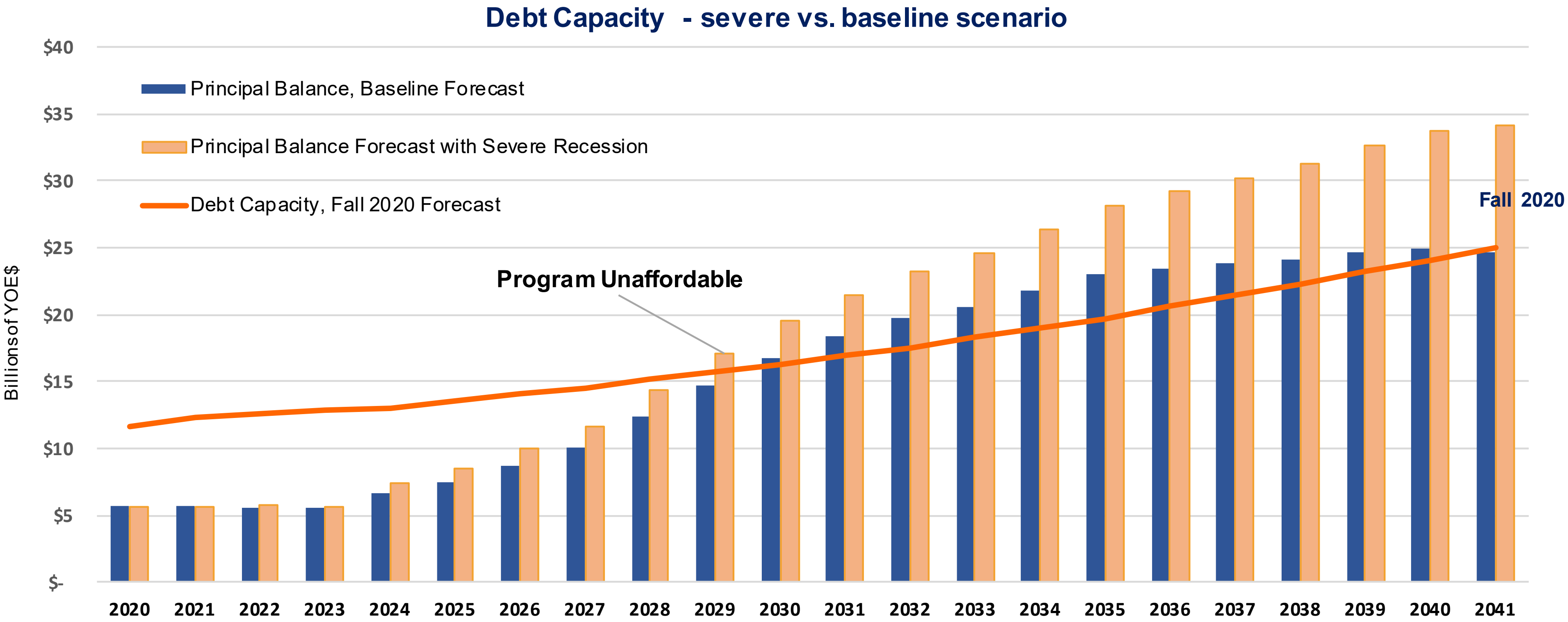
Severe recession remains possible

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%
Total Tax Revenues	**$ (435,871)**	**$ (11,519,640)**	**-19.4%**

