

# *Proposed 2024 Budget, Transit Improvement Plan and Financial Plan Update*

*Board of Directors*

*10/26/23*



# Why we are here

## *Today we are here to provide information*

- Proposed 2024 Budget and Transit Improvement Plan (TIP)
  - Revenues & funding sources
  - Expenditures
  - TIP
- Service growth
- Budget timeline and next steps
- Updated Fall 2023 Financial Plan Projections

# Timeline

- ➔ **October** – overview of Long-Range Financial Plan projections and proposed 2024 budget and TIP
- **November** – budget reviews by Board committees and property tax levy approval
- **December** – budget recommendation and approval

# *Long-Range Financial Plan projections and 2024 Budget*

## Long-Range Financial Plan Projections 2017 - 2046

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

## Transit Improvement Plan to 2029

- Board-approved costs for active projects through 2029

## Budget 2024

- Board-approved annual revenues, sources, and expenditures for 2024

# Budgets within Committee purview

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

***Proposed 2024 Budget and  
Transit Improvement Plan (TIP)***

# *Revenues & funding sources*

# Executive summary – revenues and financing

(In millions)

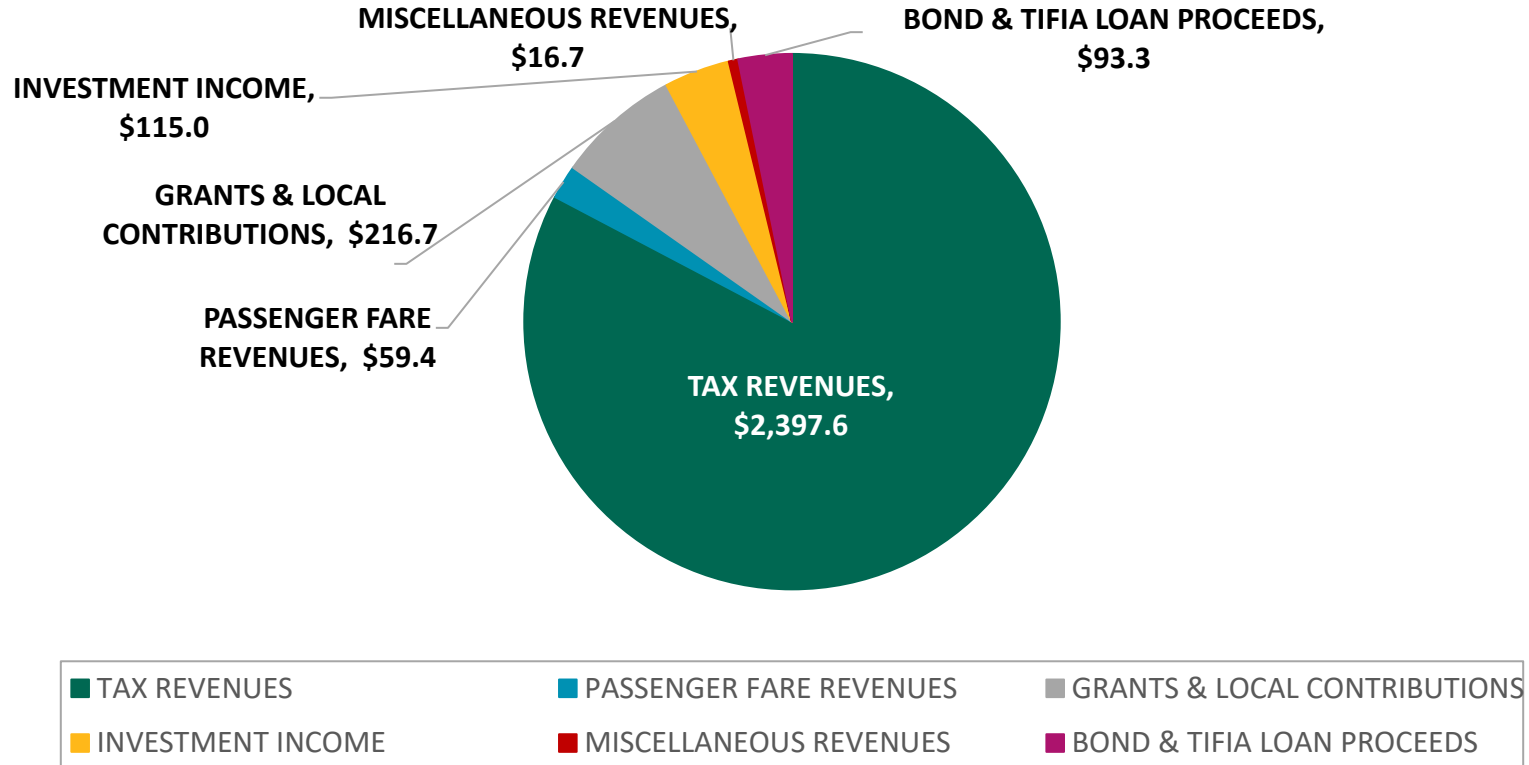
<b>TOTAL REVENUES - 2024 Proposed Budget</b>					
CATEGORY	Forecast	Budget	% Variance	Proposed	% Change
	2023	2023	2023F to 2023B	2024	2023B to 2024B
<b>TAX REVENUES</b>	\$2,318.7	\$2,295.5	1.0%	\$2,397.6	4.4%
<b>PASSENGER FARE REVENUES</b>	51.8	52.4	-1.1%	59.4	13.5%
<b>GRANTS &amp; LOCAL CONTRIBUTIONS</b>	515.9	283.0	82.3%	216.7	-23.4%
<b>INVESTMENT INCOME</b>	136.0	40.4	236.6%	115.0	184.7%
<b>MISCELLANEOUS REVENUES</b>	17.1	10.9	57.3%	16.7	53.4%
<b>BOND &amp; TIFIA LOAN PROCEEDS</b>	994.6	.0		93.3	-
<b>Grand Total</b>	<b>\$4,034.2</b>	<b>\$2,682.2</b>	<b>50.4%</b>	<b>\$2,898.8</b>	<b>8.1%</b>

