

# *Financial Plan update and Proposed 2023 Budget*

*Board of Directors Meeting*

*10/27/22*



# *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

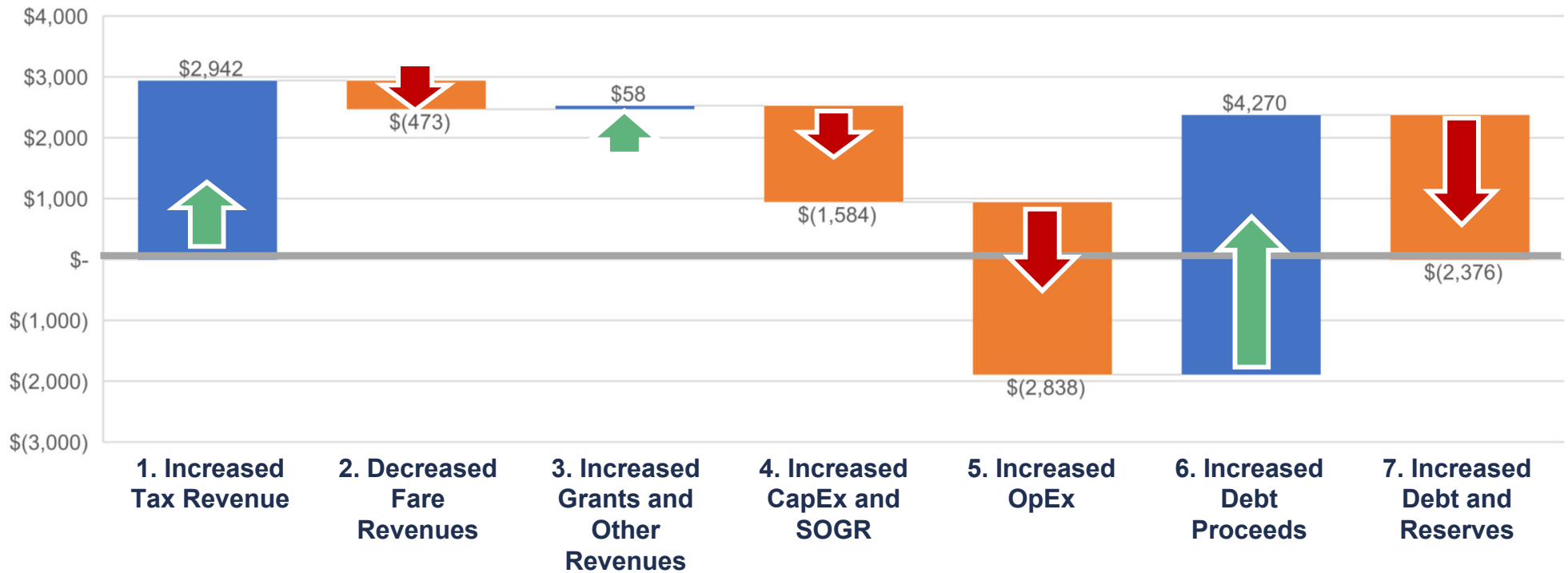
***Realigned Financial Plan (affordable schedule) remains affordable. Target schedule remains unaffordable.***

- 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, YOY\$ 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%
<b>Total (2017 – 2046)</b>	<b>\$ 89,071</b>	<b>\$ 92,013</b>	<b>\$ 2,942</b>	<b>3.3%</b>