More severe recession further lessens capacity



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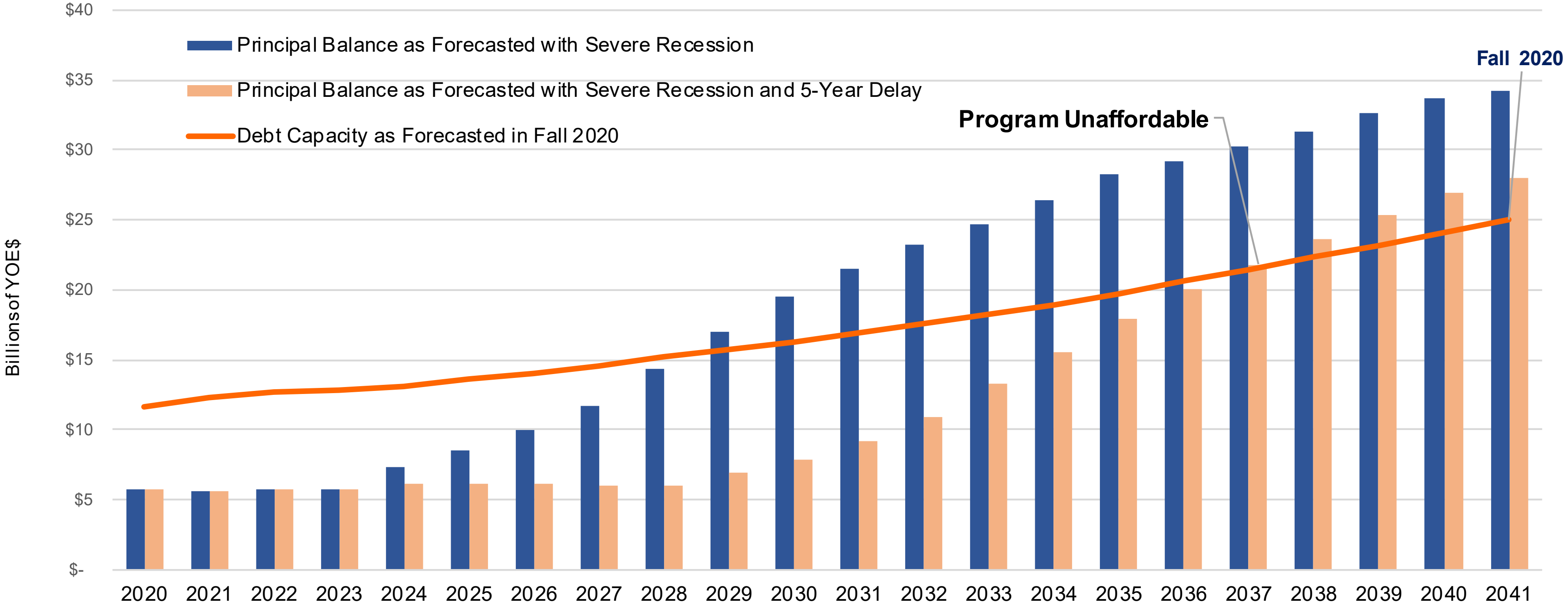
Severe recession could make 5-year delay unaffordable



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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 target and process

- Resource allocation consistent with early realignment guidance and agency priorities.
- Achieve efficiencies and fiscal discipline by tightly managing expenses.
- 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

In $million	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%
Total Tax Revenues	**$1,830**	**$1,793**	**(2)%**

- 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

In $Million	2020 Forecast	2021 Proposed	% Change
Federal Grants	565	377	(33)%
Fares	33	54	62%
Investment / Other	54	33	(39)%
Total Other	**$652M**	**$464M**	**(29)%**
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

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

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.

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

2021 transit operations budget: $381M

In $Million	2020 Forecast	2021 Proposed
Link	150	168
ST Express	150	138
Sounder	57	68
Tacoma Link	6.1	6.5
Total	**$363**	**$381**

- 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.

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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

In $Million	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
Total	**$167M**	**$208M**	**24%**

- 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 1st

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.

Budget Briefing and Approval Process

	Process/actions
October	***Kick off***– Finance and Audit Committee and Board
November	***Detailed briefings*** - System Expansion Committee, Executive Committee and Rider Experience and Operations Committee **Requested Board Action** – Approval of Property Tax Levy
December	***Recommendation*** – Various Committees to FAC, FAC to Board **Requested Board Action** – Adoption of 2021 Budget

Thank you.

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