

Financial Plan update and Proposed 2023 Budget

Finance and Audit Committee Meeting

10/20/22

Why we are here

Today we are here to provide information

- Updated Long-Range Financial Plan projections
- Proposed 2023 Budget

Timeline

- ➔ **October** – overview of Long-Range Financial Plan projections and budget
 - **November** – budget reviews by Board committees and property tax levy approval
 - **December** – budget recommendation and approval

Long-Range Financial Plan projections and 2023 Budget

Long-Range Financial Plan Projections 2017 - 2046

- Including Sound Move, ST2, and ST3 sources and uses through 2046

Transit Improvement Plan to 2028

- Board-approved costs for active projects through 2028

Budget 2023

- Board-approved annual revenues, sources, and expenditures for 2023

***Updated Long-Range
Financial Plan projections***

Key takeaways

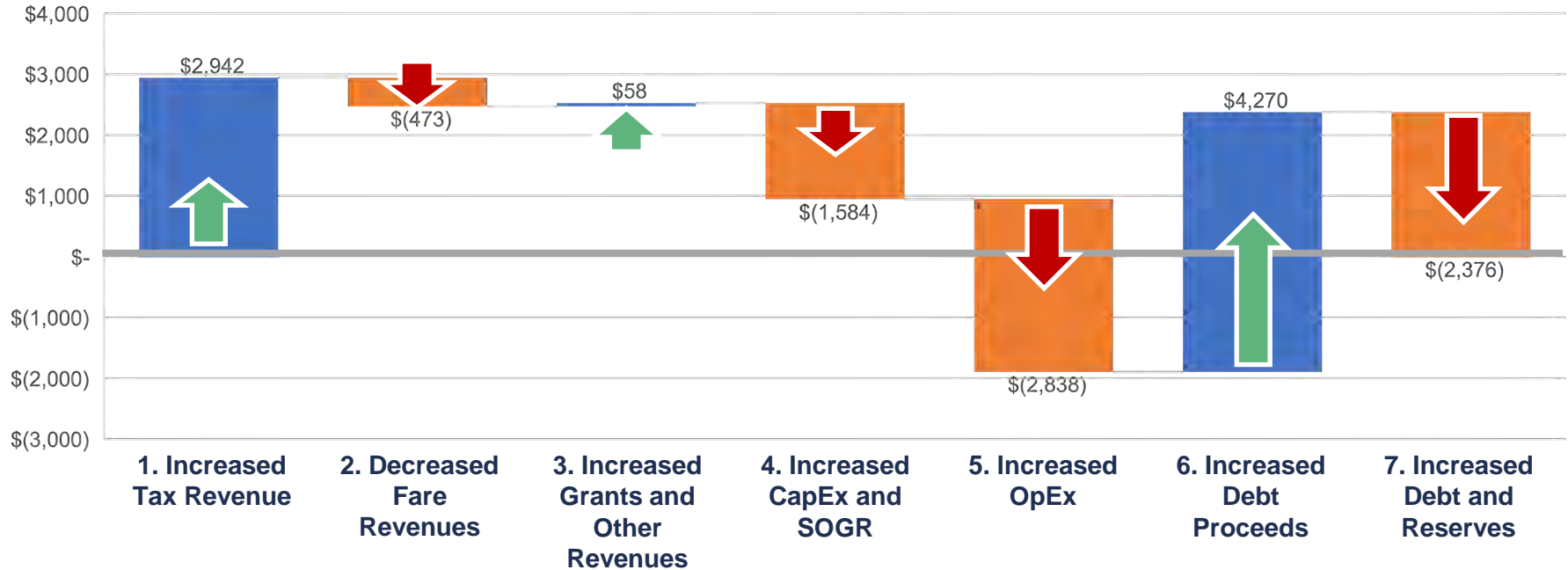
Realigned Financial Plan (affordable schedule) remains affordable. Target schedule remains unaffordable.

