Fall 2024 Financial Plan Projections

Finance and Audit Committee
10/10/2024

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Why we are here

Today we are here to provide information

- Updated fall 2024 Financial Plan projections

2025 budget, TIP, and Long-Range Financial Plan

Budget 2025 ***Board Approved***

Annual Budget of revenues, sources, and expenditures for 2025.

Transit Improvement Plan (TIP) to 2030 ***Board Approved***

Authorized Allocation (lifetime) for all active project costs, including past actuals. (Includes pre-baselined and baselined projects, as well as service delivery projects.)

Long-Range Financial Plan (2017 – 2046) ***Board Updated***

Includes Sound Move, ST2, and ST3 sources and uses through 2046.

Fall 2024 Plan Inputs

Financial Plan

2025 Budget, Operating, and TIP Costs

Updated Independent tax revenue forecast

Independent inflation forecasts
- Consumer Price Index (CPI)
- Construction Cost Index (CCI)
- Right of Way Index (ROWI)
- Vehicle Index (VEHI)

Key planning assumptions
- Ridership
- Fare Compliance
- Service levels

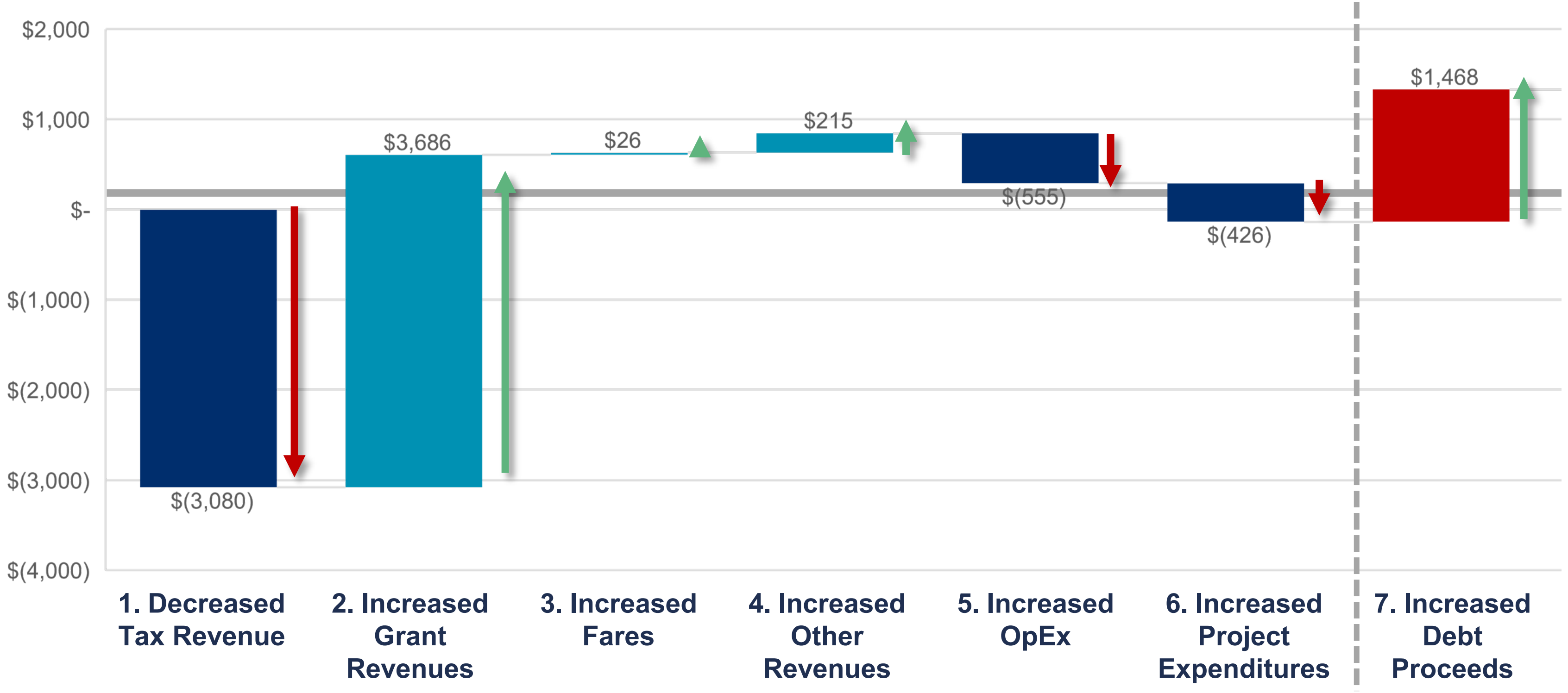
Board-adopted financial policies
- Farebox revenue targets
- Debt financing limits
- Subarea Equity

