

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

Finance and Audit Committee Meeting

10/19/23

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

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

Revenues & funding sources

Executive summary – revenues and financing

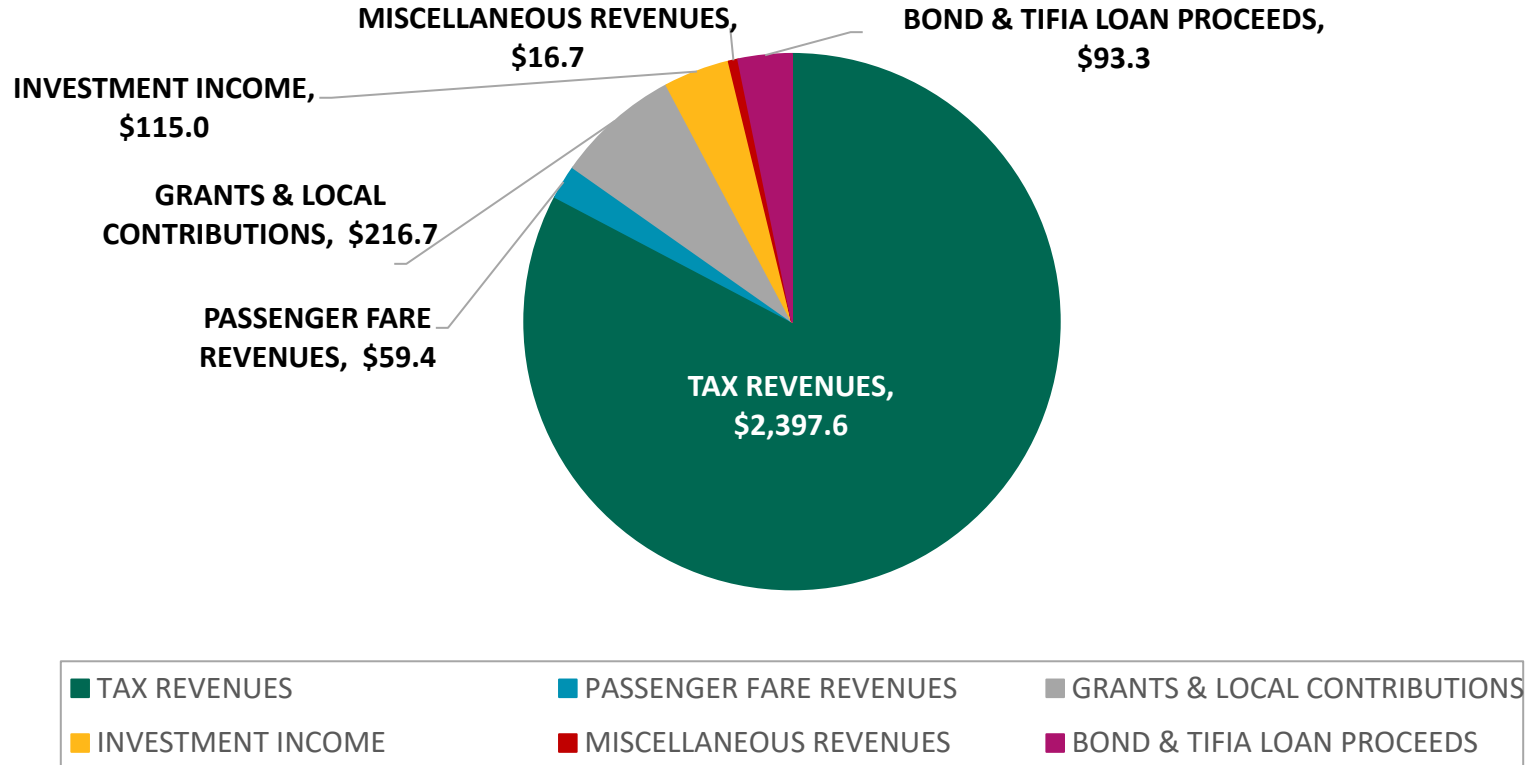
(In millions)