## 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

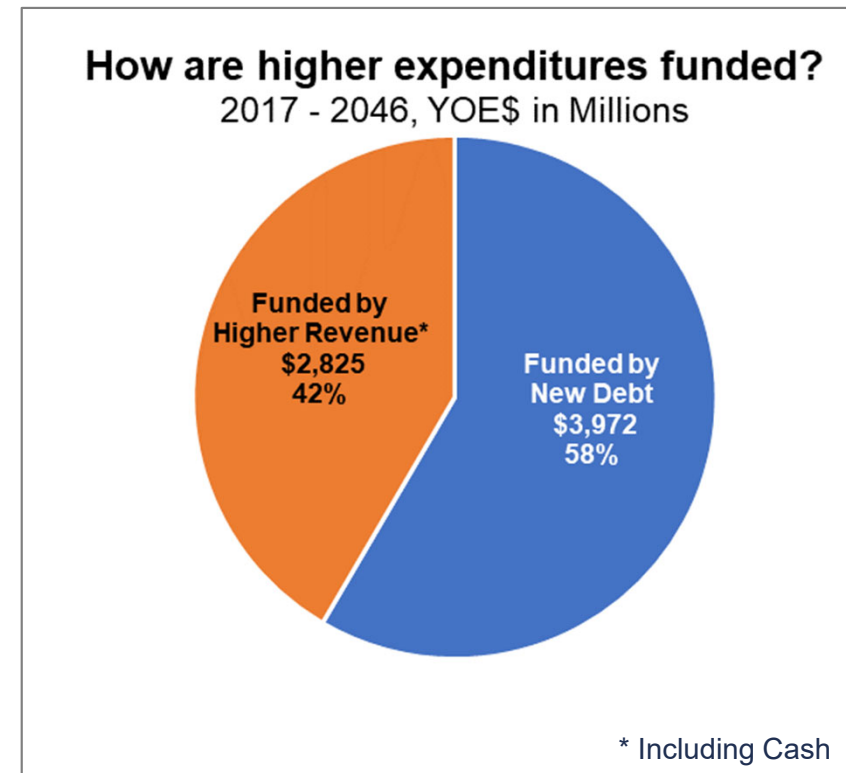
***\$2.8 billion or 8% projected increase in Operating Cost through 2046***

- 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





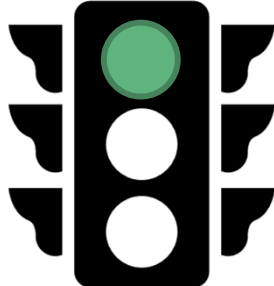
## ***7. Increased debt service & reserves***

### ***\$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

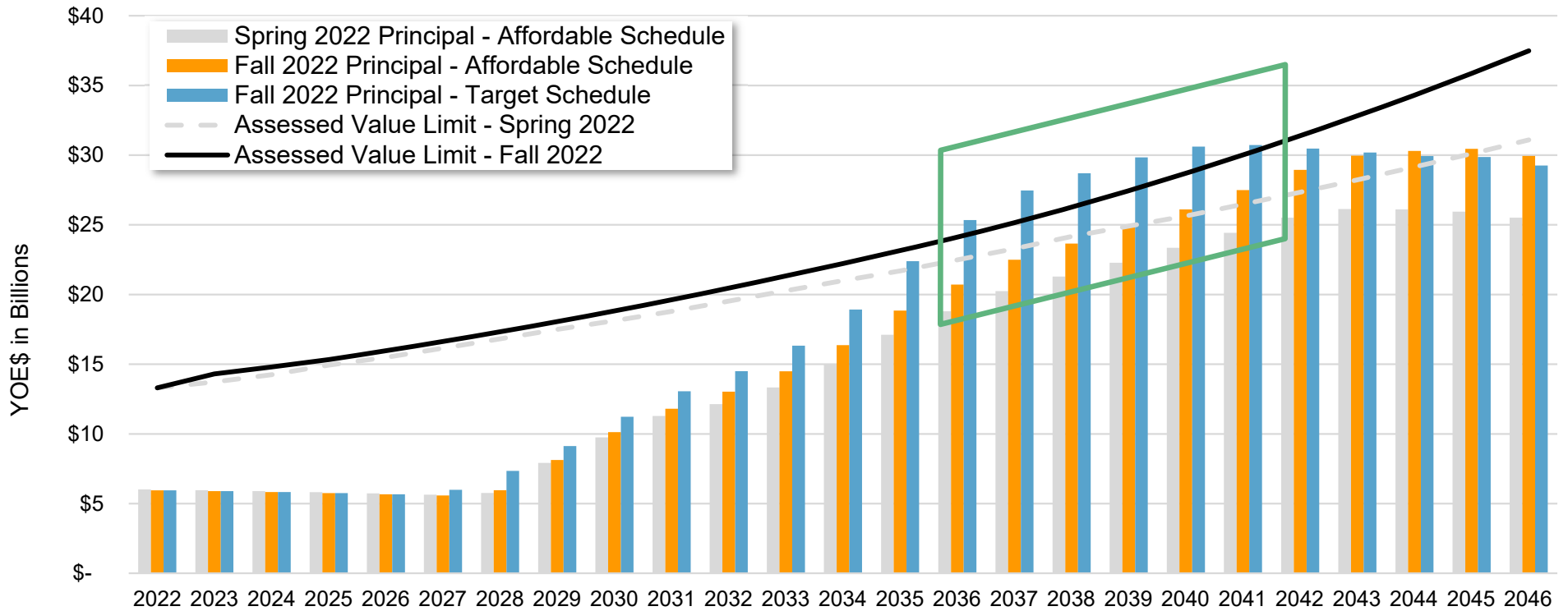
# Debt constraints – How are we doing?