- Historically high inflation and cost escalation increases projected capital and operations costs
- Projected revenues increased, but this does not offset cost increase due to inflation
- Higher projected assessed value increases debt capacity and allows more debt to be issued to fund increased costs

➤ ***however, other debt constraints are now a risk.***

Major changes and impacts on the Financial Plan (2017-2046 millions in YOE\$)

↑ Increase to Sources/
Decrease to Uses
 ↓ Decrease to Sources/
Increase to Uses



1. Increased tax revenue projection

Increased by \$2.9B or 3.3% through 2046

- Sales tax up 3.9% driven by inflation and consumer spending data
- MVET up 1.3% driven by the increased price of new and used vehicles
- Property tax down 0.4% due to lower projection of new construction (assumes annual Board approval of 1% statutory increase)
- Rental car tax up 7.8%, driven by higher receipts and recovery in travel

Tax Revenue, 2017 – 2046, YOE\$ in Millions			Fall 2022 vs Spring 2022	
Category	Spring 2022 Update	Fall 2022 Update	\$	%
Sales and Use	\$ 72,597	\$ 75,420	\$ 2,822	3.9%
MVET	\$ 10,052	\$ 10,186	\$ 133	1.3%
Property	\$ 6,276	\$ 6,251	\$ (25)	-0.4%
Rental Car	\$ 145	\$ 157	\$ 11	7.8%
Total (2017 – 2046)	\$ 89,071	\$ 92,013	\$ 2,942	3.3%

2. *Decreased fare revenue projection*

Decreased by \$0.5B or 7% through 2046

- All Modes
 - Free Youth Fares: \$148M
 - Lower ORCA LIFT fare: \$25M
 - Delay of assumed Link fare increase and lower average fare per boarding for ST Express and BRT: \$327M
- *Small increase in ridership does not offset impact of lower average fare per boarding*
- *Risk: Continued high rate of Link non-fare boardings*

3. Increased grants and other revenues

Grants and other revenues increase by \$58M (0.4%) through 2046

- Grants - Increased by \$0.03B through 2046
 - \$19M increase in competitive grants
 - \$10M increase in new CRISI grant
 - Accelerated Lynnwood Link and Federal Way Link FFGA appropriations in 2022 decreases debt service
- Other Revenues & Interest Earnings – Increased by \$0.03B through 2046

4. Increased capital and state of good repair (SOGR) cost projections

\$1.6B or 3% increase in capital and SOGR cost forecasts through 2046

- Inflation: \$1.7B
 - CapEx: \$1.4B
 - SOGR: \$0.3B
- Cash flow adjustments: -\$0.1B
- Project change that does not impact affordability:
 - West Seattle Link and Ballard Link split into two projects

5. Operating cost escalation

\$2.8 billion or 8% projected increase in Operating Cost through 2046

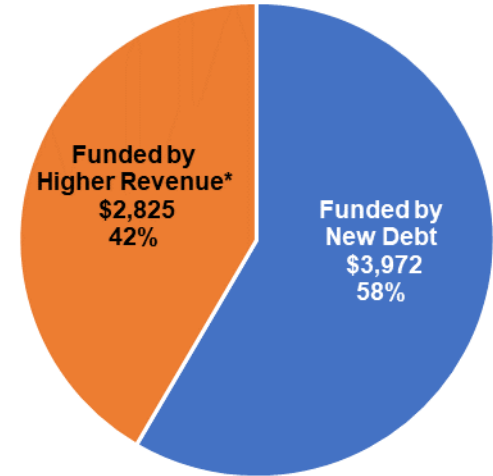
- Increase due to higher Consumer Price Index (CPI): +\$0.9B
- Projected staffing costs to keep pace with market inflation: +\$0.9B
- Link parts, purchased transportation, and other modal services: +\$0.7B
- Fare Ambassador staffing update: +\$0.2B
- Other/Administrative: +\$0.1B