- *Tax revenue: 4.4% above 2023 budget*
- *Fares: East Link Starter Line and Lynnwood opening*
- *Grants: 2024 lower due to funds accelerated in 2023 originally assumed for 2024*
- *Bonds and TIFIA: Hilltop TIFIA draw*



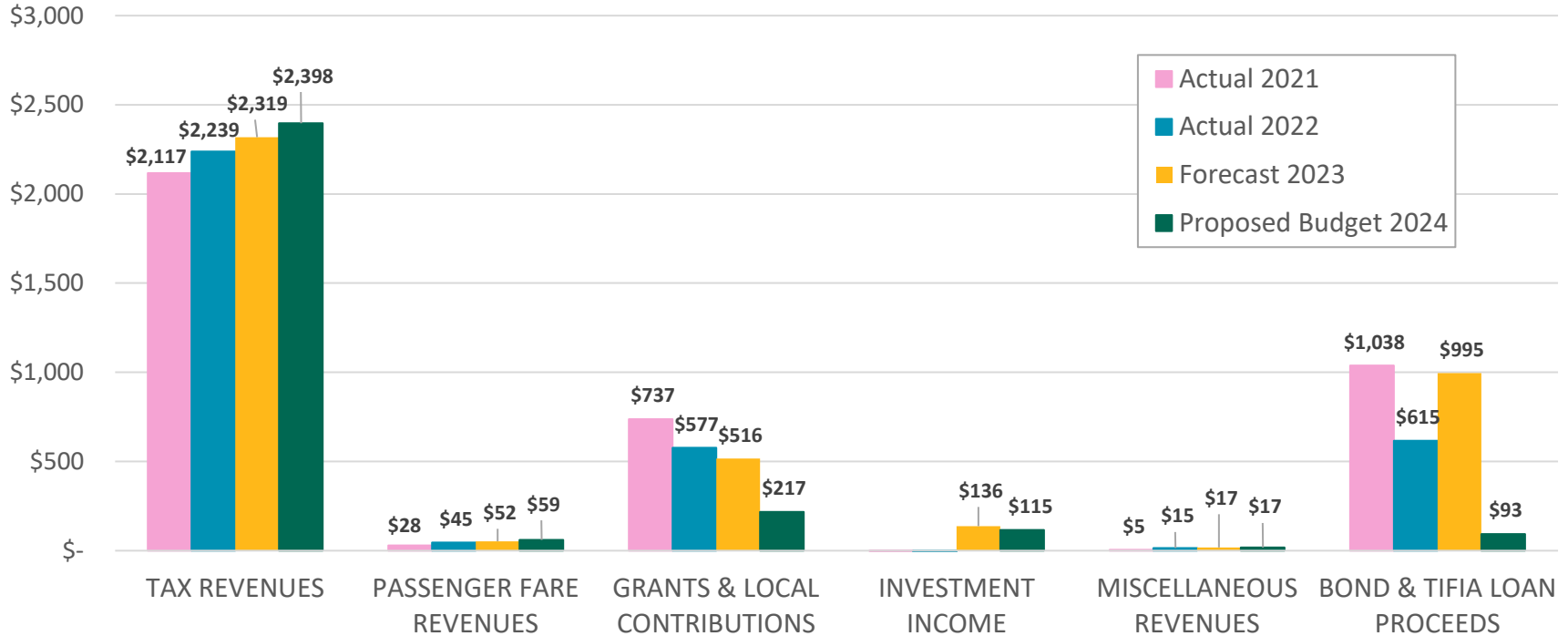
# Where the money comes from: \$2,899M

(In millions)



# Revenues and financing sources trends

In millions



# *Expenditures*

# ***Expected growth in expenses***

- Costs for opening Starter Line 2
- Costs for opening Lynnwood Link Extension
- Full year of Hilltop Tacoma Link Extension operations
- Annual increases in salaries and wages, including partners' costs
- Escalating healthcare costs
- Insurance premiums
- Additional security