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

<b>Debt Capacity</b> (State Law)	<b>Net Debt Coverage</b> (ST Financial Policy)	<b>Bond Covenants</b> (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)

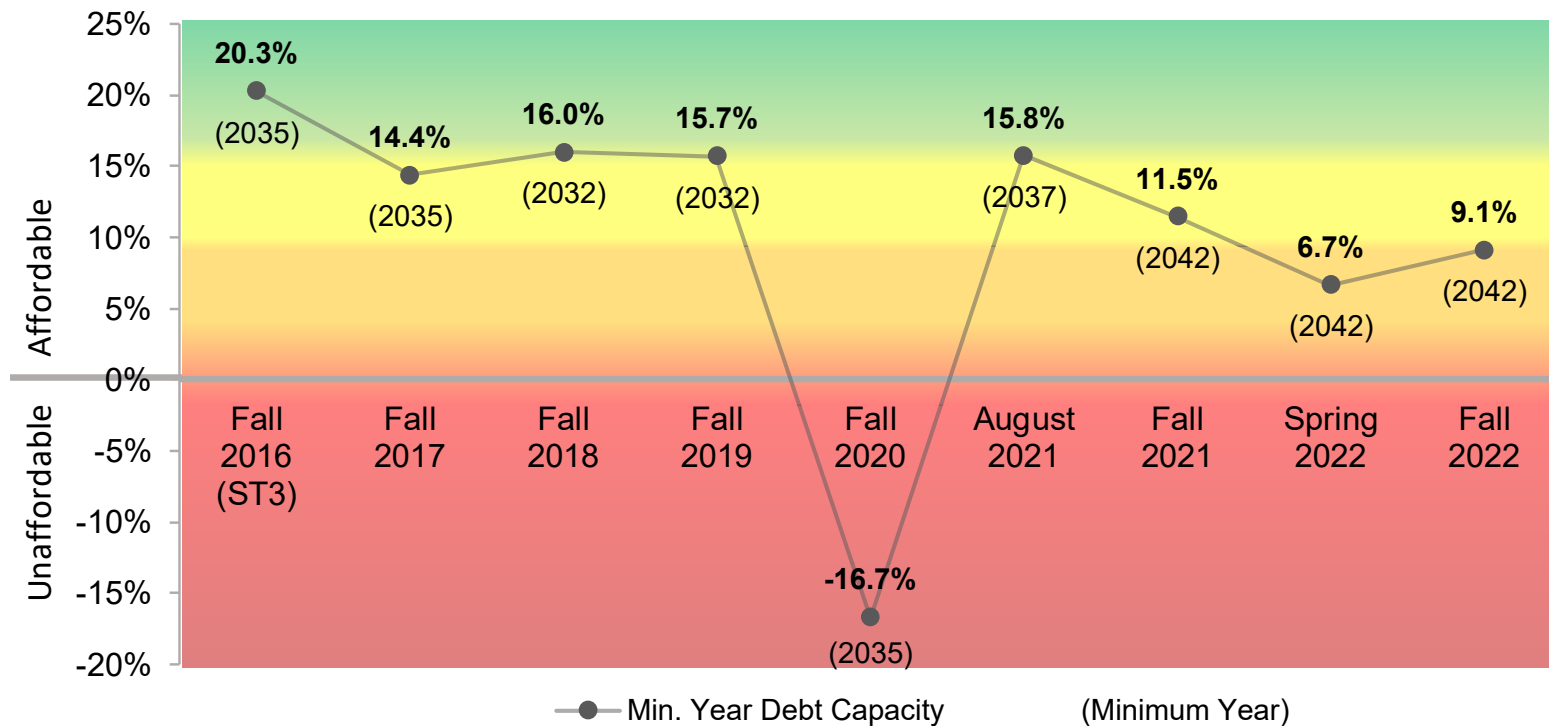
*Higher assessed value creates capacity to fund increased costs with additional debt through 2046.*





