

Program Realignment

*Sound Transit Board Workshop
June 3, 2020*



Financial outlook



Economic and financial update

What we know

- 16.4% April national retail sales decline.
- 43% in WA work in high job loss industries.
- WA unemployment rate reached historic high of 15.4%.
- March sales tax down 25% over 2019.
- April MVET down 25%.
- Rental Car Tax down 87%.
- ST Ridership down 86%.

Economic and financial update

What we do not know

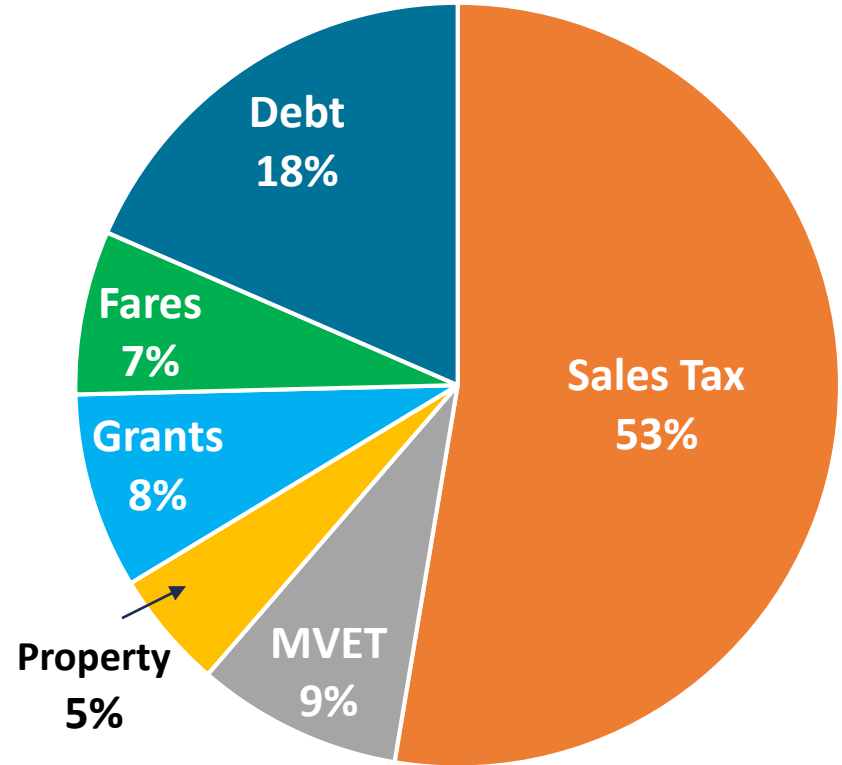
- Actual tax receipts beyond one month.
- Recession duration and depth.
- What recovery will look like.

Projected program funding in fall 2019

\$97.9 billion from 2017-2041

- Tax revenues fund 67% of the program.
- Fares fund 7%.

Recessions directly reduce tax and fare revenue.



Revenue loss projections

Moderate recession scenario

- \$743 million (-22%) in 2020 and 2021.
- \$7.8 billion (-12%) through 2041.

	2020-2021	2020 - 2041	
Sales Tax	\$ (766,210,083)	\$ (6,757,232,887)	
All tax and fare revenues	\$ (908,870,557)	\$ (8,006,059,532)	
Net loss after CARES ACT	\$ (742,870,557)	\$ (7,840,059,532)	-12%