6. Increased new debt projected

58% of additional costs funded by debt, not revenue

- Cost growth outpaces revenue growth
- \$4.0B in additional debt projected to be issued to fund increased costs not covered by revenue growth and cash
- Additional debt capacity to cover projected debt increase made available through increased assessed valuation

How are higher expenditures funded?
2017 - 2046, YOES\$ in Millions



* Including Cash


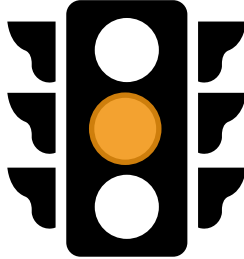
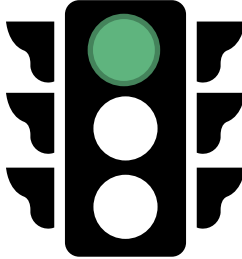
7. Increased debt service & reserves

\$2.4 billion or 9.6% projected increase in Debt Service & Reserves through 2046

- Additional principal and interest: +\$2.6B
 - Principal and interest payment required through 2046 for the additional debt issued to fund difference between expenditures and revenues growth
- Reserves: -\$0.2B
 - Decrease in assumptions for Debt Service Reserve Fund

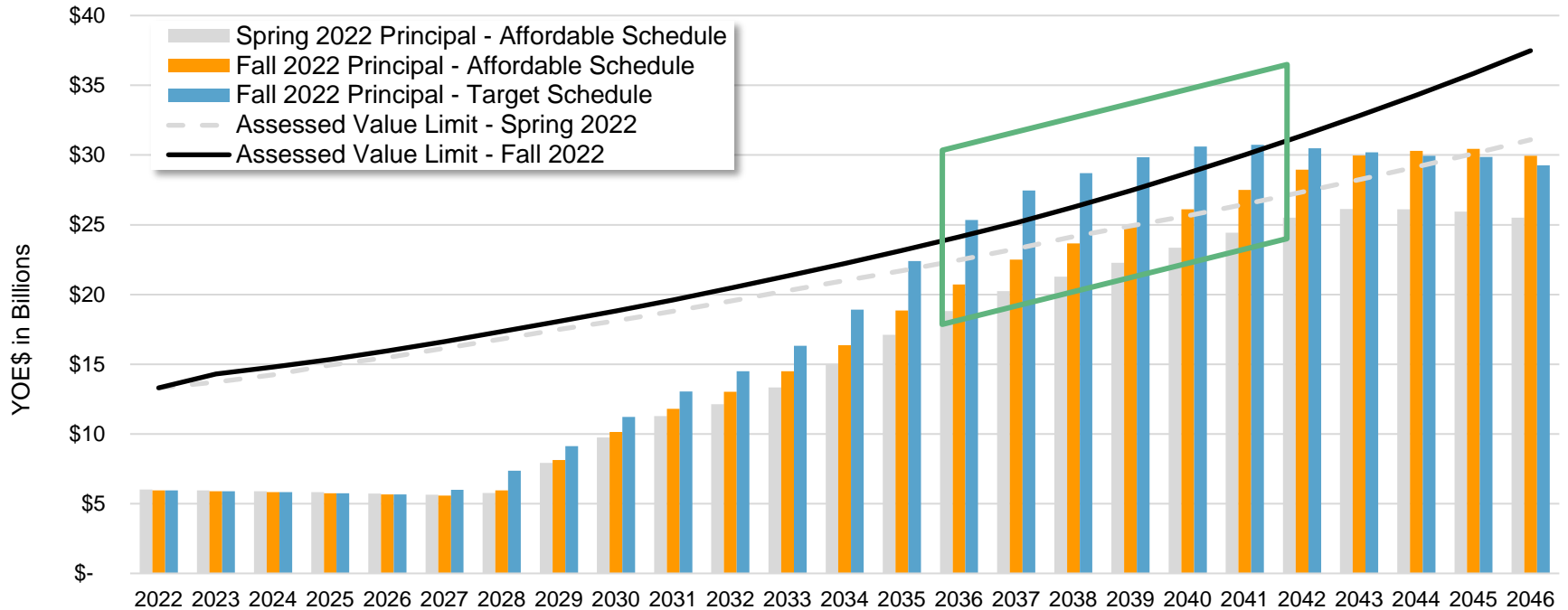
Debt constraints – How are we doing?