***Headwinds – HTLE settlement, higher contracted labor rates***

# Executive summary – expenditures

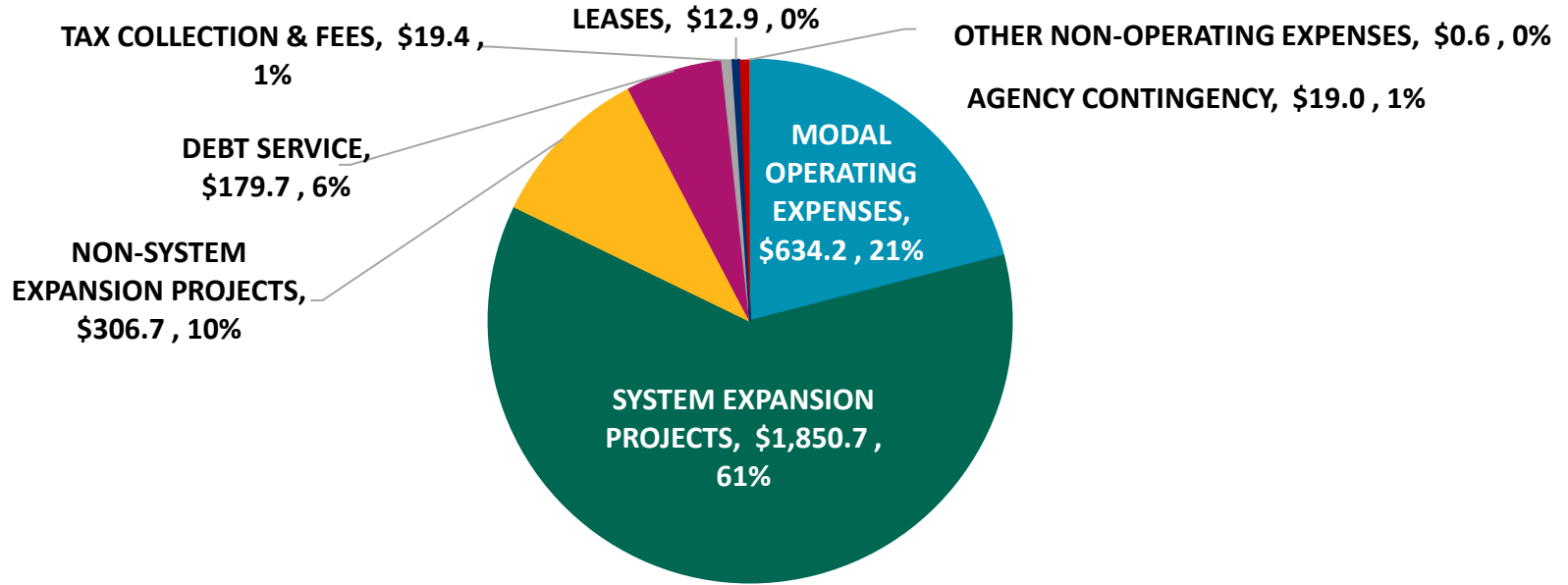
<b>TOTAL EXPENDITURES - 2024 Proposed Budget</b>					
<b>CATEGORY</b>	<b>Forecast</b>	<b>Budget</b>	<b>% Variance</b>	<b>Proposed</b>	<b>% Change</b>
	<b>2023</b>	<b>2023</b>	<b>2023F to 2023B</b>	<b>2024</b>	<b>2023B to 2024B</b>
<b>MODAL OPERATING EXPENSES</b>	<b>\$455.3</b>	<b>\$495.3</b>	<b>8.1%</b>	<b>\$634.2</b>	<b>28.0%</b>
<b>SYSTEM EXPANSION PROJECTS</b>	<b>2,010.9</b>	<b>2,047.9</b>	<b>1.8%</b>	<b>1,850.7</b>	<b>-9.6%</b>
<b>NON-SYSTEM EXPANSION PROJECTS</b>	<b>236.0</b>	<b>261.3</b>	<b>9.7%</b>	<b>306.7</b>	<b>17.4%</b>
<b>DEBT SERVICE</b>	<b>229.4</b>	<b>229.4</b>	<b>0.0%</b>	<b>179.7</b>	<b>-21.6%</b>
<b>TAX COLLECTION &amp; FEES</b>	<b>26.2</b>	<b>23.1</b>	<b>-13.7%</b>	<b>19.4</b>	<b>-15.7%</b>
<b>CONTRIBUTIONS TO PARTNER AGENCIES</b>	<b>5.0</b>	<b>5.0</b>	<b>0.0%</b>	<b>.0</b>	<b>-100.0%</b>
<b>LEASES</b>	<b>15.9</b>	<b>16.8</b>	<b>5.5%</b>	<b>12.9</b>	<b>-22.9%</b>
<b>AGENCY CONTINGENCY</b>	<b>-</b>	<b>10.6</b>		<b>19.0</b>	<b>78.5%</b>
<b>OTHER NON-OPERATING EXPENSES</b>	<b>.6</b>	<b>.6</b>	<b>6.6%</b>	<b>.6</b>	<b>2.4%</b>
<b>Grand Total</b>	<b>\$2,979.2</b>	<b>\$3,089.9</b>	<b>3.6%</b>	<b>\$3,023.3</b>	<b>-2.2%</b>

\*2023 budget includes changes to the 2023 adopted budget due to Board actions.

- Existing cash balance from 2023 TIFIA draws will be used to balance sources and uses, reducing our net cash position
- Agency contingency is 3% of proposed modal operating budget to help mitigate risks in escalating transportation costs

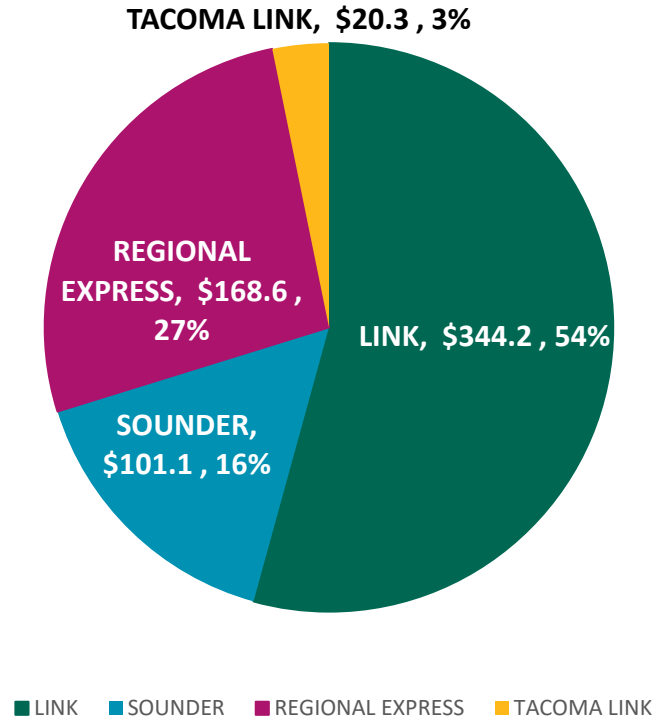
# Where the money goes: \$3,023M

(In millions)