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

- *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*

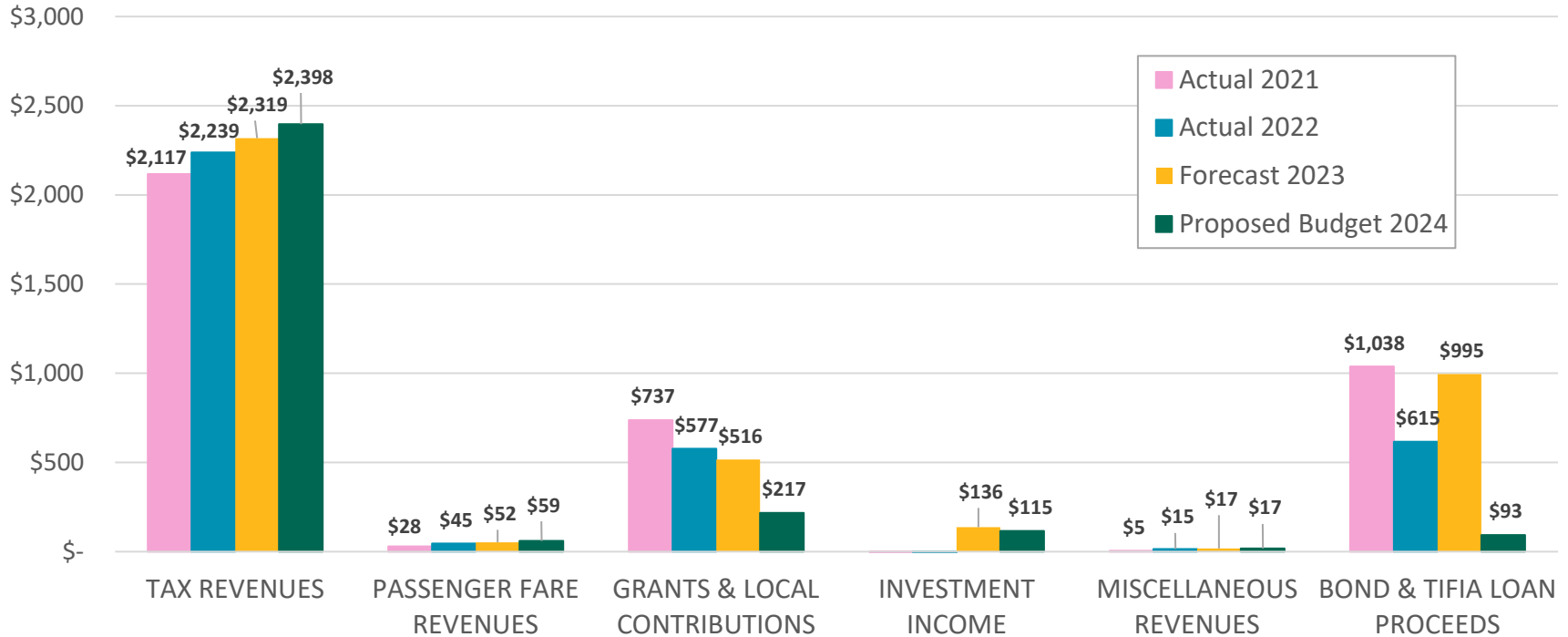
Where the money comes from: \$2,899M

(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

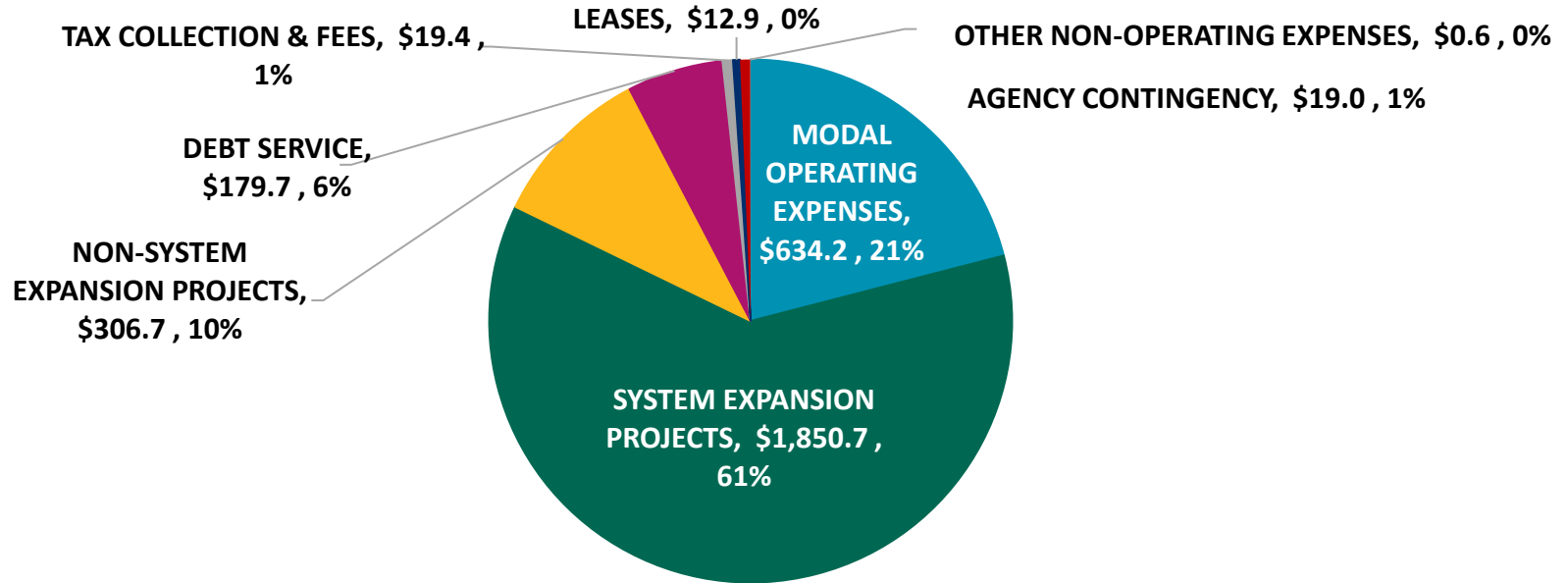
TOTAL EXPENDITURES - 2024 Proposed Budget					
CATEGORY	Forecast	Budget	% Variance	Proposed	% Change
	2023	2023	2023F to 2023B	2024	2023B to 2024B
MODAL OPERATING EXPENSES	\$455.3	\$495.3	8.1%	\$634.2	28.0%
SYSTEM EXPANSION PROJECTS	2,010.9	2,047.9	1.8%	1,850.7	-9.6%
NON-SYSTEM EXPANSION PROJECTS	236.0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