# Debt capacity historical trend

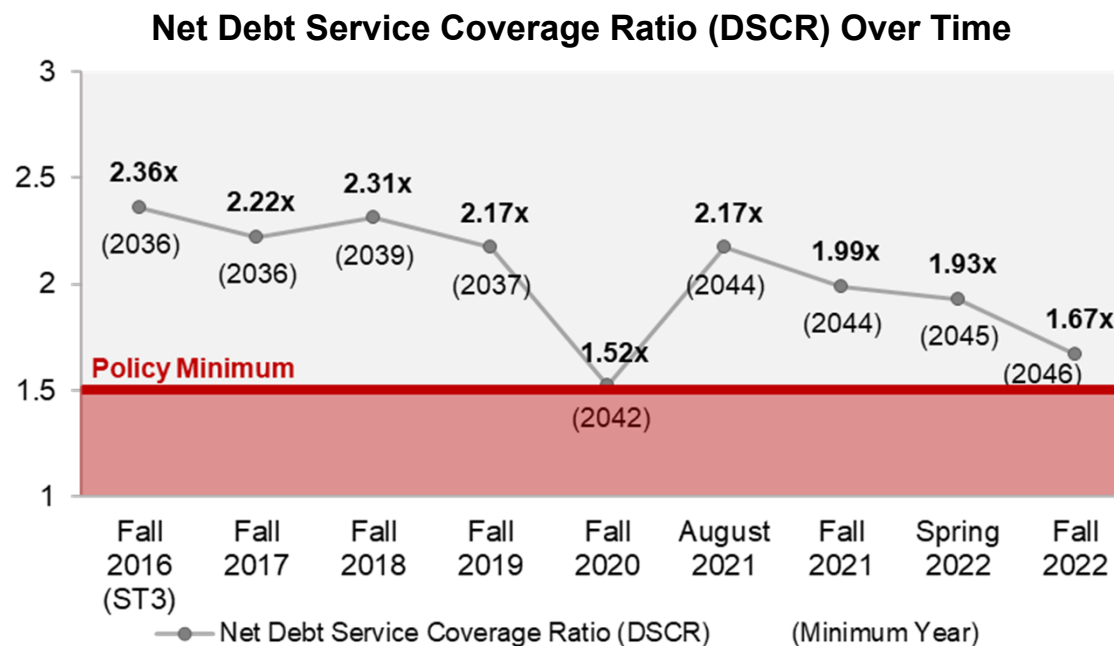
**Current minimum remaining available debt capacity is 9.1%.**



# 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: 2<sup>nd</sup> 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

- 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

- Annual revenue, financing sources and expenditures for 2023

# *2023 Proposed Budget*

## ***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%
<b>Total</b>	<b>2,238</b>	<b>2,256</b>	<b>2,298</b>	<b>2%</b>

- 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>	<b>2022 Forecast</b>	<b>2022 Budget</b>	<b>2023 Proposed</b>	<b>Budget % Change</b>
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
<b>Total</b>	<b>1,272</b>	<b>1,181</b>	<b>777</b>	<b>-34%</b>

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

\*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>	<b>2022 Forecast</b>	<b>2022 Budget</b>	<b>2023 Proposed</b>	<b>Budget % Change</b>
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%
<b>Total</b>	<b>2,134</b>	<b>2,359</b>	<b>2,369</b>	<b>0%</b>

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

# 2023 transit operations budget by mode

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

\*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 fuel rate and partner operating cost escalation
- **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 2023 Budget and Transit Improvement Plan**

*Thank you.*



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