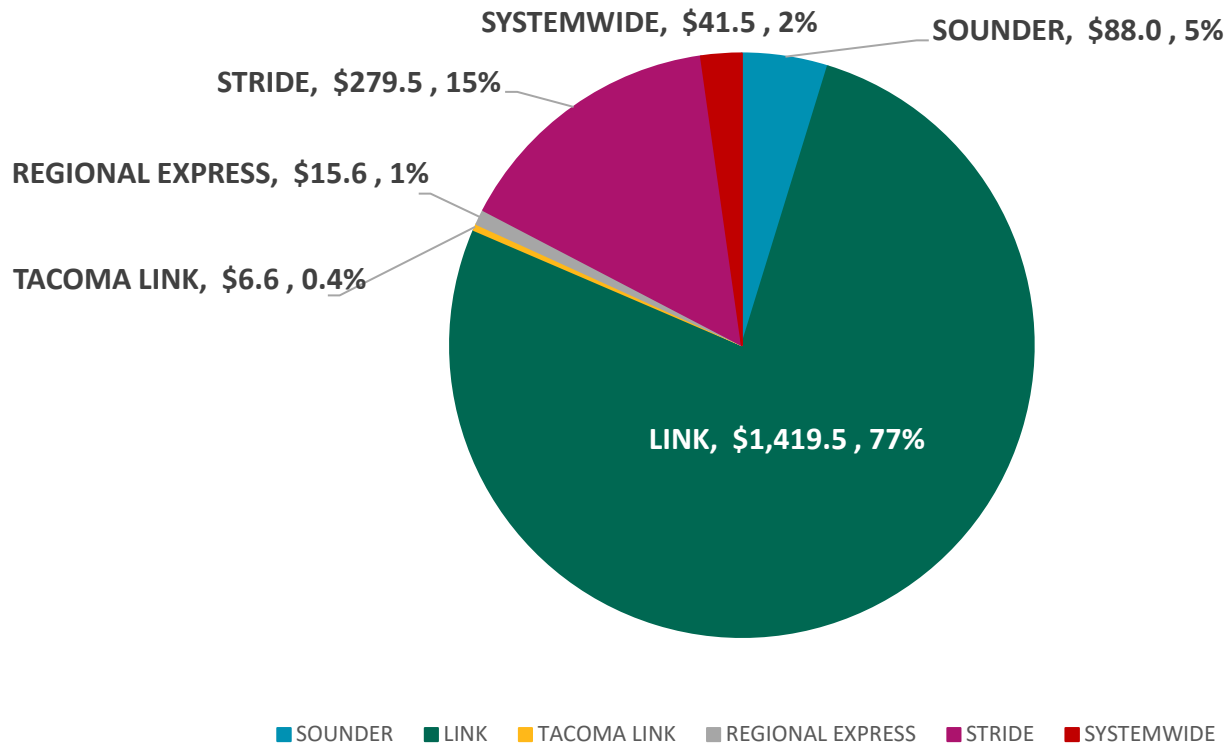
# Operating expenses by mode: \$634M

(In millions)



# System expansion projects by mode: \$1,851M

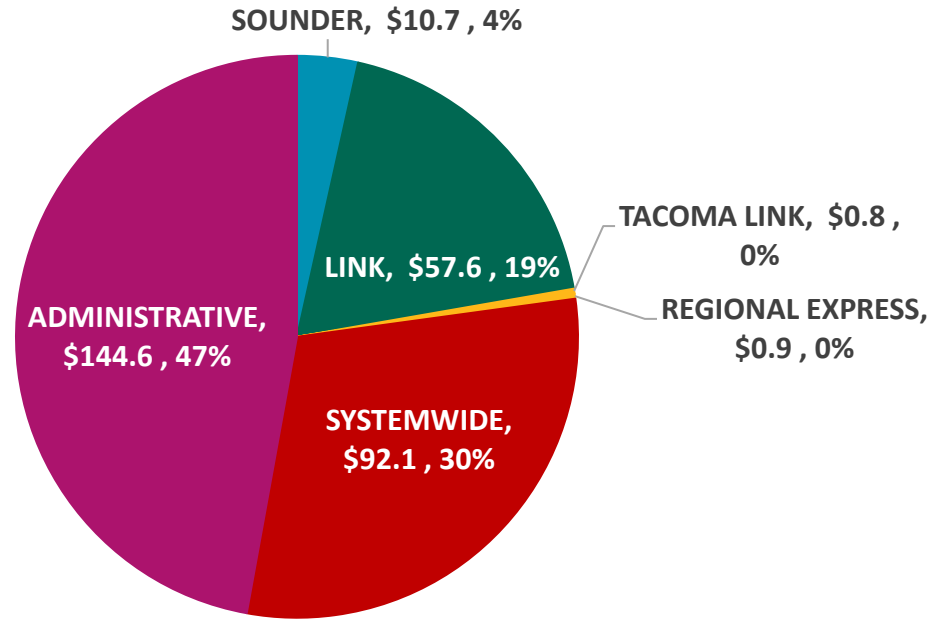
(In millions)





# Agency projects\* by mode: \$307M

(In millions)



■ SOUNDER ■ LINK ■ TACOMA LINK ■ REGIONAL EXPRESS ■ SYSTEMWIDE ■ ADMINISTRATIVE

\*Excludes System Expansion projects

# Changes to Transit Improvement Plan

(In millions)