ST increasingly closer to Net DSCR limit due to projected need to issue more debt and enabled by increased Assessed Value (AV)

Debt Capacity (State Law)	Net Debt Coverage (ST Financial Policy)	Bond Covenants (Bondholder Requirement)
Can only issue debt up to 1.5% of Assessed Value in ST District	(Annual revenues - O&M)/ Annual debt service must be >1.5x	Ratios related to pledged revenues and debt service
		

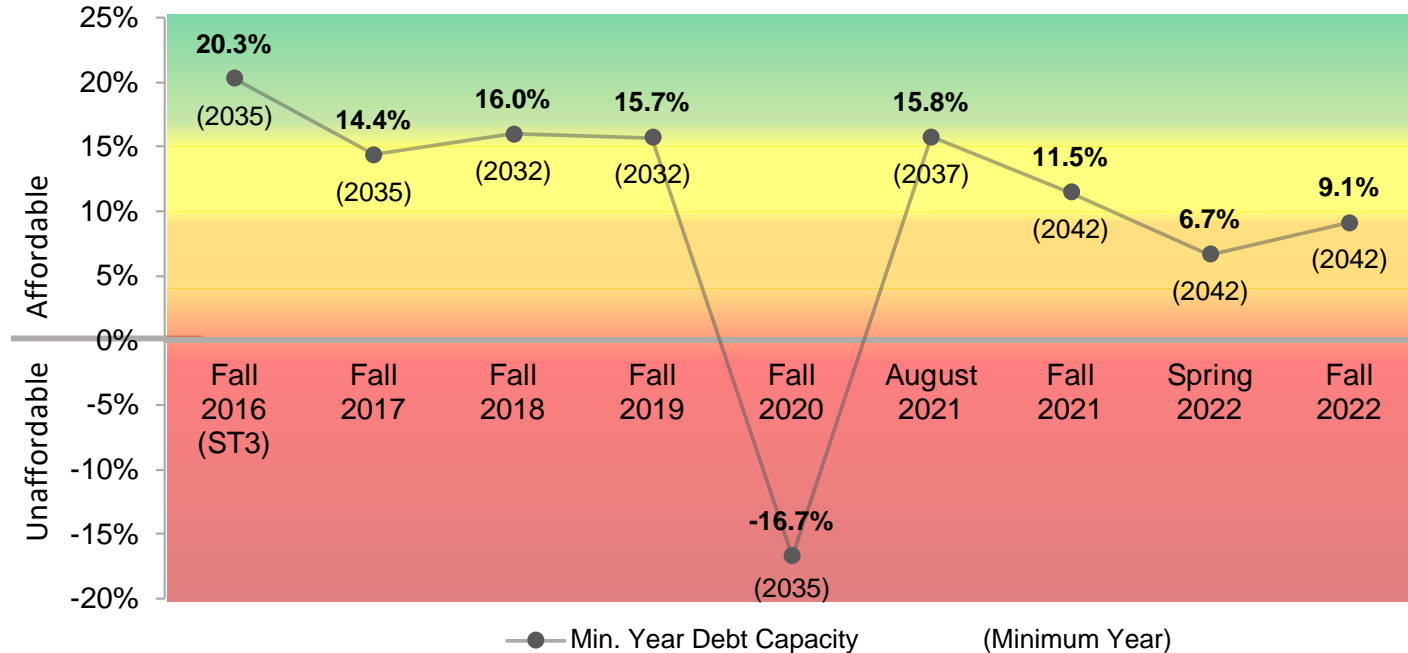
Debt capacity (1.5% of AV)

Higher assessed value creates capacity to fund increased costs with additional debt through 2046.