Revenue loss projections

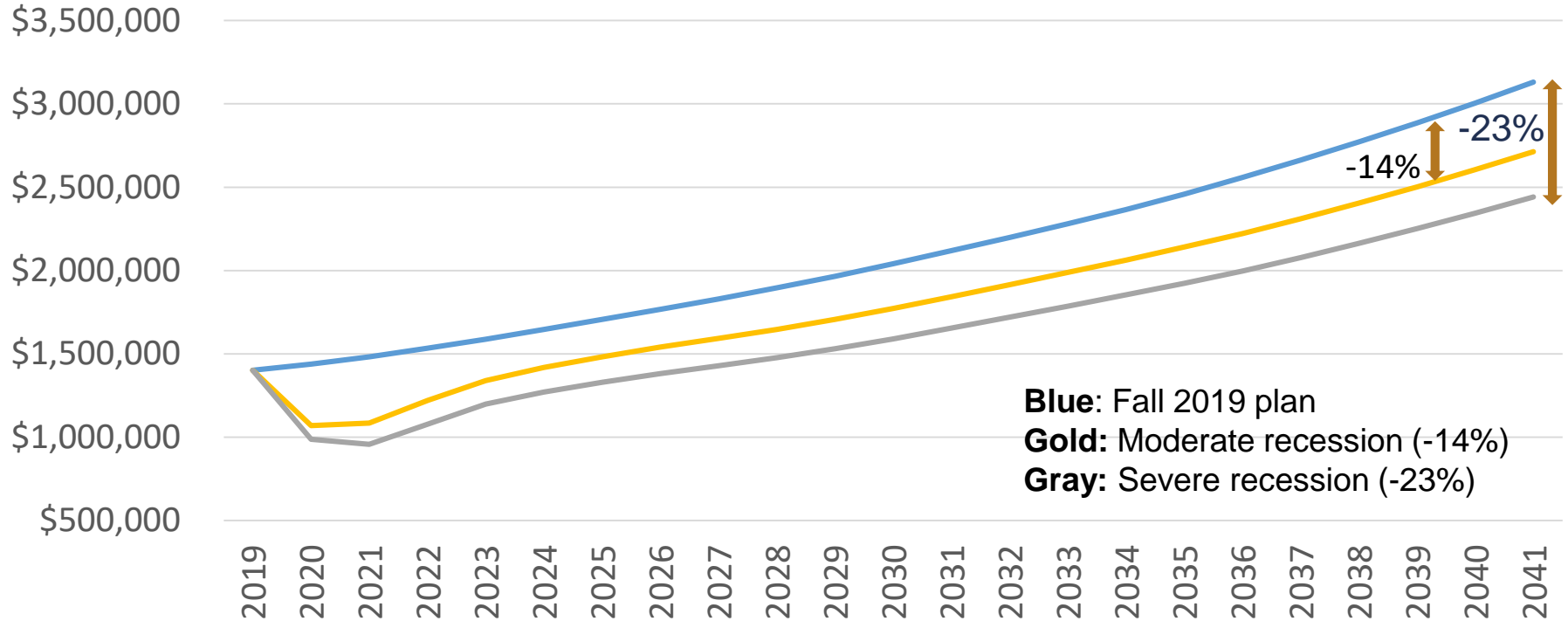
Severe recession scenario

- \$1 billion (-27%) in 2020 and 2021.
- \$12 billion (-18%) through 2041.

	2020-2021	2020 - 2041	
sales tax	\$ (975,969,211)	\$ (10,895,525,326)	
All tax and fare revenues	\$ (1,118,629,685)	\$ (12,144,351,971)	
Net loss after CARES ACT	\$ (952,629,685)	\$ (11,978,351,971)	-18%

Revenue may not recover to prior projections

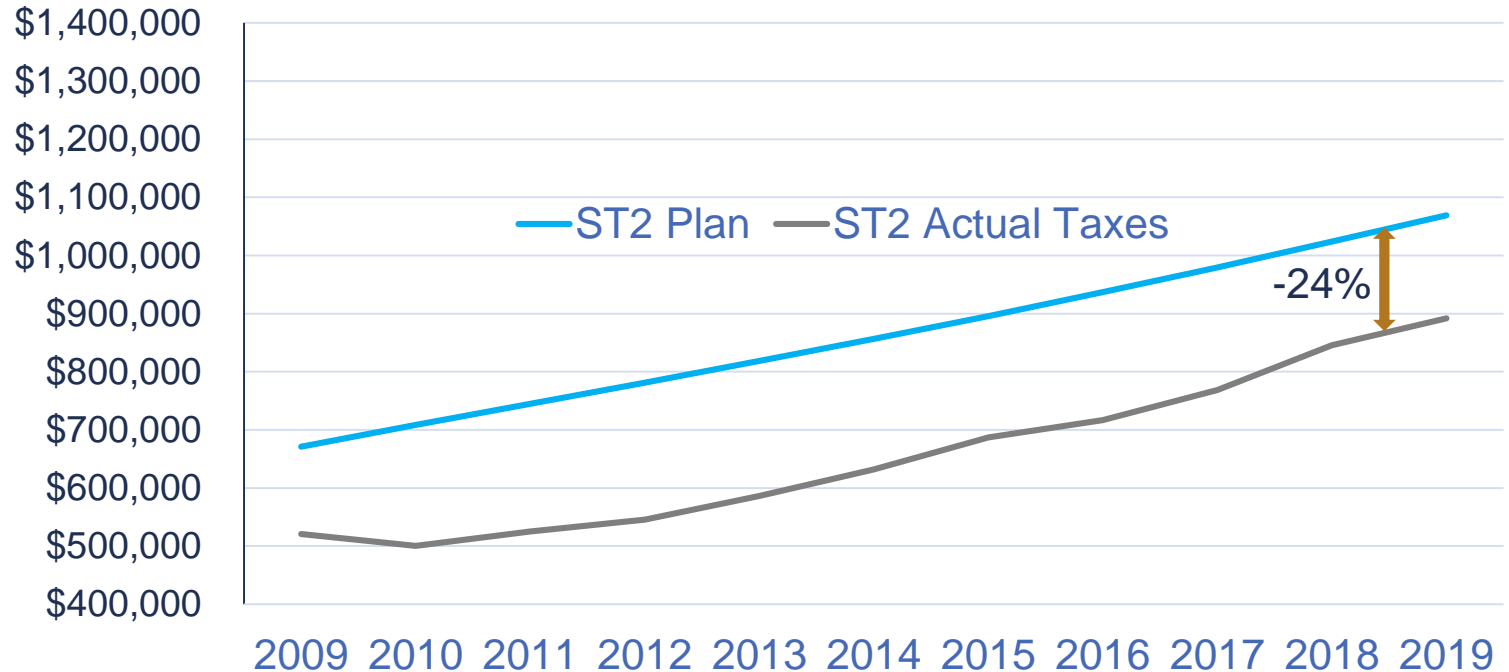
Sales tax comparison



Blue: Fall 2019 plan
Gold: Moderate recession (-14%)
Gray: Severe recession (-23%)