## TRANSIT IMPROVEMENT PLAN EXPENSES - 2024 Proposed Budget

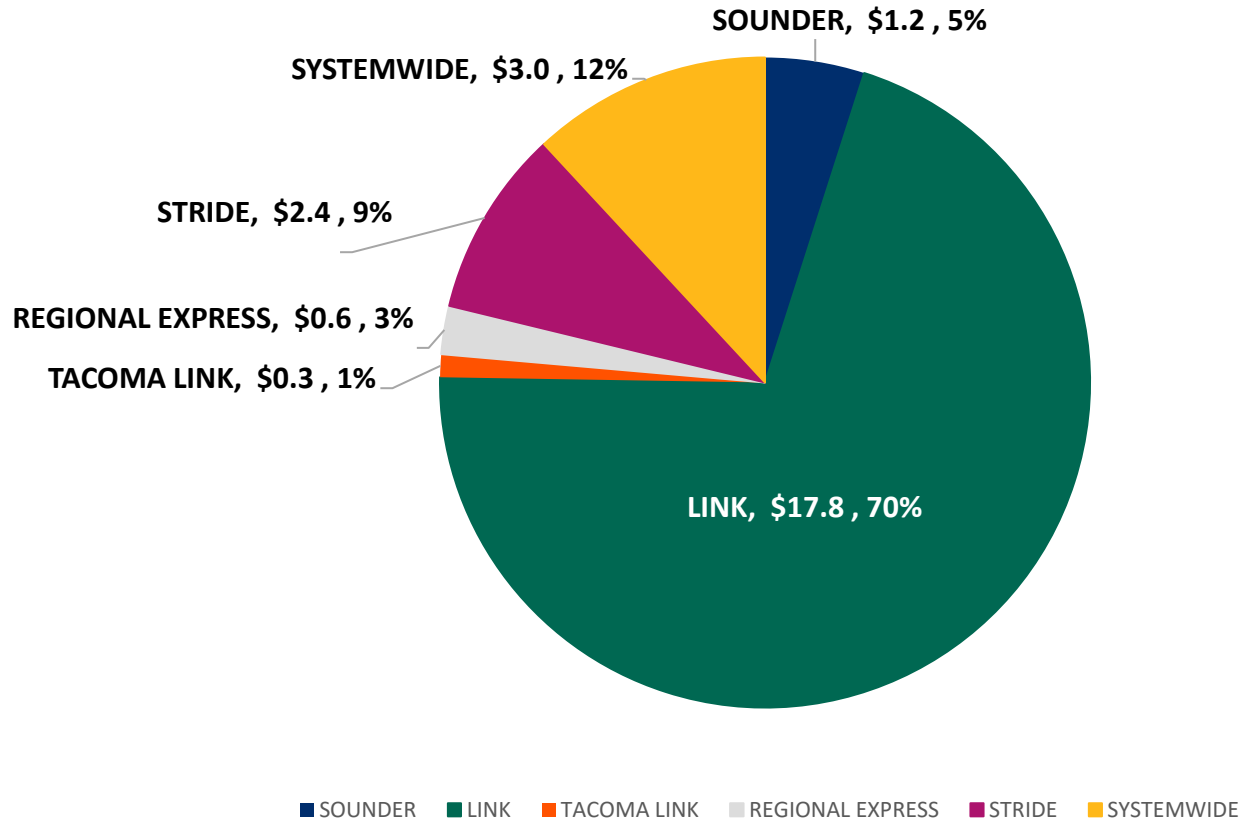
CATEGORY	Authorized Allocation
<b>2023 ADOPTED TRANSIT IMPROVEMENT PLAN</b>	<b>24,107.7</b>
<b>NEW PROJECTS / PROGRAMS</b>	<b>24.6</b>
<b>INCREASES TO EXISTING PROJECTS / PROGRAMS</b>	<b>1,133.0</b>
<b>DECREASES FROM PROJECT CLOSURES</b>	<b>(12.1)</b>

### 2024 Proposed Transit Improvement Plan

**\$25,253.2**

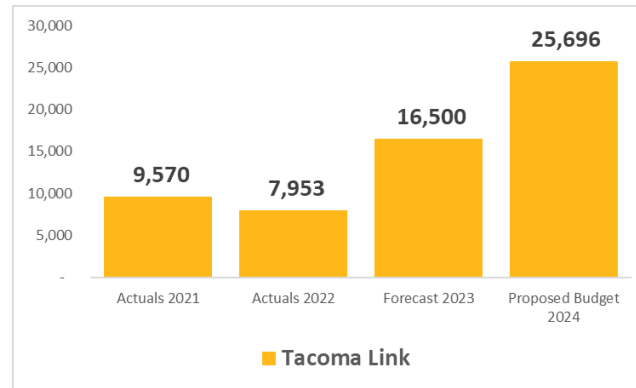
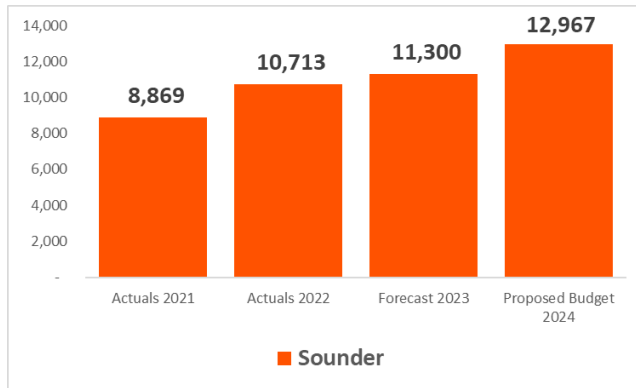
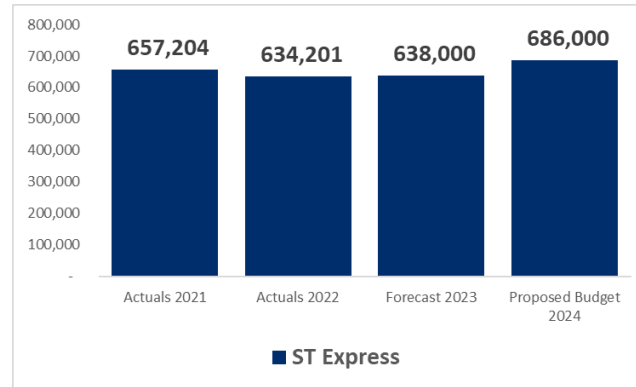
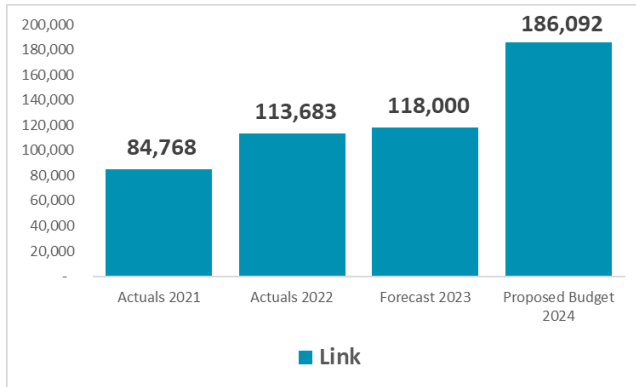
- *New projects include the So. Warehouse Facility (\$12M) and the UCC (\$3M)*
- *Increases mainly from Stride baseline (\$950M), TDLE/ OMFS PE and ROW (\$208M), offset by reduction in funding for in-service projects.*
- *Closed out projects include the LRV Overhaul (\$5M) and the Conv. Pl. retrofit (\$4M)*