Debt capacity historical trend

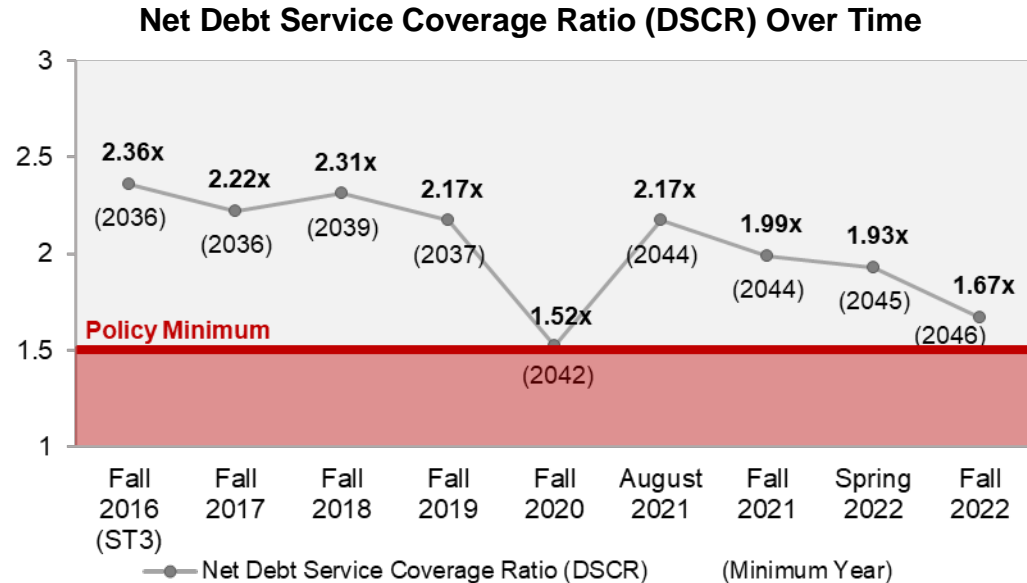
Current minimum remaining available debt capacity is 9.1%.



Net debt service coverage ratio (DSCR)

$$\text{Net DSCR} = \frac{(\text{Annual Revenues} - \text{O\&M Costs})}{\text{Annual Debt Service}}$$

ST closer to Net DSCR limit of 1.5x, need to monitor moving forward.



***Key takeaways and
management considerations***

Management considerations

- Scope and cost discipline for the entire program remains imperative
- Inflation and labor market continue to increase risk to both capital and operating programs
- Long-term economic and financial outlook remains highly uncertain
- Board focus on fare revenues right-sized to fare-box recovery of increased operating costs

Spring 2023: 2nd Annual Program Review

- Updated financial plan projections including latest inflation indices and tax revenue forecasts
- As part of the program review, project-level affordability gaps will be reviewed and updated

Long-Range Financial Plan projections and 2023 Budget

Long-Range Financial Plan Projections 2017 - 2046

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Transit Improvement Plan to 2028

- Board-approved costs for active projects through 2028

Budget 2023

- Annual revenue, financing sources and expenditures for 2023

2023 Proposed Budget

Budgets within Committee purview

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

2023 budget priorities

- Maintain long term financial sustainability
- Resource allocation consistent with August 2021 capital expansion resolution and agency DEIC priorities
- Operating resources to support new services and assets
- Service levels/budget reflect current ridership demand

Revenues & funding sources

2023 tax revenues: \$2.3B

<i>In \$million</i>	<i>2022 Forecast</i>	<i>2022 Budget</i>	<i>2023 Proposed</i>	<i>Budget % Change</i>
Sales Tax	1,706	1,685	1,743	3%
Motor Vehicle Excise Tax	365	404	381	-6%
Rental Car Tax	4	3	4	31%
Property Tax	163	163	170	4%
Total	2,238	2,256	2,298	2%

- Sales and use tax is 65% of all 2023 total revenue and financing sources
- Total tax revenues 3% above 2022 forecast

*Numbers may not sum due to rounding.