Sales tax recovery example

ST2: permanent revenue loss despite recovery

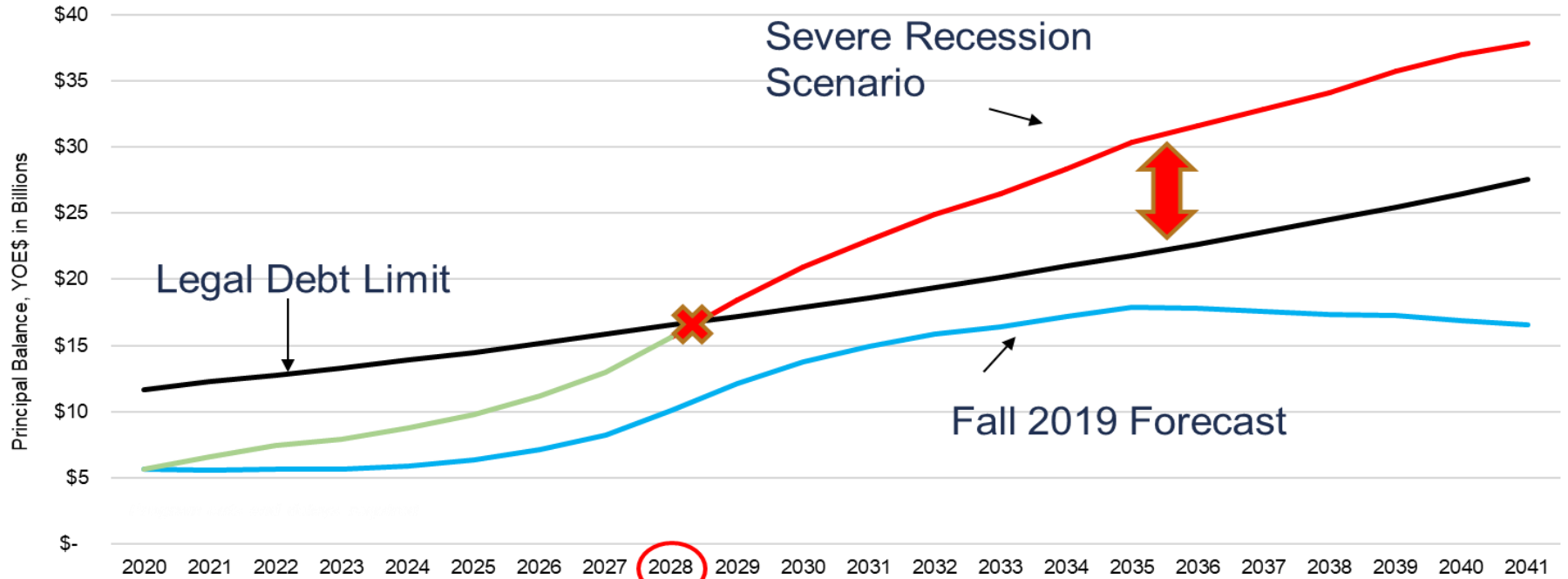


Revenue, debt and affordability

- As revenues decrease, more debt needs to be issued to pay for expenditures.
- When revenue loss exceeds available debt, the program becomes unaffordable.
- Therefore, revenue and debt limit determine program affordability.

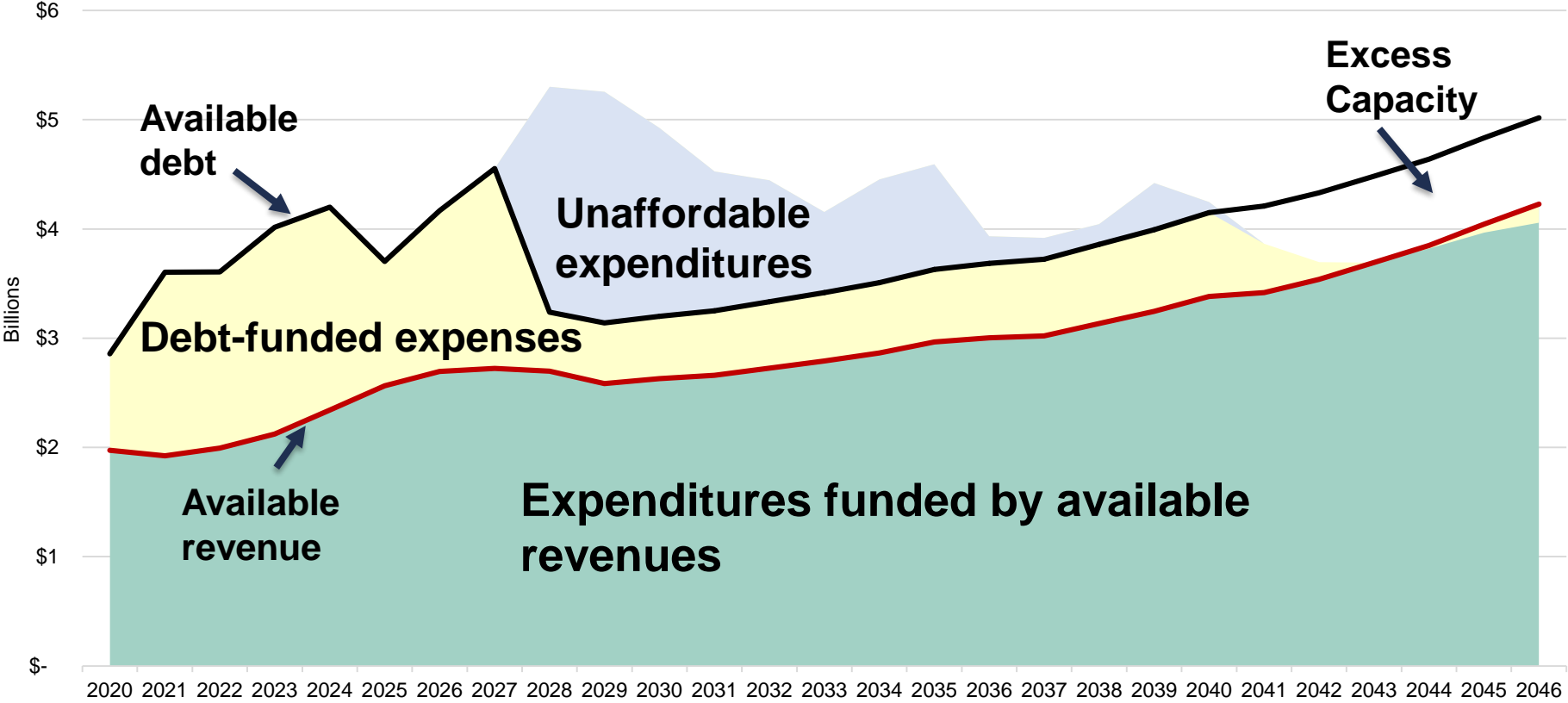
Statutory debt limits and program affordability

