

Financial Plan Projections

Update Process

Finance and Audit Committee

07/21/22

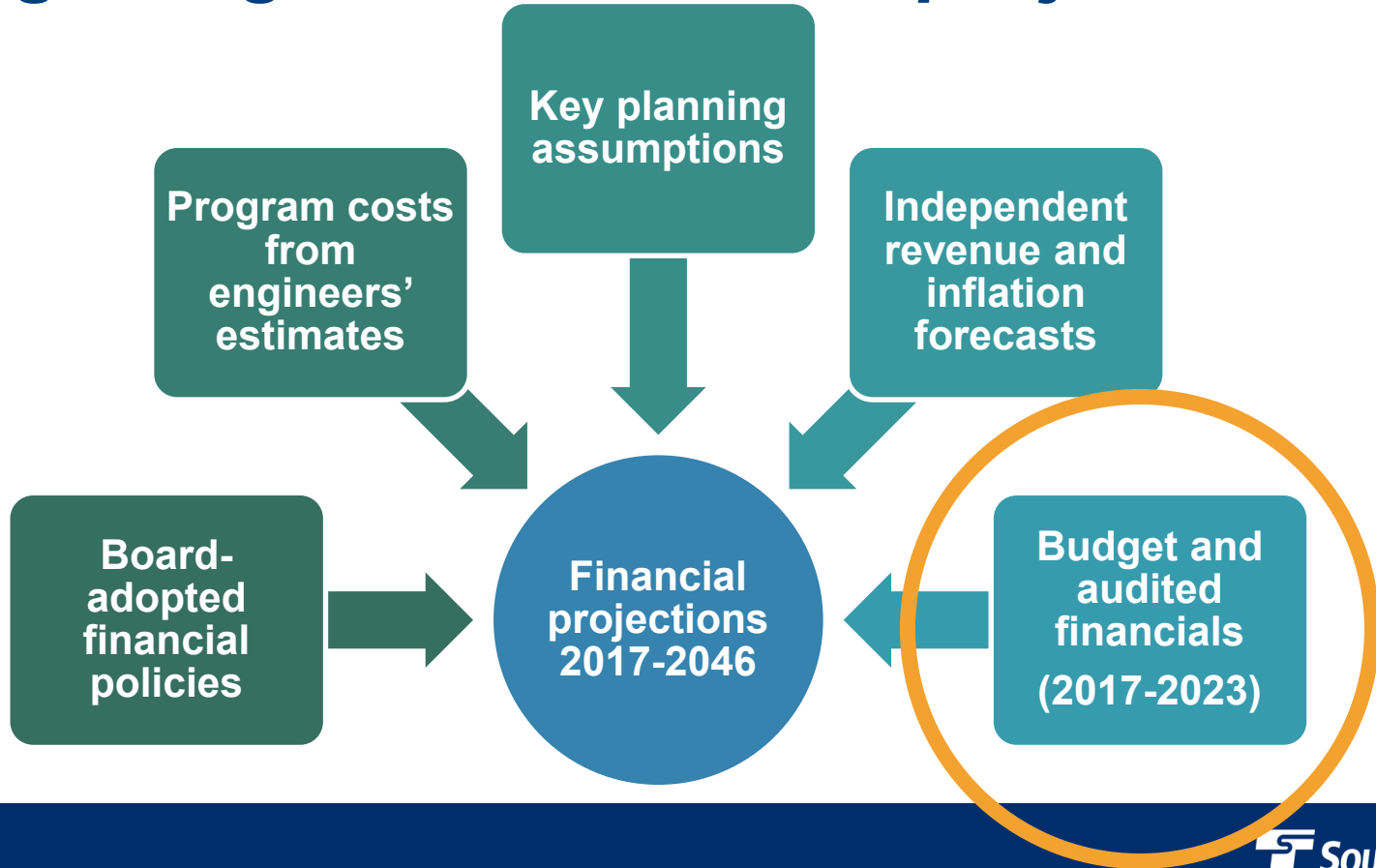


Why we are here

- New and improved budget processes for 2023
 - Non-system expansion capital budget update process
- Macroeconomic factors update to financial plan
 - Inflation Indices Update Process
 - Impact on financial plan projections

No Board action requested today

Long-Range Financial Plan projections



New and improved processes for this year

Workforce planning (WFP) process

- Single agency wide staffing plan
- 2023 headcount requests + forecast through 2028
- Headcount target guidance provided before department budgeting

Non-system expansion project (NSEP) request process

- Unified prioritization process for all requests
- Incorporation of Total Cost of Ownership (TCO) view into NSEP decisions
- Multi-year spending targets through 2028

New budgeting system, Prophix

- Replaces existing budget system (Questica)
- Planning, forecasting, and reporting tool that provides better visibility