# 2024 Transit Improvement Plan by mode: \$25B



***Service growth***

# Service: Platform hour growth by mode



# *Thoughts and concerns*

- Proposed 2024 budget under original long-term forecast and target
- Expansion project delivery management remains critical
- Service openings and maintaining ST3 service levels continue to pressure costs
- Resourcing (labor and materials) continue to be a headwind to supporting growth

***Budget timeline  
and next steps***

# Timeline

## *October – budget and Financial Plan kickoff*

 **10/26** – Board Meeting – Overview of Long-Range Financial Plan projections and Proposed 2024 budget and TIP

## *November – budget overview and property tax levy approval*

- **11/2** – Public hearing – budget and property taxes.
- **11/2** – Executive Committee – budget overview and property tax levy
- **11/2** – Rider Experience and Operations Committee – budget overview
- **11/9** – System Expansion Committee – budget overview
- **11/16** – Board Meeting – request for approval of the property tax levy



# *Timeline continued*

## *December – budget recommendation and approval*

- **12/7** – Rider Experience and Operations Committee – recommends to FAC
- **12/7** – Executive Committee – recommends to FAC
- **12/14** – System Expansion Committee – recommends to FAC
- **12/15** – Finance and Audit Committee – recommends to Board
- **12/15 – Board – adoption of the Proposed 2024 Budget and Transit Improvement Plan**

***Updated Financial Plan  
Projections***

# *What is the Long-Range Financial Plan and why is it important?*

- A 30-year (2017 – 2046) financial forecasting model
- Projects all agency revenues and expenditures required to build and operate SM, ST2, and ST3
- Identifies when peak spending occurs and when Sound Transit needs to issue debt to fund system expansion
- Monitors Sound Transit's ability to build and operate the voter approved system while adhering to state financial laws and agency financial policies

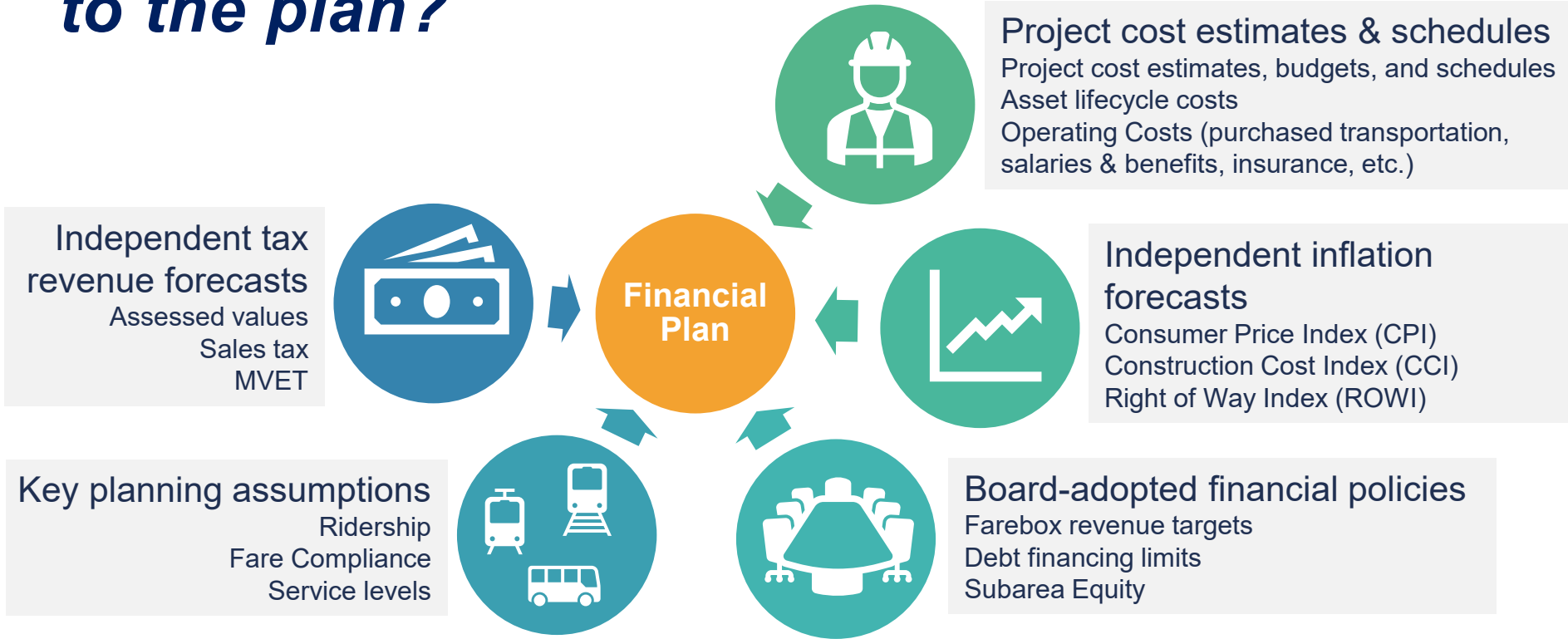


# How is the Long-Range Financial Plan used?

- **Monitor program affordability.** Provides holistic view of program affordability and gives ST ability to act if the program is unaffordable.
- **Support decision making.** Provides financial impact of decisions presented to the Board.
- **Federal reporting.** Required for federal loans and grants.
- **Credit ratings.** Analysis from Financial Plan provided to ratings agencies.
- **Legislative Proposals and Initiatives.** Used to analyze bills that may impact Sound Transit's financial projections.