Fall 2019 projections vs. severe recession scenario



**In addition to legal debt capacity, debt capacity constraints also include financial policy and debt covenants.*

Program affordability – severe recession



Tools to manage affordability

- Increase debt capacity.
- Increase revenue.
- Reduce costs.
- Extend project timelines.

Available tools: increase debt capacity

- Increase debt limit with 60% voter approval from 1.5% to 5% of assessed property value.

Available tools: increase revenue

- Increase rental car tax rate.
- Increase fares.
- Find alternative revenue sources.
- Increase grants by ensuring project readiness and competitiveness.

Available tools: reduce costs

- Contain operating cost growth.
- Pursue lower-cost debt such as TIFIA.
- Reduce borrowing cost by leveraging financial market tools.
- Reduce capital costs by reducing project scope or eliminating/reducing certain programs.

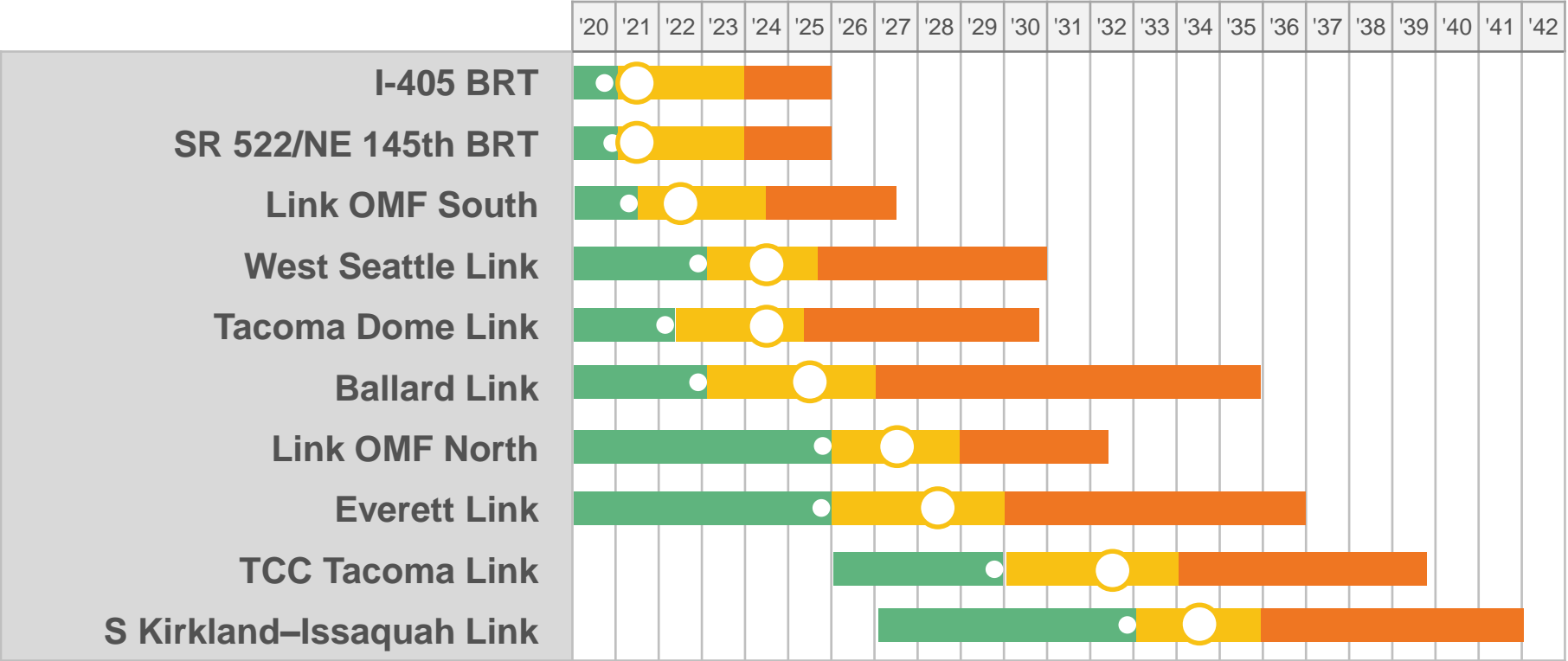
Available tools: extend project schedules