*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)



■ MODAL OPERATING EXPENSES

■ SYSTEM EXPANSION PROJECTS

■ NON-SYSTEM EXPANSION PROJECTS ■ DEBT SERVICE

■ TAX COLLECTION & FEES

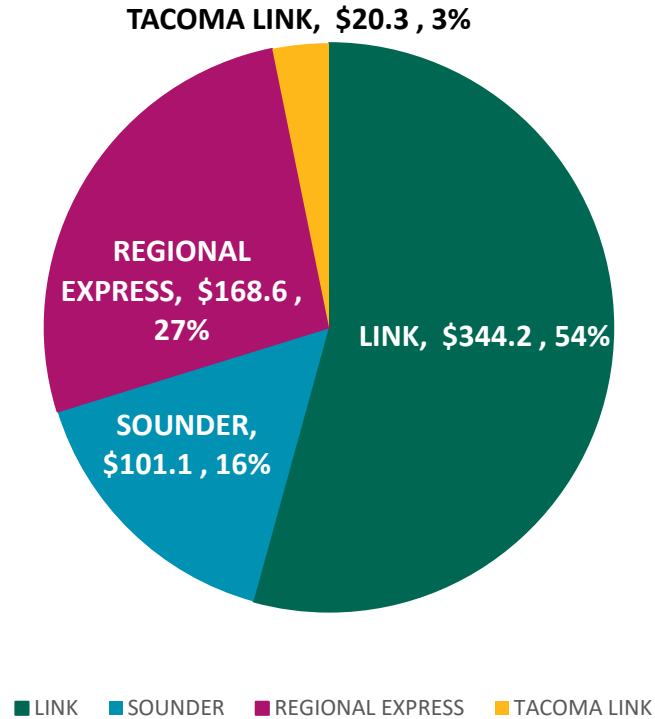
■ LEASES

■ AGENCY CONTINGENCY

■ OTHER NON-OPERATING EXPENSES

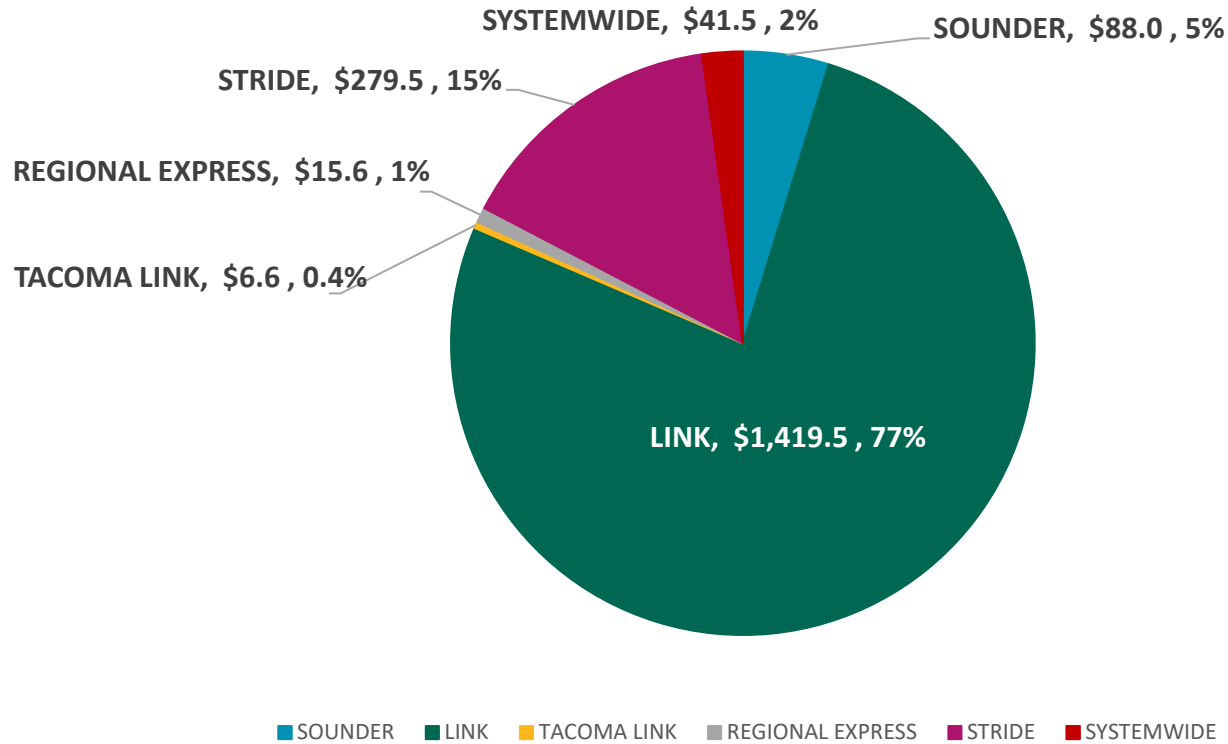
Operating expenses by mode: \$634M

(In millions)



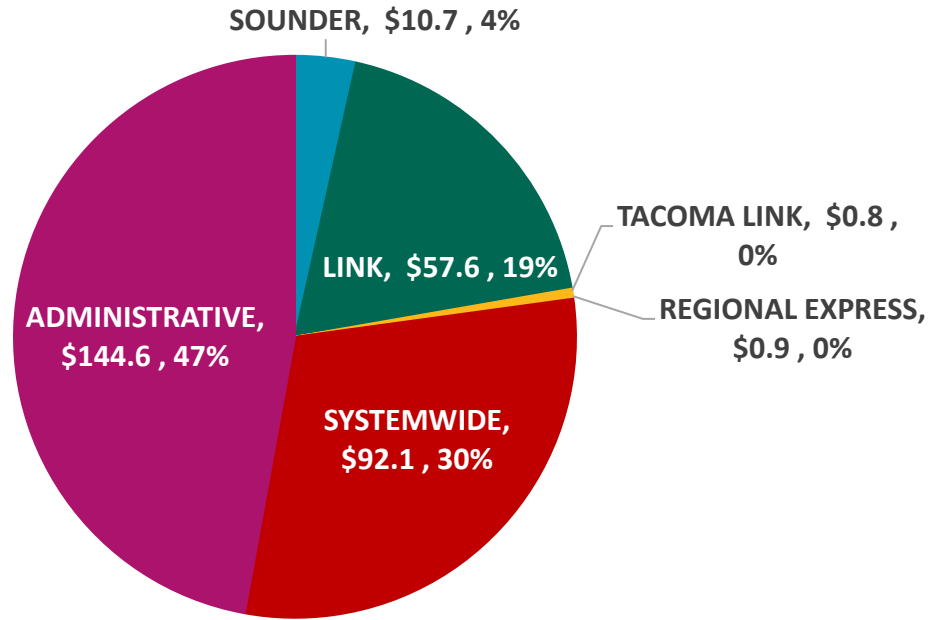
System expansion projects by mode: \$1,851M