# What are the inputs to the plan?



# *Fall 2023 Updates*

# Key Takeaways

## *Debt capacity is lower and coverage is not materially improving...*

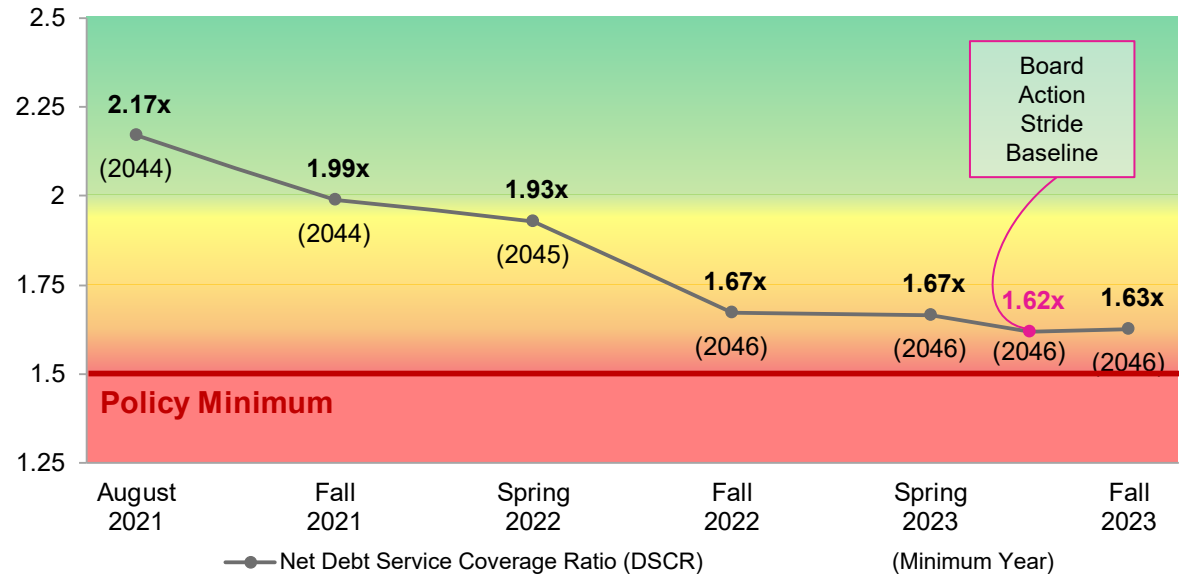
- Capital expenditures increased, due to inflation and Stride baseline.
- Decrease in fare revenues from decreased boardings with fare media.
- Increase in tax revenues help offset the increase in expenditures.
- ***Elevated Risks - Costs to provide ST3 service levels and cost estimates for expansion projects in planning.***