- Delay projects.
- Utilize capacity in years beyond 2041.

Program phasing options



Spending decisions happen over time



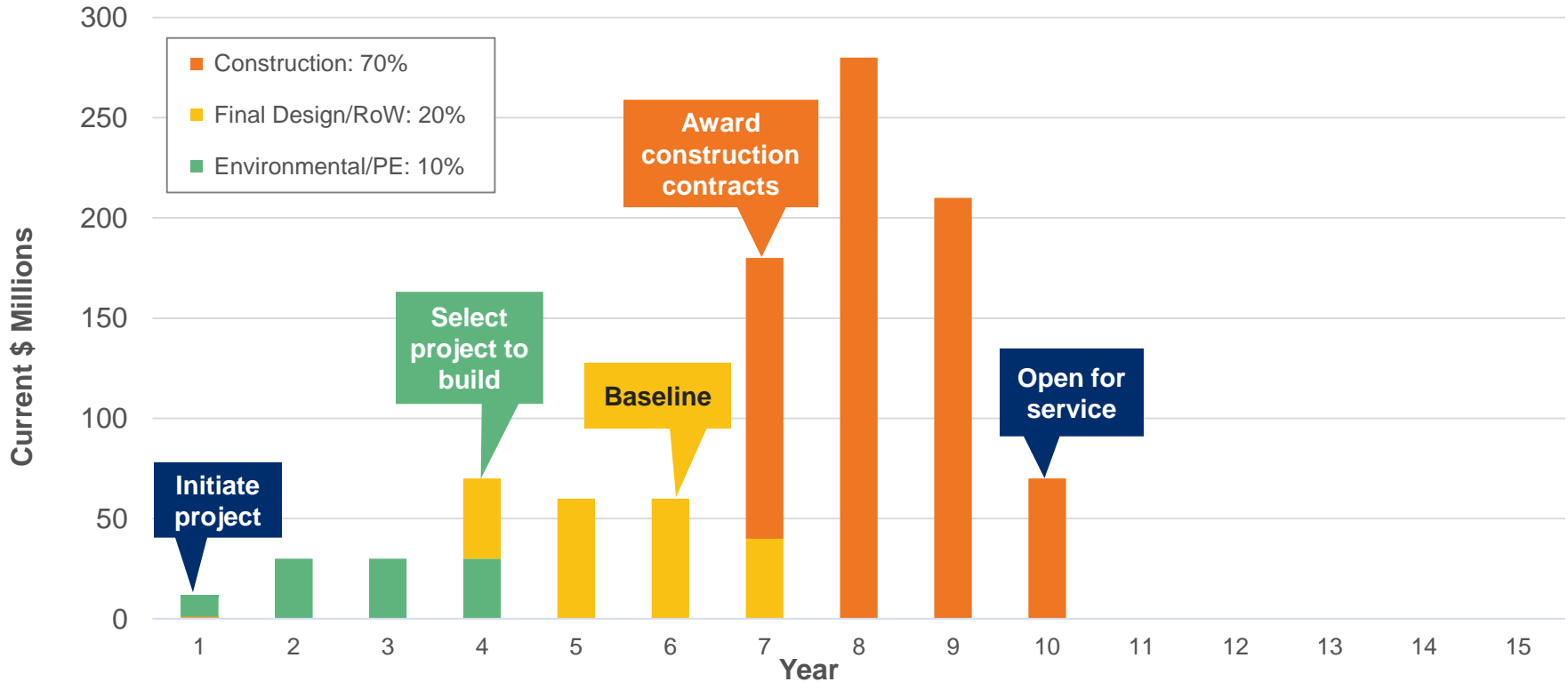
“Selecting the project to build”

- Selects station locations, alignment profile, access and other significant project elements.
- Makes projects eligible for design, ROW, and construction grants.
- Occurs at the end of environmental review and preliminary engineering.
- Does not commit construction budget or spending.