(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

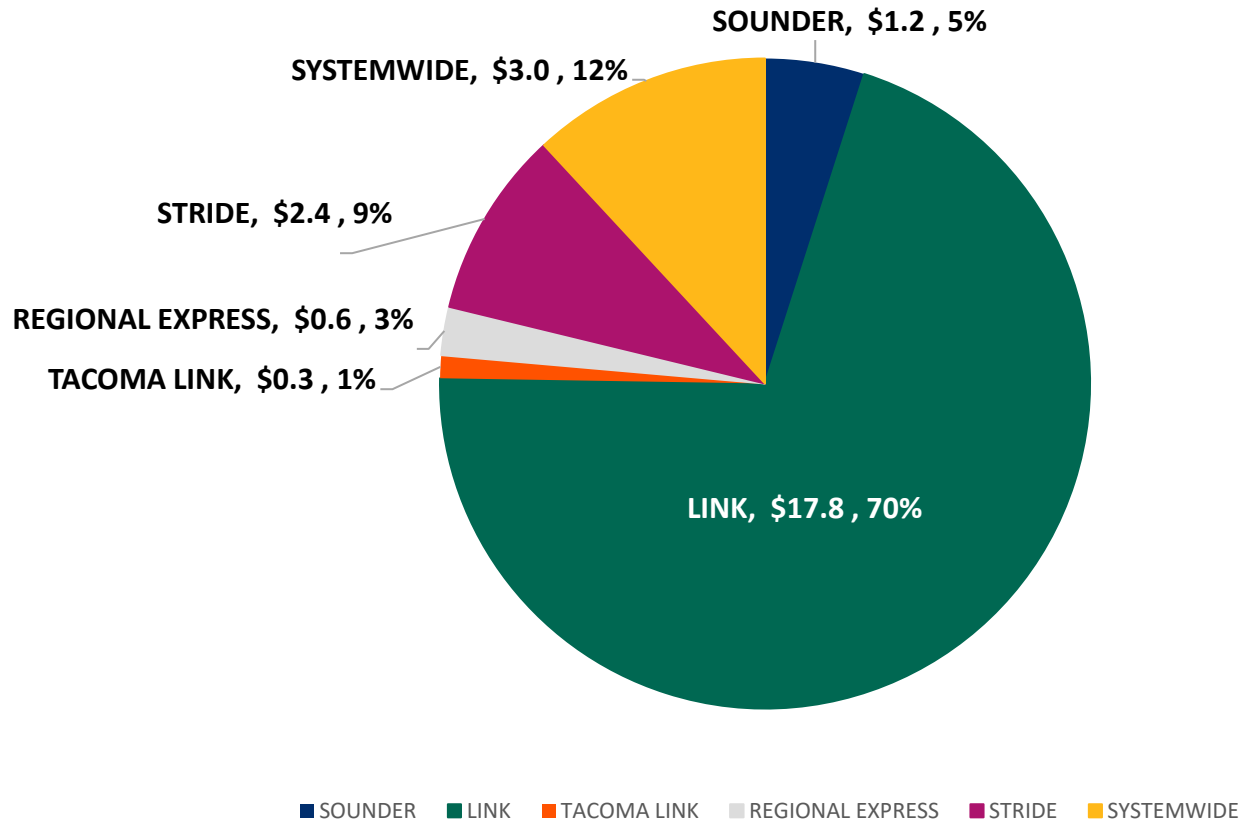
CATEGORY	Authorized Allocation
2023 ADOPTED TRANSIT IMPROVEMENT PLAN	24,107.7
NEW PROJECTS / PROGRAMS	24.6
INCREASES TO EXISTING PROJECTS / PROGRAMS	1,133.0
DECREASES FROM PROJECT CLOSURES	(12.1)

2024 Proposed Transit Improvement Plan

\$25,253.2

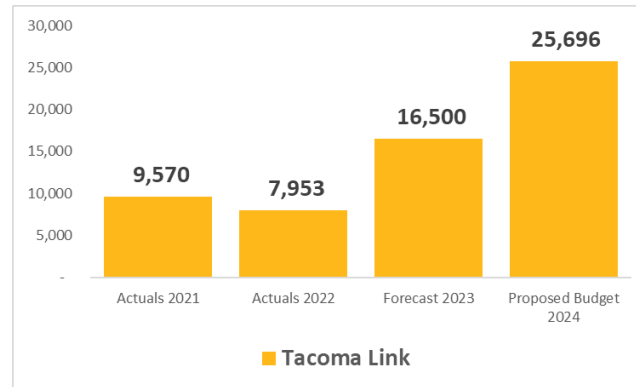
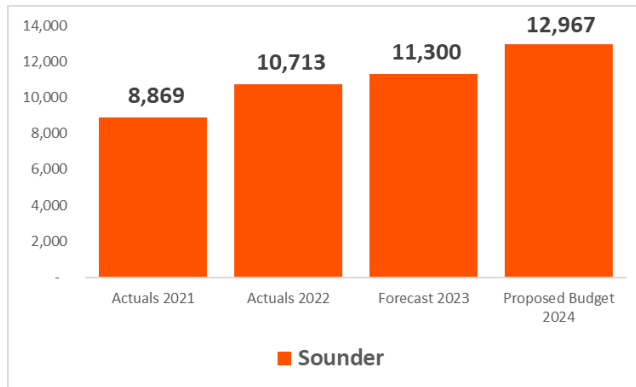
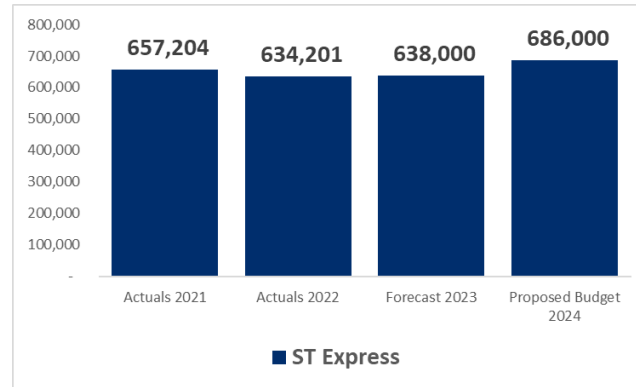
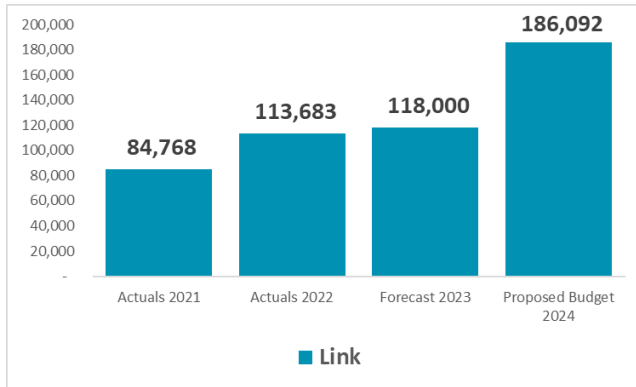
- *New projects include the So. Warehouse Facility (\$12M) and the UCC (\$3M)*
- *Increases mainly from Stride baseline (\$950M), TDLE/ OMFS PE and ROW (\$208M), offset by reduction in funding for in-service projects.*
- *Closed out projects include the LRV Overhaul (\$5M) and the Conv. Pl. retrofit (\$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
- **12/14** – Executive Committee – recommends to FAC
- **12/14** – System Expansion Committee – recommends to FAC
- **12/15 – Finance and Audit Committee – recommends to Board**
- **(to be scheduled)** – 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