Financial Plan - Key Takeaways

Debt capacity and coverage projections have decreased compared to the Fall 2023 Plan

- The Proposed 2025 Budget and TIP are affordable within the agency's updated financial plan.
- All board financial policies are maintained.
- Higher projected capital and operating costs through 2046 result in increased debt issuance and decreased excess agency financial capacity.
- ***Agency faces affordability challenges. Actions underway to manage costs and address constrained financing.***

Financial Plan changes in sources and uses (2017-2046 millions in YOE$)



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Tax revenue

$3,080M or 3.3% decrease compared to Fall 2023

- **$3,517M** or **5%** decrease in sales tax. Slow-down in regional economy has driven reduction in current tax base, which has depressed entire forecast.
- **+$452M** or **5%** increase in MVET due to improved vehicle sales forecast, mostly attributed to easing of supply chain constraints.
- **$23M** or **0.4%** decrease in property tax revenue.
- **+$8M** or **4%** increase in rental car tax.

Grant revenue

$3.7B or 24% increase compared to Fall 2023

- Increase ST3 full funding grant agreement assumption **$2.6B** from $9B to $11.6B to match federal transit funding expectations.
- Add **$600M** Federal Railroad Administration grant assumption for Sounder rail track and signal improvements, a part of the Sounder South Capacity Expansion project.
- Increase of **$434M** due to updates of FTA formula funding forecast.
- **$52M** increase across all other grants.

Fare revenue

$26M or 0.5% increase to fares

- Small increase to fares per boarding, with slight improvements seen in underlying fare compliance rates.
- ***Expect long-term ridership forecast updates that incorporate performance from 2024 Link extension openings.***

Operating expenses

$555M or 1.5% increase from Fall 2023

- Increase purchased transportation costs of **$527M** to account for latest labor contract.
- Insurance and resourcing projections increased **$28M** due to higher premiums on Sounder and property insurance, offset by budget savings from reduced FTEs and zero-based budgeting.

Project Costs in Plan

$426M or 0.5% increase from Fall 2023

- **+$394M** increase from inflation, mostly due to new vehicle cost index added to more accurately capture costs of building LRVs and buses.
- **+$32M** increase due to updated planning assumptions for service delivery projects.
- ***Costs for OMFS and West Seattle, Ballard, Tacoma Dome, Everett Link Extensions are from earlier planning estimates.***
    - ***Plan not yet updated with updated PE cost range for WSLE.***
    - ***Plan does not yet include East Link amendment due to timing.***

Debt Service & Reserves

$1,333M or 5.8% increase from Fall 2023

- Decrease in tax revenues, especially in early years of forecast, requires additional projected debt proceeds of $1,468M.
- As a result, our debt service is projected to increase $1,333M to cover principal and interest payments through 2046.
- As a result of increased debt issuance and payback, there is a decrease in debt capacity and coverage compared to the Fall 2023 plan.

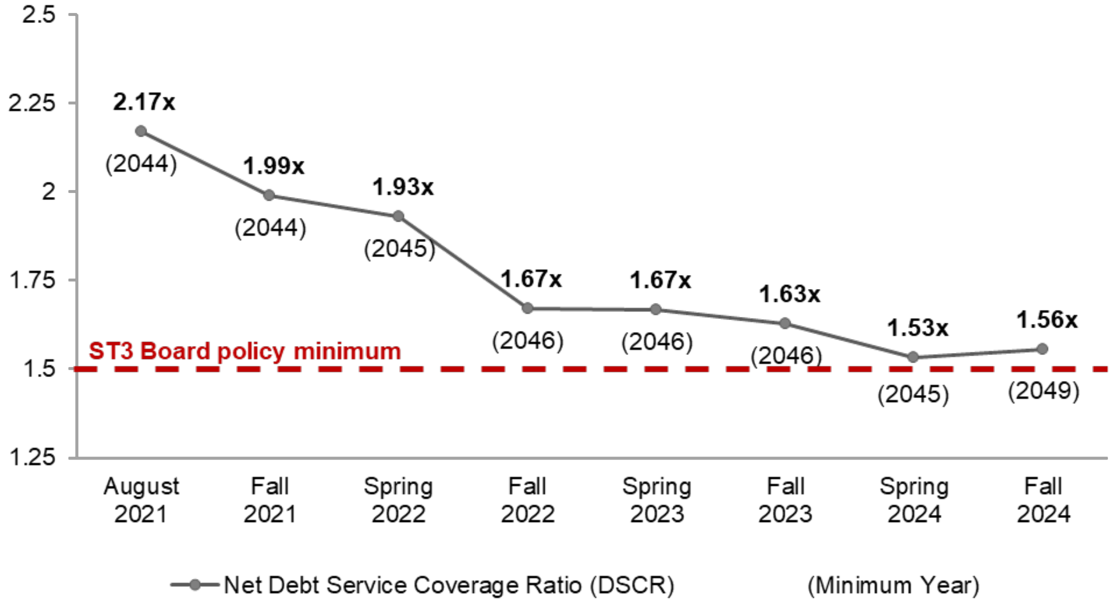
Net Debt Service Coverage Ratio (DSCR)