“Baselining” commits schedule and full budget

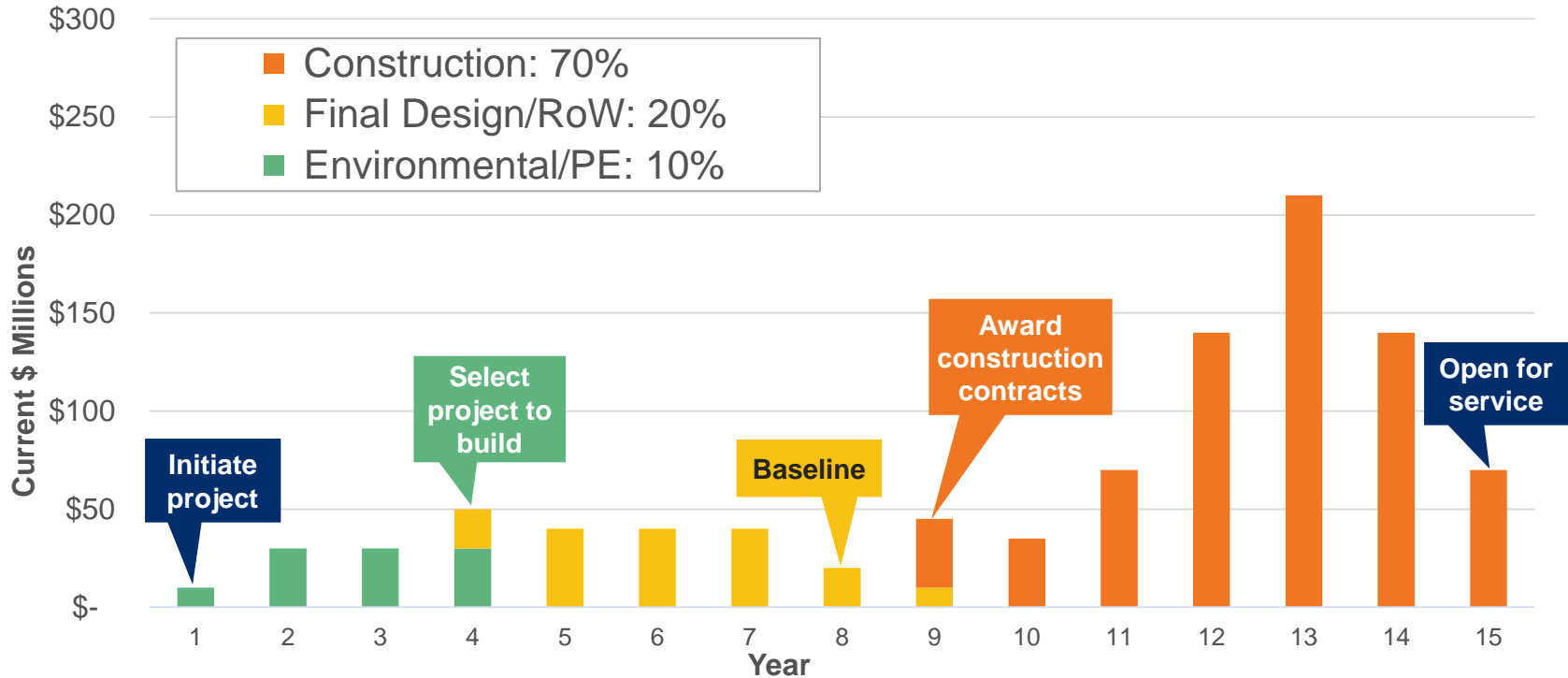
- Commits the agency to a construction schedule and service opening date.
- Commits construction and start-up budget.
- Builds upon the “project to be built” definition.
- Enables staff to advertise construction contracts.