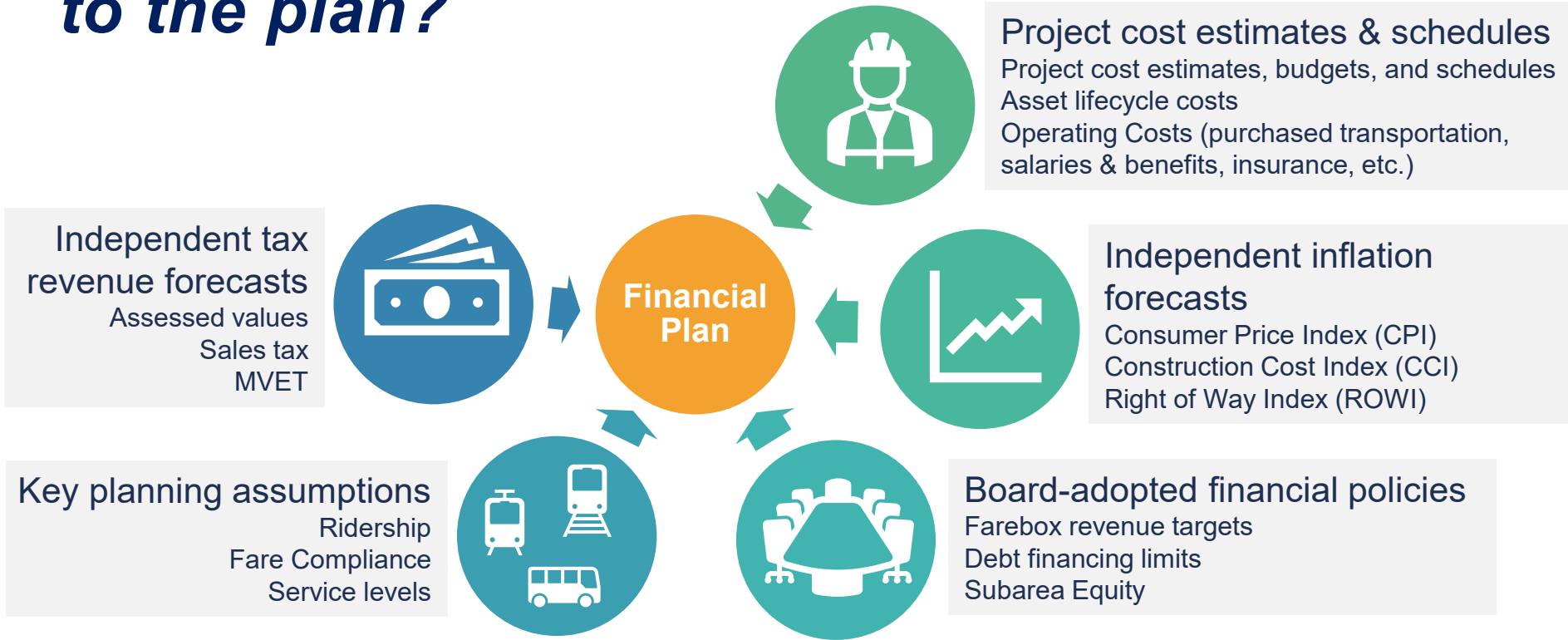


How is the Long-Range Financial Plan used?