# Net Debt Service Coverage Ratio (DSCR)

**Current minimum Net DSCR is 1.63x**

**Net DSCR** is the Agency's ability to pay back debt after paying for operating costs in any given year

**Goal is to be above 2.00x**



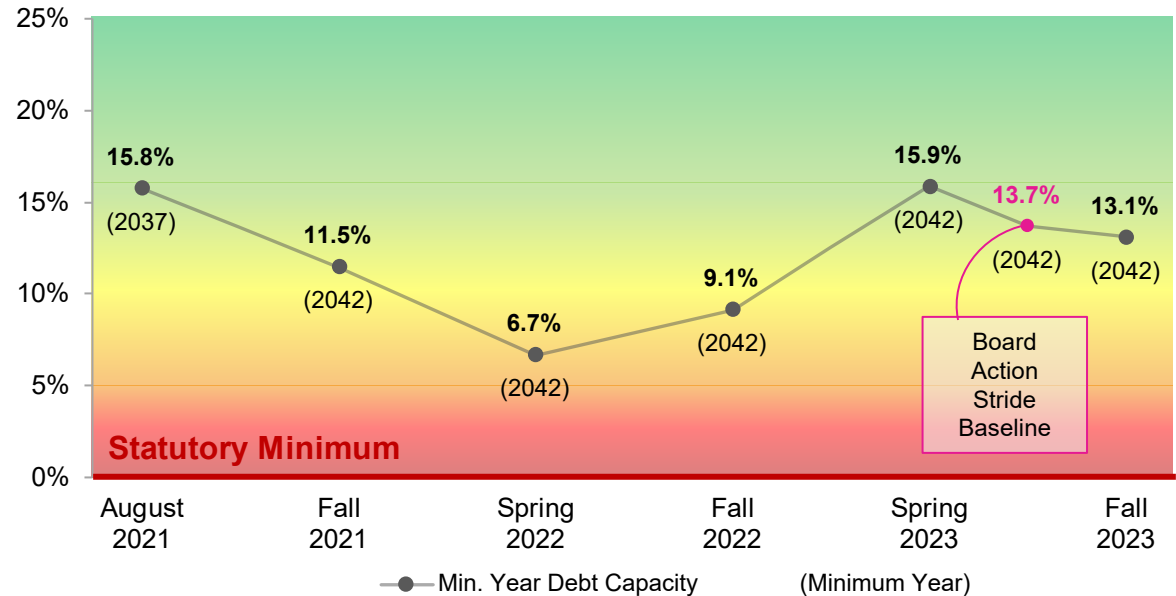


# Debt Capacity

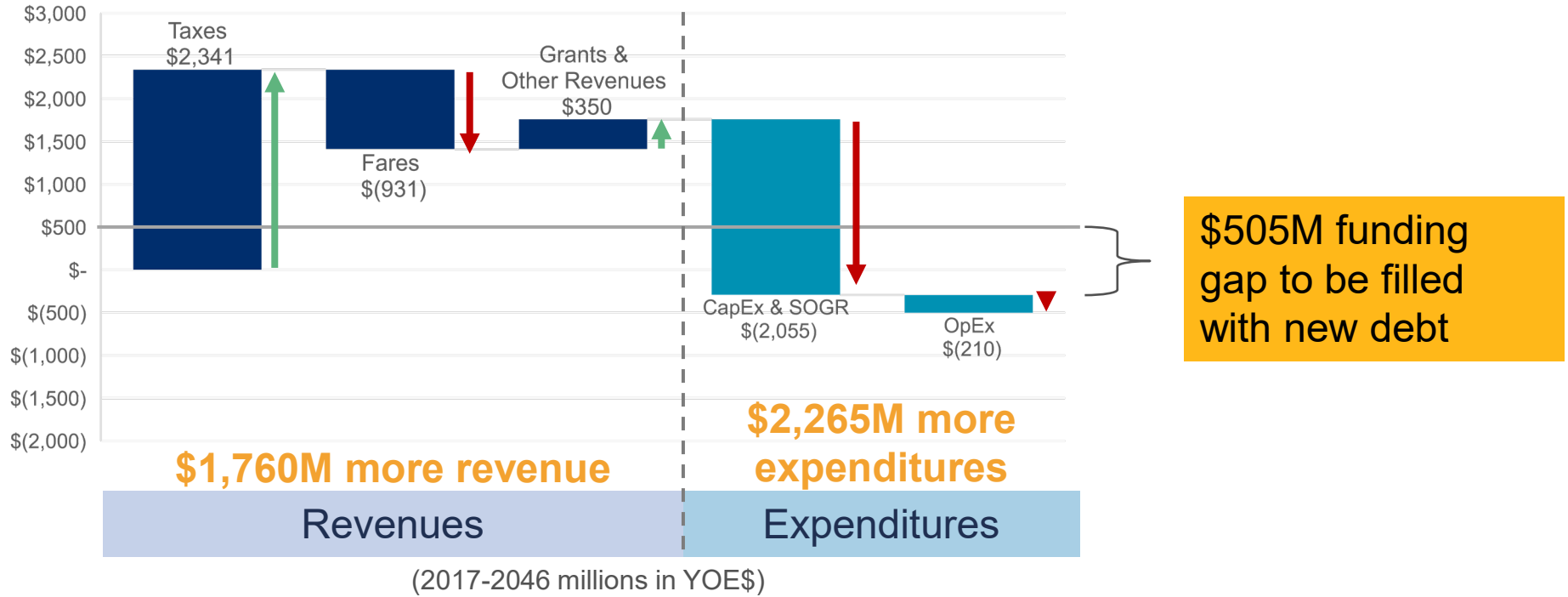
**Current minimum remaining available debt capacity is 13.1%**

**Debt Capacity** is the Agency's ability to issue debt, constrained by assessed values in the district

**Goal is to be above 15%**

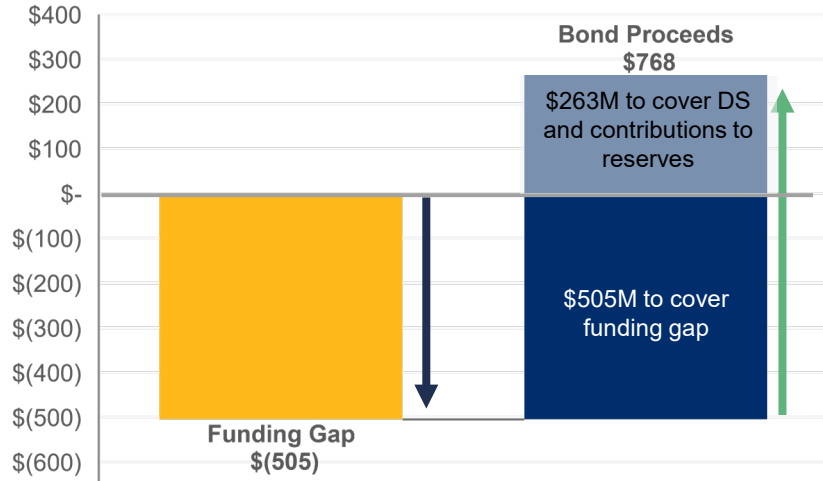


# Major changes and impacts in this Financial Plan update (2017-2046)



# Changes in bond issuance

**\$768M in bond issuance required to cover \$505M in funding gap**



(2017-2046 millions in YOES\$)

- Change in expenditures greater than change in revenues by \$505M
- Bond proceeds required to cover increased costs and interest on debt: \$768M
- New debt service and reserve contributions totals \$263M

# *Tax revenue*

*\$2,341M (2.6%) increase compared to Spring 2023*

- +\$2,083M sales tax due to increased regional growth
- +\$250M MVET mostly due to increased CPI assumptions
- +\$26M increase in rental car tax due to travel recovering post pandemic
- -\$18M property tax experienced a slight decrease due to decline in assessed value forecast

# Fare revenue

***\$931M (14.5%) decrease compared to Spring 2023***

- -\$210M due to decreased ridership forecast, from known in-service date delays
- -\$721M due to decreased boardings with fare media
  - Link: Updated to short-term rate of 55% and long-term rate of 75%
  - Pre-pandemic assumption of 80%

<b>Change in revenue from Spring '23 (YOE \$M)</b>		
<u>Mode</u>	<u>Fare</u>	<u>Ridership</u>
Link	(523)	(164)
Tacoma Link	(49)	(5)
Sounder	(109)	(40)
ST Express	(1)	15
BRT	(39)	(16)
<b>TOTAL</b>	<b>(721)</b>	<b>(210)</b>

# Grants & other revenues

***\$350M (2.1%) increase compared to Spring 2023***

- Grants increased \$117M due primarily to additional federal appropriation for Federal Way and Lynnwood Link
- Interest earnings increased \$333M, due to higher cash balances and short-term interest rates
- Other revenue decreased \$100M

# ***Capital expenditures & State of Good Repair***

***\$2,055M (2.6%) increase from Spring 2023***

- +\$1,634M due to inflation index updates and latest project schedules
- +\$288M due to Stride baseline project costs (R2023-18)
- +\$133M Enterprise Resource Planning (ERP)/ Enterprise Asset Management System (EAMS) assumptions update
- ***No project cost estimates were updated (e.g. OMFS)***

# *Operating expenses*

*\$210 million (0.5%) increase from Spring 2023*

- +\$240M due to enhanced janitorial/cleaning, STEX/Sounder service restoration, and insurance increases
- +\$159M due to inflation, labor and benefit market increases
- -\$189M due to updating BRT in-service dates to baseline dates



# Headwinds & Tailwinds

## Headwinds

- Labor market (ST & contracted)
- Cost increases for projects in planning (e.g. OMFS)
- Scope changes for projects in planning (e.g. West Seattle and Ballard PA, LRFP assumes 3<sup>rd</sup> party funding)
- Additional LRV needs, OMF capacity, and associated operating costs
- Fare revenues
- Claims on construction projects

## Tailwinds

- New carbon credit market sales revenues
- Increased CIG grants assumptions

*Thank you.*



 [soundtransit.org](https://www.soundtransit.org)