Environmental/PE costs relatively small

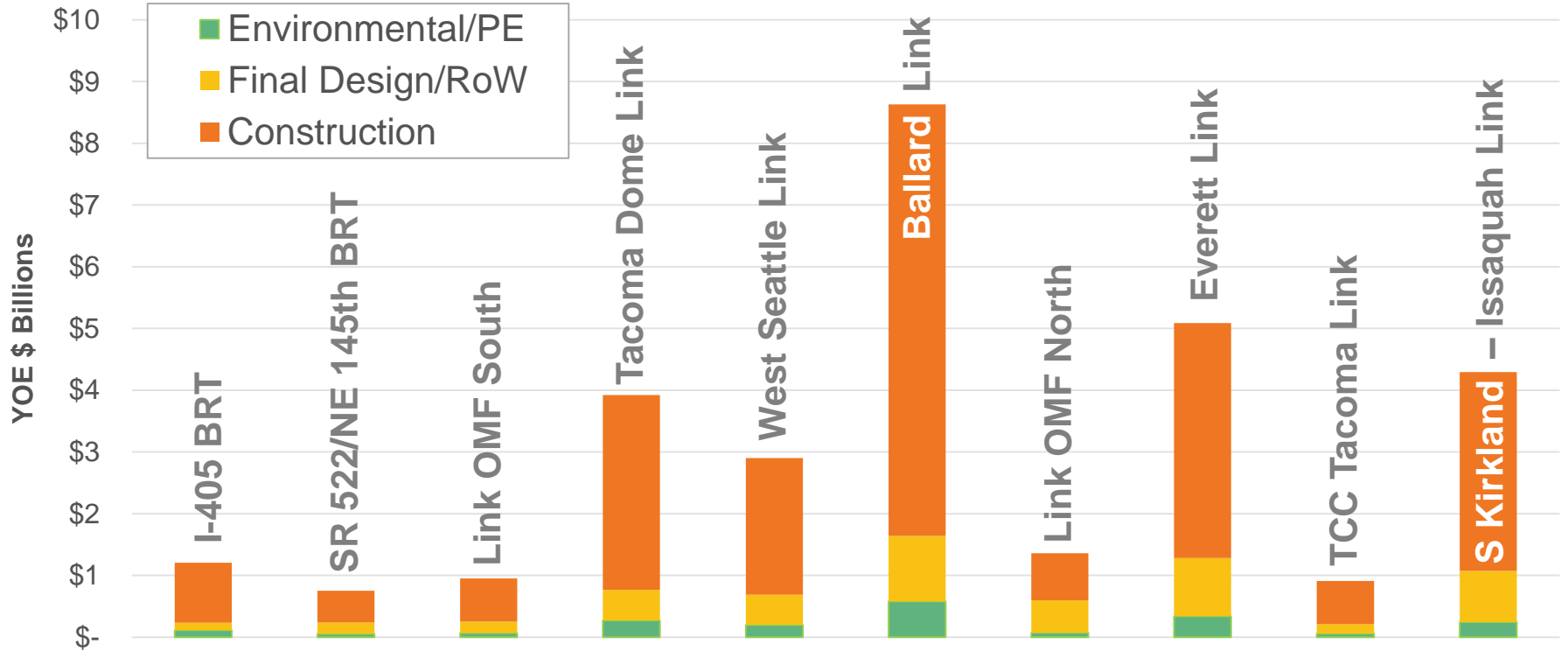


Project readiness for delayed projects

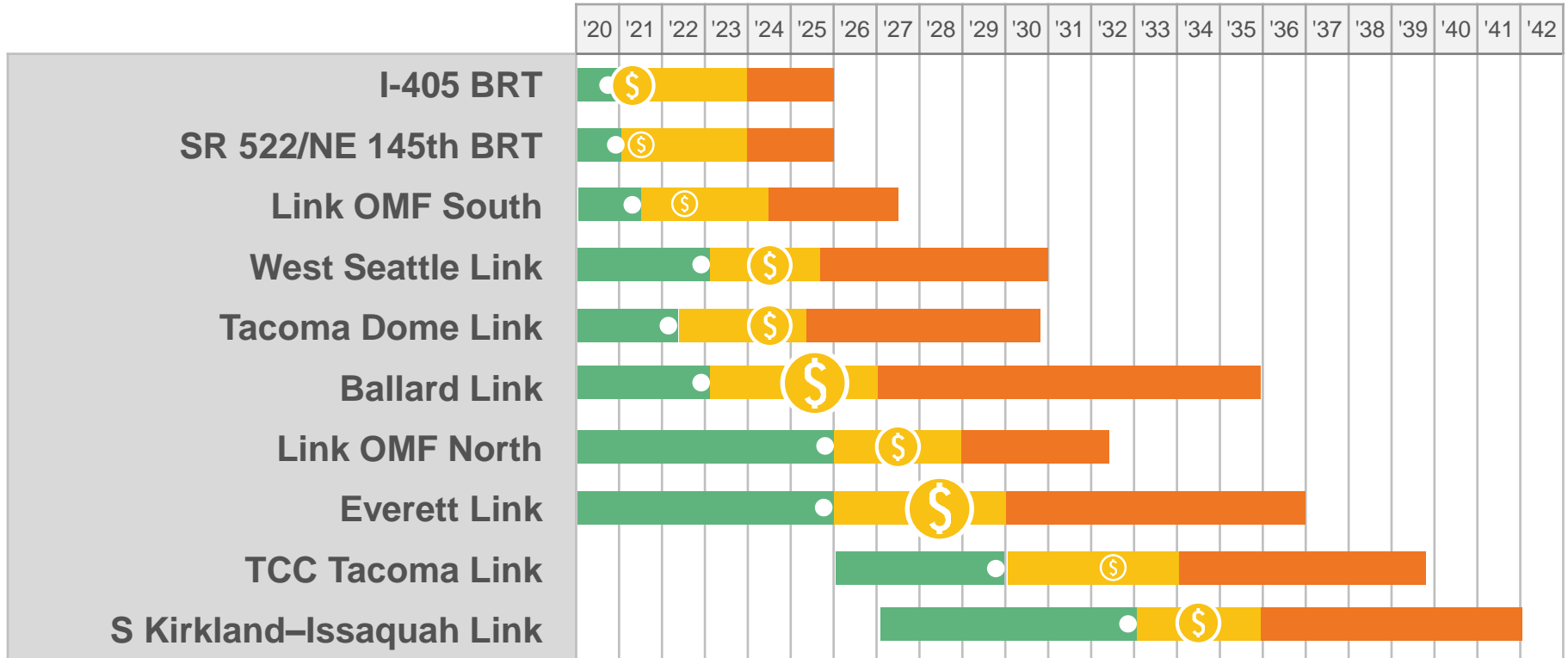
Protective ROW acquisition, permits, etc