- **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...

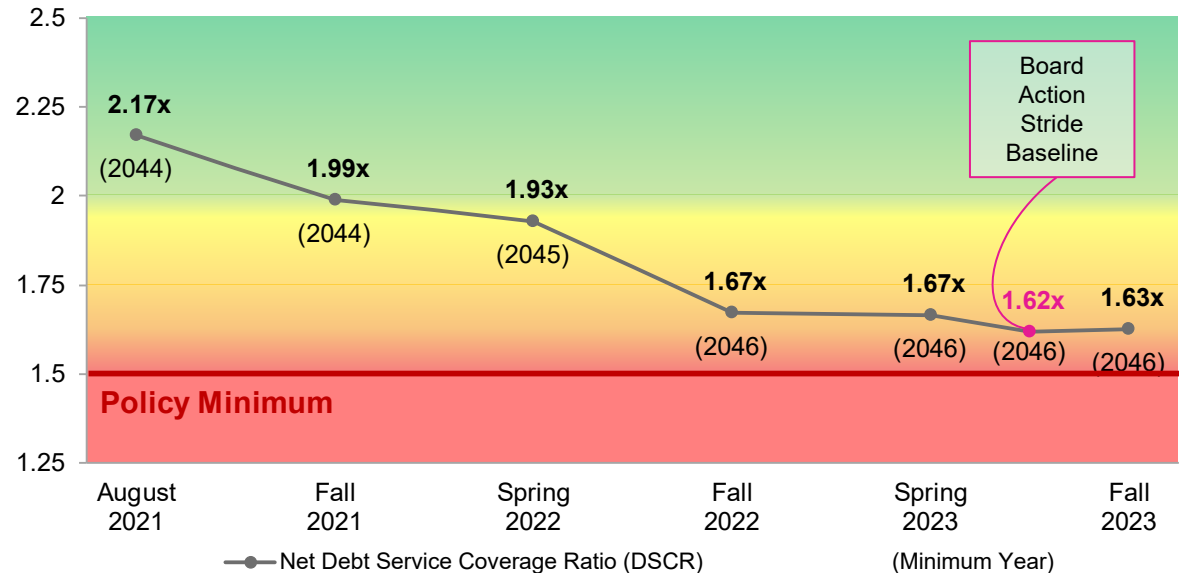
- Capital expenditures increased, due to inflation and Stride baseline.
- Decrease in fare revenues from decreased boardings with fare media.
- Increase in tax revenues help offset the increase in expenditures.
- ***Elevated Risks - Costs to provide ST3 service levels and cost estimates for expansion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

