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.

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<th>2020-2021</th>
<th>2020 - 2041</th>
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<tbody>
<tr>
<td>Sales Tax</td>
<td>$ (766,210,083)</td>
<td>$ (6,757,232,887)</td>
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<tr>
<td>All tax and fare revenues</td>
<td>$ (908,870,557)</td>
<td>$ (8,006,059,532)</td>
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</tbody>
</table>
| 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.

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<tr>
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<tr>
<td>sales tax</td>
<td>$(975,969,211)</td>
<td>$(10,895,525,326)</td>
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<tr>
<td>All tax and fare revenues</td>
<td>$(1,118,629,685)</td>
<td>$(12,144,351,971)</td>
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<tr>
<td><strong>Net loss after CARES ACT</strong></td>
<td>$(952,629,685)</td>
<td>$(11,978,351,971) -18%</td>
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</table>
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

ST2 Plan

ST2 Actual Taxes

-24%
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

Available debt

Debt-funded expenses

Expenditures funded by available revenues

Unaffordable expenditures

Excess Capacity
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

| Project                        | '20 | '21 | '22 | '23 | '24 | '25 | '26 | '27 | '28 | '29 | '30 | '31 | '32 | '33 | '34 | '35 | '36 | '37 | '38 | '39 | '40 | '41 | '42 |
|-------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| I-405 BRT                     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| SR 522/NE 145th BRT           |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Link OMF South                |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| West Seattle Link             |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Tacoma Dome Link              |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Ballard Link                  |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Link OMF North                |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| Everett Link                  |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| TCC Tacoma Link               |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| S Kirkland–Issaquah Link      |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |

- **Planning**: Light green
- **Design**: Light yellow
- **Construction**: Orange
- **Select project to build**: Light green circle
- **Baseline**: Orange circle

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### Key

- **Planning**: Initial planning and feasibility studies.
- **Design**: Detailed design and engineering.
- **Construction**: Physical construction of the project.
- **Select project to build**: Decision to proceed with construction.
- **Baseline**: Basic data and assumptions used in planning.
“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

- Construction: 70%
- Final Design/RoW: 20%
- Environmental/PE: 10%

Year

1. Initiate project
2. Select project to build
3. Baseline
4. Award construction contracts
5. Open for service

Current $ Millions

0 50 100 150 200 250 300
Project readiness for delayed projects

Protective ROW acquisition, permits, etc

- Construction: 70%
- Final Design/RoW: 20%
- Environmental/PE: 10%

Year
- Initiate project
- Select project to build
- Baseline
- Award construction contracts
- Open for service

Current $ Millions
Cost per phase of major ST3 projects
Baseline decisions as originally scheduled

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- **Planning:** Green
- **Design:** Yellow
- **Construction:** Orange
- **Select project to build:** Light green
- **Baseline:** Dollar sign

25

2025

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

![Project 1 timeline with stages: Planning, Design, Construction. Stages include delays.]
# Break projects into phases

*Build partial projects in segments or with interim termini*

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**Project 1**

- **Planning**
- **Design**
- **Construction**
Realignment criteria
# Program affordability

<table>
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<tr>
<th>Criterion</th>
<th>Concept</th>
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<tbody>
<tr>
<td>System affordability</td>
<td>Is the full program affordable at the system level?</td>
</tr>
<tr>
<td>Subarea affordability</td>
<td>Is the full program affordable at the subarea level?</td>
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</table>
## ST3 development core principles

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Concept</th>
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<tbody>
<tr>
<td>Completing the spine</td>
<td>Does the project advance the regional HCT spine?</td>
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<tr>
<td>Connecting centers</td>
<td>Does the project connect designated regional centers?</td>
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<tr>
<td>Ridership potential</td>
<td>How many daily riders is the project projected to serve?</td>
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<tr>
<td>Socio-economic equity</td>
<td>How well does the project expand mobility for transit-dependent, low-income, and/or diverse populations?</td>
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<tr>
<td>Advancing logically beyond the spine</td>
<td>Can the project be included financially once projects that advance the spine are included?</td>
</tr>
<tr>
<td>Criterion</td>
<td>Concept</td>
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<tr>
<td>Operability</td>
<td>How important is the project to operating current or new service?</td>
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<tr>
<td>Sequencing</td>
<td>Must the project be completed for other projects to happen?</td>
</tr>
<tr>
<td>Constructability</td>
<td>Can the project be built in increments?</td>
</tr>
<tr>
<td>Readiness</td>
<td>How close is the project to opening for service?</td>
</tr>
<tr>
<td>Tenure</td>
<td>How long have voters been waiting for the project?</td>
</tr>
<tr>
<td>Equity</td>
<td>Do communities the project serves have other transit options?</td>
</tr>
<tr>
<td>Outside funding</td>
<td>Are other funding sources available or secured?</td>
</tr>
</tbody>
</table>
Next steps

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