



Resolution No. R2023-33

Budget Increase for Tax Collection and Fees

Meeting:	Date:	Type of action:	Staff contact:
Finance and Audit Committee	10/19/2023	Recommend to Board	John Henry, Chief Financial Officer
Board	10/26/2023	Final action	Ryan Fisher, Deputy Executive Director of Financial Planning, Analysis, and Budget Stephanie Ball, Deputy Director of Financial Planning and Analysis

Proposed action

Increases the 2023 annual tax collection and fees budget by \$3,165,000, from \$23,062,638 to \$26,227,638 to pay for additional sales and use tax offset fees.

Key features summary

- This action increases the total 2023 tax collection and fees budget by \$3,165,000, bringing the total authorized annual tax collection and fees budget to an amount not to exceed \$26,227,638.
- State Law requires Sound Transit set aside \$518,000,000 for a sales and use tax offset fee, which is paid as 3.25 percent of eligible construction costs on ST3 voter-approved projects.
- The increase to the sales and use tax offset fee budget is needed because the Federal Way Link Extension project (which the fee is applied to) is projected to have higher eligible construction costs in 2023 due to higher than projected expenditures on the F200 Design Build construction contract. In total, eligible construction contracts on the F200 contract are projected to exceed the 2023 adopted budget by approximately \$99 million as of August 2023.
- While the Federal Way Link Extension project is exceeding its 2023 budget, it is within the total authorized project allocation and the project is not seeking additional funding. Additionally, the Sound Transit Board adopts the annual System Expansion budget in total. Staff do not anticipate that the adopted 2023 System Expansion project budget will be exceeded, so a budget amendment is not required for this category.
- Additionally, while the tax collection and fees category is projected to exceed its annual budget, there will not be an increase in total sales tax offset fee paid by the agency. This is because the agency will pay this fee (for all eligible construction spending within ST3 projects) until it has reached \$518,000,000 in cumulative fee payments over time. As of August 2023, we have paid \$53,247,906 towards the Sales Tax Offset fee lifetime to date. This amendment only impacts the timing of when the fee will be paid.

Background

The sales tax offset fee is included in the ST3 enabling legislation and approved in the ST3 plan. It is a calculated fee; 3.25 percent of eligible ST3 construction costs are to be paid to the Washington State Department of Revenue until the agency has reached \$518,000,000 in cumulative fee payments over

the lifetime of the ST3 plan. This amount is managed and distributed by the State to Snohomish, King, and Pierce Counties to be used for educational purposes. Through September 2023, Sound Transit has paid \$56,267,300 towards the fee in total.

The sales tax offset fee is included in the agency’s tax collection and fees Budget, which is approved annually by the Board and primarily comprised of fees Sound Transit pays to the Departments of Revenue and Licensing for both collection of the agency’s tax revenues as well as the sales tax offset fee. It is a derived calculation based upon the annual budget for eligible ST3 construction costs and our annual tax revenue budgets. For purposes of the fee, projects that are funded through both ST2 and ST3 (including Federal Way Link Extension and Downtown Redmond Link Extension) are considered ST3. The annual 2023 Board approved budget for this line item was \$23.1 million. As of September 30, 2023, \$17.2 million has been paid in tax collection and fees.

Staff anticipate the sales tax offset fee component to be above the adopted budget for 2023 based upon the latest forecast of project spending. This is because the Federal Way Link Extension project is projected to have higher eligible construction costs due to higher than projected expenditures on the F200 DB construction contract. Specifically, there was a payment for the Global Settlement to resolve the Structure C issue, which condensed years of change management efforts into a single negotiated settlement. This is partially offset by lower than forecasted eligible ST3 construction costs on NE 130th St. Infill Station and Downtown Redmond Link Extension.

Tax Collection and Fees

(in thousands)

Tax Collection and Fees Breakdown	2023 Annual Budget¹	This Action	Amended 2023 Budget
DOR and DOL Fees	\$6,312		\$6,312
Sales and Use Tax Offset Fee	16,740	3,165	19,905
Accounting/Audit Services	10		10
Total	\$23,063	\$3,165	\$26,228

Notes:

- 1. Budget detail for this action is located on page 36 of the Adopted 2023 Budget book.

Fiscal information

This action provides authority to amend the tax collection and fees budget by \$3,165,000, increasing the total budget to \$26,227,638.

This action does not have an impact on the affordability of the Financial Plan. Sound Transit is required to pay \$518,000,000 in the sales tax offset fee in total. As a result, this amendment does not add new costs to the Financial Plan, and instead causes a slight change in cash flow of expected expenditures.

Disadvantaged and small business participation

Not applicable to this action.

Public involvement

Not applicable to this action.

Time constraints

A one-month delay would not have a significant impact on the budget. If the Board delays voting on this action beyond November, the agency would not have the authorized allocation to complete the remaining monthly sales tax offset fee payments to the Department of Revenue for 2023.

Prior Board/Committee actions

Resolution No. R2022-35: Adopted an annual budget for the period from January 1 through December 31, 2023 and adopts the 2023 Transit Improvement Plan.

Environmental review – KH 9/12/23

Legal review – MT 10/06/23



Resolution No. R2023-33

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority increasing the 2023 annual tax collection and fees budget by \$3,165,000, from \$23,062,638 to \$26,227,638 to pay for additional sales and use tax offset fees.

WHEREAS, the Central Puget Sound Regional Transit Authority, commonly known as Sound Transit, was formed under chapters 81.104 and 81.112 of the Revised Code of Washington (RCW) for the Pierce, King, and Snohomish Counties region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, Sound Transit is authorized to plan, construct, and permanently operate a high-capacity system of transportation infrastructure and services to meet regional public transportation needs in the Central Puget Sound region; and

WHEREAS, in general elections held within the Sound Transit district on November 5, 1996, November 4, 2008, and November 8, 2016, voters approved local funding to implement a regional high-capacity transportation system for the Central Puget Sound region; and

WHEREAS, in December 2022, the Board approved Resolution No. R2022-35, adopting an annual budget for the period from January 1 through December 31, 2023, and adopting the 2023 Transit Improvement Plan; and

WHEREAS, eligible construction costs subject to the sales and use tax offset fees are projected to be higher than included in the adopted 2023 budget, and

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority increasing the 2023 annual tax collection and fees budget by \$3,165,000, from \$23,062,638 to \$26,227,638 to pay for additional sales and use tax offset fees.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on October 26, 2023.

Dow Constantine
Board Chair

Attest:

Kathryn Flores
Board Administrator