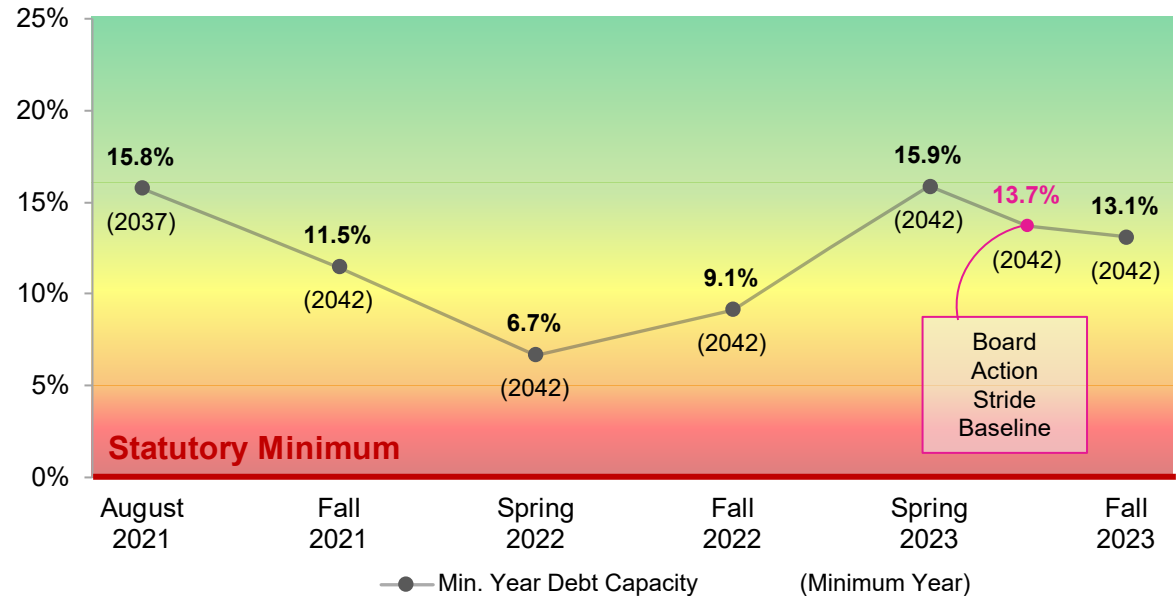


Debt Capacity

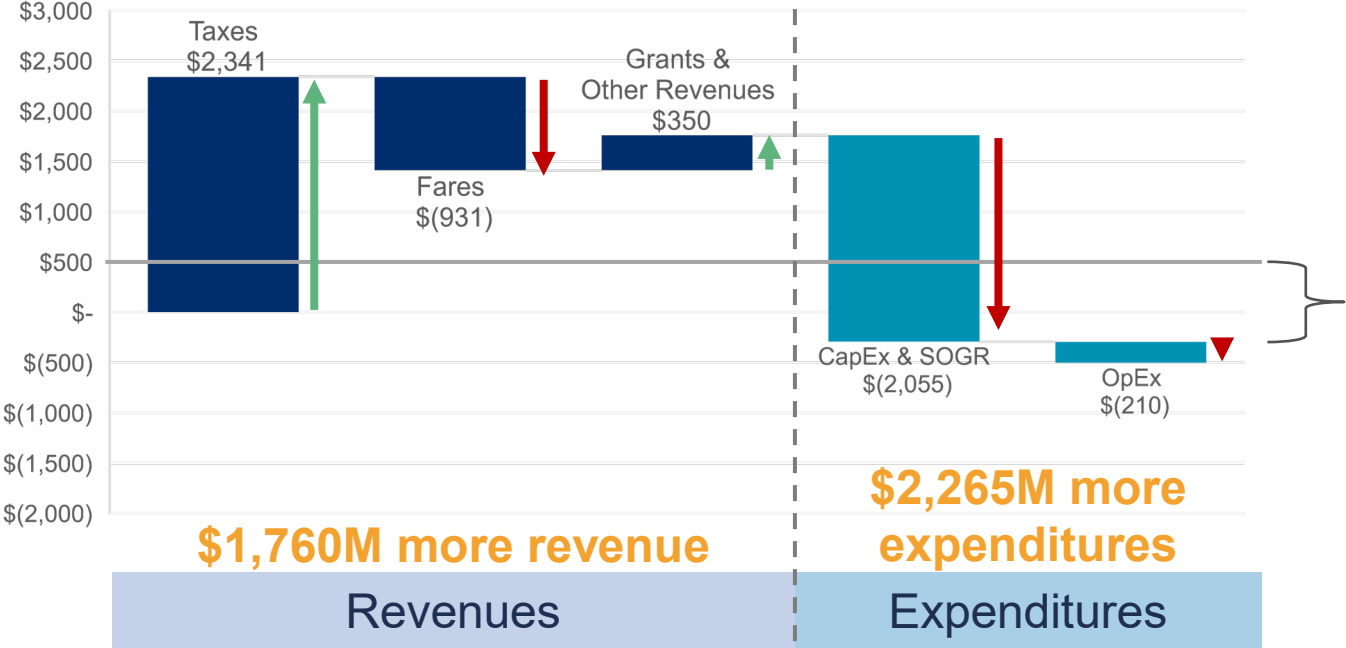
Current minimum remaining available debt capacity is 13.1%

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)

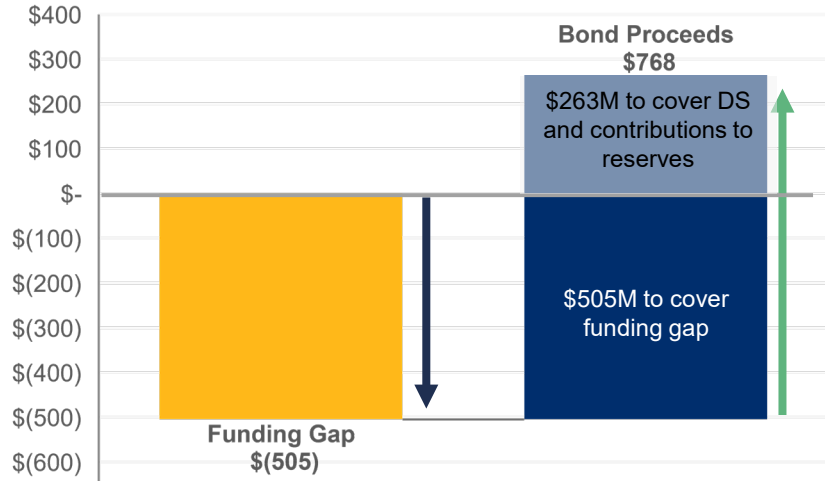


\$505M funding gap to be filled with new debt

(2017-2046 millions in YOES\$)

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 (2.5%) 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 (16.9%) 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%

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

Grants & other revenues

\$350M (2.0%) 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 (2.4%) 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 3rd 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.



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