Cost per phase of major ST3 projects



Baseline decisions as originally scheduled

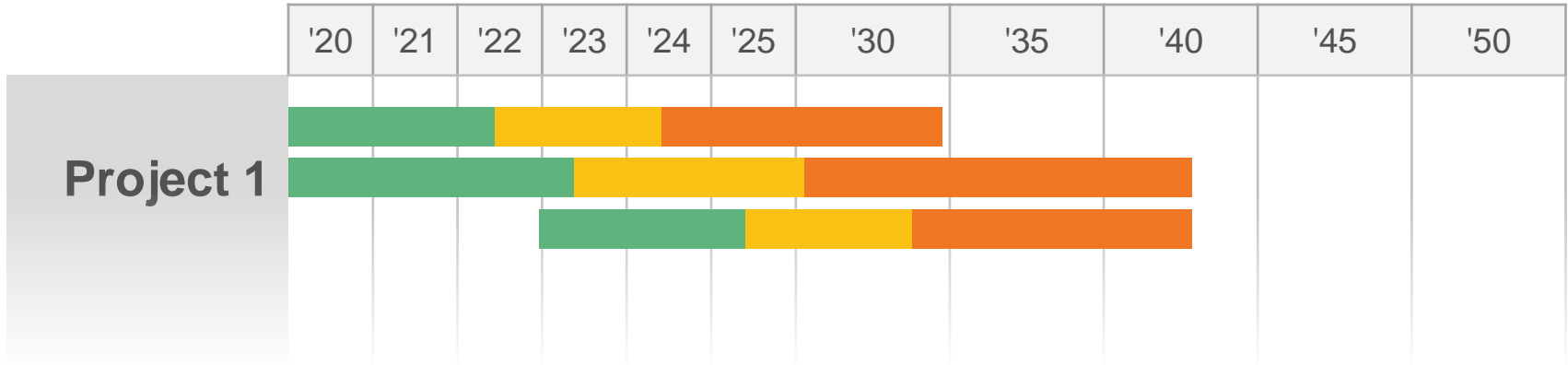


*Examples of
extended timelines*

Types of extended timelines

- Delay all projects equally.
- Delay some projects more than others.
- Phase projects by opening in segments or with some elements deferred to a later date.

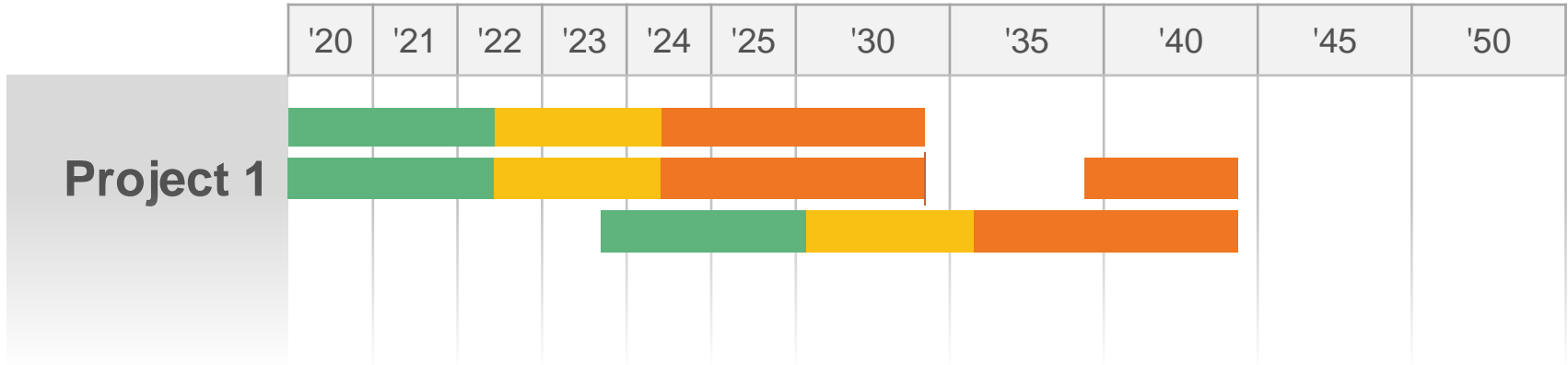
High capacity extension - delayed



- Planning
- Design
- Construction

Break projects into phases

Build partial projects in segments or with interim termini



- Planning
- Design
- Construction

Realignment criteria



Program affordability

Criterion	Concept
System affordability	Is the full program affordable at the system level?
Subarea affordability	Is the full program affordable at the subarea level?

ST3 development core principles

Criterion	Concept
Completing the spine	Does the project advance the regional HCT spine?
Connecting centers	Does the project connect designated regional centers?
Ridership potential	How many daily riders is the project projected to serve?
Socio-economic equity	How well does the project expand mobility for transit-dependent, low-income, and/or diverse populations?
Advancing logically beyond the spine	Can the project be included financially once projects that advance the spine are included?

Other project considerations

Criterion	Concept
Operability	How important is the project to operating current or new service?
Sequencing	Must the project be completed for other projects to happen?
Constructability	Can the project be built in increments?
Readiness	How close is the project to opening for service?
Tenure	How long have voters been waiting for the project?
Equity	Do communities the project serves have other transit options?
Outside funding	Are other funding sources available or secured?

Next steps

- Week of June 8** Executive Committee (criteria).
- June 25** Board meeting (scenario & criteria).
- Summer** Direction on projects paused pending realignment.

Thank you.



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Projected sales tax recovery

- ST2 tax growth recovered to 4% annual growth vs. 4.7% projected without replacing revenue lost in the recession.

Sales Tax Growth Rates: ST3 Plan vs Recession Scenarios