Current minimum Net DSCR is 1.56x

Debt Service Coverage Ratio (DSCR): *the agency's ability to repay debt after paying annual operating costs.*

ST3 Board Financial Policy: *requires an average debt service coverage ratio of 2.0x for net revenues over annual debt service costs, and not to fall below 1.5x in any single year.*

Current unmitigated trajectory: *DSCR projected to decline to* ***1.56x*** *in 2049 ("pinch point"), <u>very close to the current agency policy minimum</u>.*



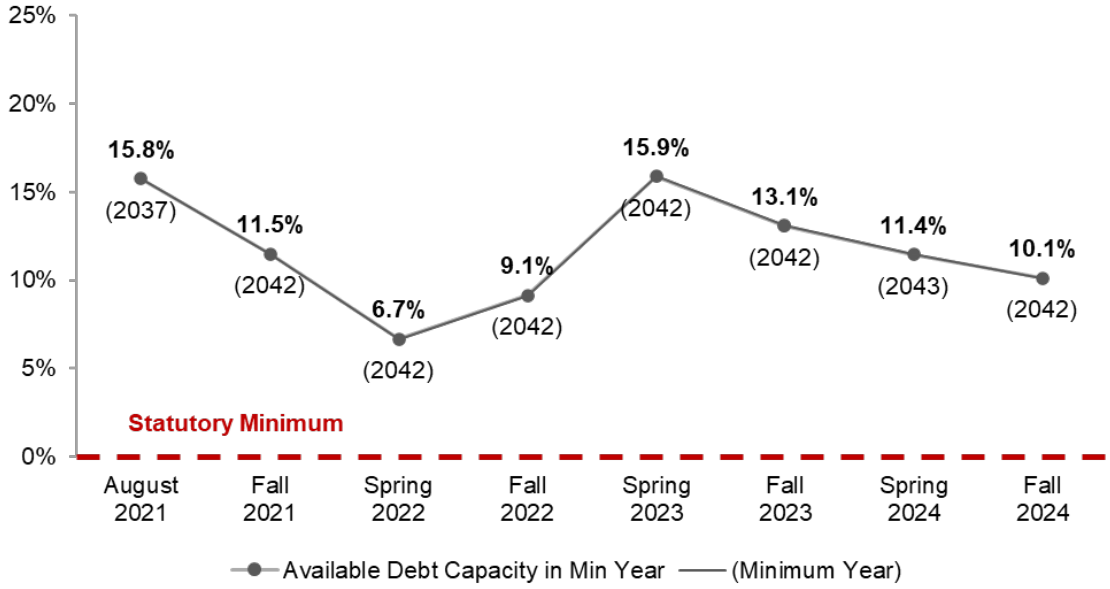
Debt Capacity

Current minimum remaining available debt capacity is 10.1%

Debt capacity: *the agency's ability to issue new debt.*

Legal limit: *total debt is constrained by state law not to exceed 1.5% of the assessed value of real property in the Sound Transit taxing district.*

Current trajectory: *debt capacity is projected to fall to **10.1%** in 2042 ("pinch point").*



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Completing the regional transit system

Sound Transit has a strong financial foundation

- Diverse revenue sources, strong local economic base, excellent credit rating, and robust federal partnership/support
- Board financial policies provide the framework to manage through program evolution and changes
- Capital cost growth trends presents challenges to affordability of ST3 projects
- Board has successfully navigated financial gaps
  - Airport Link
  - University Link
  - 2008 Great Recession and program realignment
  - Impacts of the global pandemic

Maximize Resources for Program Delivery

Agency staff to provide board with comprehensive options to maximize resources for program delivery

- Overall affordability effort will be intense for at least 2-3 years as capital cost estimates evolve/mature
- Options include utilizing existing agency financial capacity, partnerships and other innovative finance tools.
- Staff will return to October 10th System Expansion Committee with workplan, including schedule and scale of potential benefits.

Thank you.

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