NSEP process improvements

Agency goal - 100% of NSEP requests analyzed for TCO by 2024

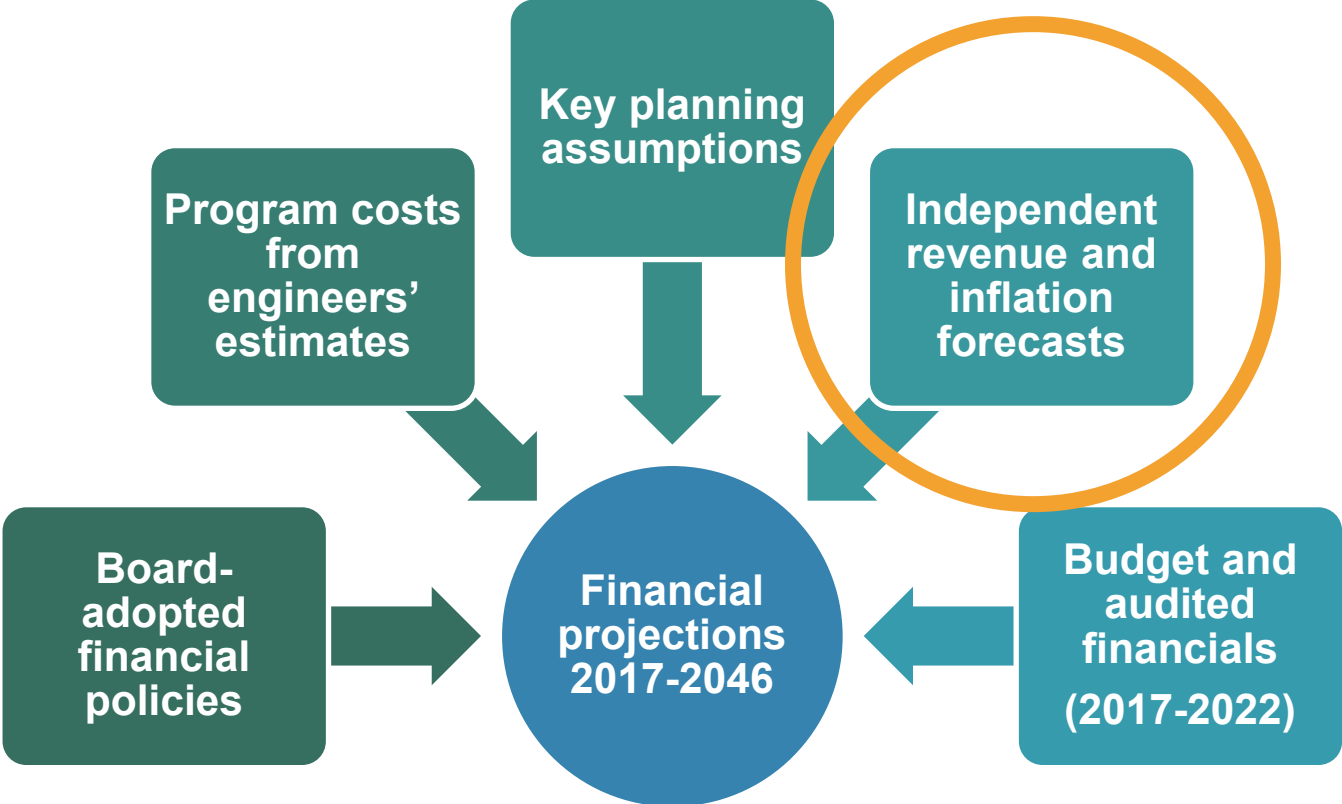
- 2023 budget cycle goal is to achieve 80% of value of requests
- Provide objective comparison between requests for decision making
- Resource alignment to Work Force Planning (WFP)

Identify material changes in long-term operating cost

- Cost implications to the current affordable finance plan
- Implemented scoring to enable easier comparison between types of projects

Staffing data available for resource planning conversations

Long-Range Financial Plan projections



Inflation Indices Forecasts

Independent consultants produce inflation indices forecasts for Sound Transit, including:

- **Consumer Price Index (CPI)**
- **Construction Cost Index (CCI)**
- **Assessed Value Forecast (AV)**
 - Property Tax Revenues
 - Debt Capacity
 - **Right of Way Index**

Three major macroeconomic updates

Consumer Price Index (CPI)

What is it?

Measure of change in prices for consumer goods and services in the Seattle area

How does it impact the financial plan?

- Operations and maintenance expenses
- “Soft” capital costs

When is it updated?

- Forecast updated twice a year

Construction Cost Index (CCI)

Measure of change in prices for construction

- Capital construction
- Contingencies

- Forecast updated in Fall; actuals updated in Spring

Assessed Value Forecast (AV)

Measure of change in assessed value of real and personal property in ST district

- Property tax revenue
- Right-of-Way property acquisition

- Forecast updated in Fall; actuals updated in Spring

Impact of inflation on projections

- Inflation projections have grown significantly since ST3

Inflation Compound Annual Growth Rate, 2017-2046				
Index	ST3	Variance	Spring 2022 Update	Fall 2022 Update
CPI	2.28%	+ 0.27% =	2.55%	2.55% + X
CCI	3.54%	+ 0.40% =	3.94%	3.94% + X
ROWI	3.93%	+ 0.35% =	4.28%	4.28% + X

- Inflation index change since ST3 has caused **\$4.2 billion** increase in expenditures
- *Anticipate continued inflation growth in Fall 2022 projections*

Challenges

What challenges in forecasting exist?

- Currently only receive one Construction Cost Index and Assessed Value forecast per year
- Long-term forecasts may not predict near-term volatility cycles
- Assessed Value forecast may lag the market
- Contractor margins and bid-prices are difficult to capture and quantify in CCI

Next Steps and Process Updates

Reporting

- New CPI, CCI, AV forecasts for Fall 2022 Financial Plan (LRFP) update
- LRFP updates shared to Board in October and April
- Inflation trends included in bi-annual cost drivers report

Contract Update

- Forecasting contract is currently out for bid, with a 2023 start date
- Changes from current:
 - Semi-annual updates of CPI, CCI, and Assessed Value
 - Receive a specific Right-of-Way Index separate from AV

Thank you.



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