2023 other revenue & financing sources: \$777M

<i>In \$million</i>	<i>2022 Forecast</i>	<i>2022 Budget</i>	<i>2023 Proposed</i>	<i>Budget % Change</i>
Federal Grants	612	498	282	-43%
Fare Revenues	41	36	52	44%
Investment / Misc Revenues	4	31	52	67%
Bond & TIFIA Loan Proceeds	615	615	0	-100%
Cash Balance	0	0	390	N/A
Total	1,272	1,181	777	-34%

- Federal grants lower in 2023 due to ARP funding in 2022
- Fare revenues increase with increased ridership
- Higher ORCA regional reimbursement
- No TIFIA draws for 2023

*Numbers may not sum due to rounding.

Expenditures

2023 proposed expenditures: \$3.1 billion

<i>In \$million</i>	<i>2022 Forecast</i>	<i>2022 Budget*</i>	<i>2023 Proposed</i>	<i>Budget % Change</i>
Projects	2,134	2,359	2,369	0%
Transit Operating	384	433	500	15%
Other**	198	230	205	-11%
Total	2,717	3,022	3,075	2%

**2022 budget includes budget adjustments via Board actions and R2020-24 Budget Policy Section 3.4.2.*

***Other includes debt service, tax collection & fees, contributions to partner agencies, operating leases, non-operating expenses, and operating contingency.*

Note: Numbers may not add correctly due to rounding.

2023 projects budget: \$2.4 billion

<i>In \$million</i>	<i>2022 Forecast</i>	<i>2022 Budget</i>	<i>2023 Proposed</i>	<i>Budget % Change</i>
System Expansion	1,950	2,154	2,099	-3%
Enhancement	31	44	62	41%
State of Good Repair	32	46	77	68%
Administrative	132	133	159	19%
Less Charges to Transit Modes	(12)	(18)	(27)	52%
Total	2,134	2,359	2,369	0%

**Numbers may not add correctly due to rounding.*

2023 transit operations budget by mode

<i>In \$million</i>	<i>2022 Forecast</i>	<i>2022 Budget</i>	<i>2023 Proposed</i>	<i>Budget % Change</i>
Link	178	199	240	20%
Sounder	67	76	90	18%
Regional Express	132	146	153	5%
Tacoma Link	8	11	17	56%
Total	384	433	500	15%


*Numbers may not add correctly due to rounding.

- **Link:** increase in purchased transportation services, spares, consulting and security
- **Sounder:** recovery of South trips, increase in fuel rate, maintenance, and vehicle overhaul
- **ST Express:** increase in platform hours to accommodate ridership demand and increase in fuel rate
- **Tacoma Link:** Tacoma Hilltop service begins

***Budget timeline
and next steps***

Timeline

October – budget and Financial Plan kickoff

-  **10/27** – Board Meeting – Overview of Long-Range Financial Plan projections and budget

November – budget overview and property tax levy approval

- **11/3** – Public hearing – budget and property taxes.
- **11/3** – Executive Committee – budget overview and property tax levy
- **11/3** – Rider Experience and Operations Committee – budget overview
- **11/10** – System Expansion Committee – budget overview
- **11/17** – Board Meeting – request for approval of the property tax levy

Timeline continued

December – budget recommendation and approval

- **12/1** – Rider Experience and Operations Committee – recommends to FAC
- **12/8** – Executive Committee – recommends to FAC
- **12/8** – System Expansion Committee – recommends to FAC
- **12/15 – Finance and Audit Committee – recommends to Board**
- **12/15** – Board – adoption of the Proposed 2022 Budget and Transit Improvement Plan

Thank you.



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