

Financial Risk Assessment

*Citizens Oversight Panel
10/31/2019*

Purpose of today's discussion:

To review the updated financial risk profile and its implications for financial capacity.

- The financial risks have evolved since the adoption of the ST3 plan.
- Risk assessment is one of the tools we use to monitor risks, and better understand changes and their implications.

Risk assessment helps to define risks and better understand changes

- 1. Highlight key risk areas and potential outcomes*
- 2. Identify opportunities to improve assumptions and mitigate risks*
- 3. Illustrate how risk profile changes over time*

Risk Assessment - How it Works

- *Use historical trends, correlations and other factors to forecast outcomes*
- *Determine major variables that impact the financial plan. Some of the risk variables include:*

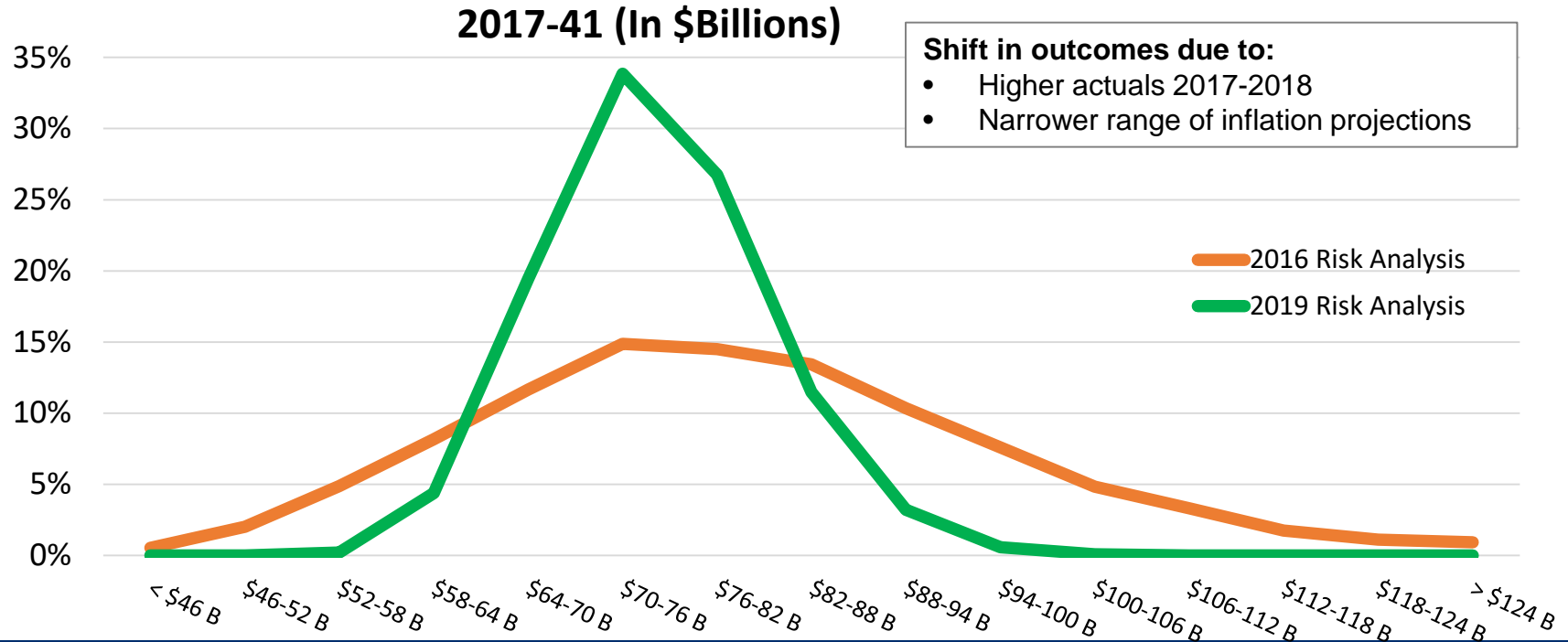


Risk Assessment Comparison: 2016 vs 2019

- ***In 2016, ST engaged WSP to conduct a risk assessment.***
 - Results were presented to the Board and ST3 Expert Review Panel
- ***In 2019, risk assessment updated with latest information.***
 - Incorporating 2016-2019 actuals
 - Reflecting current market trends

Comparison of Risk Assessment Outcomes – Tax Revenues:

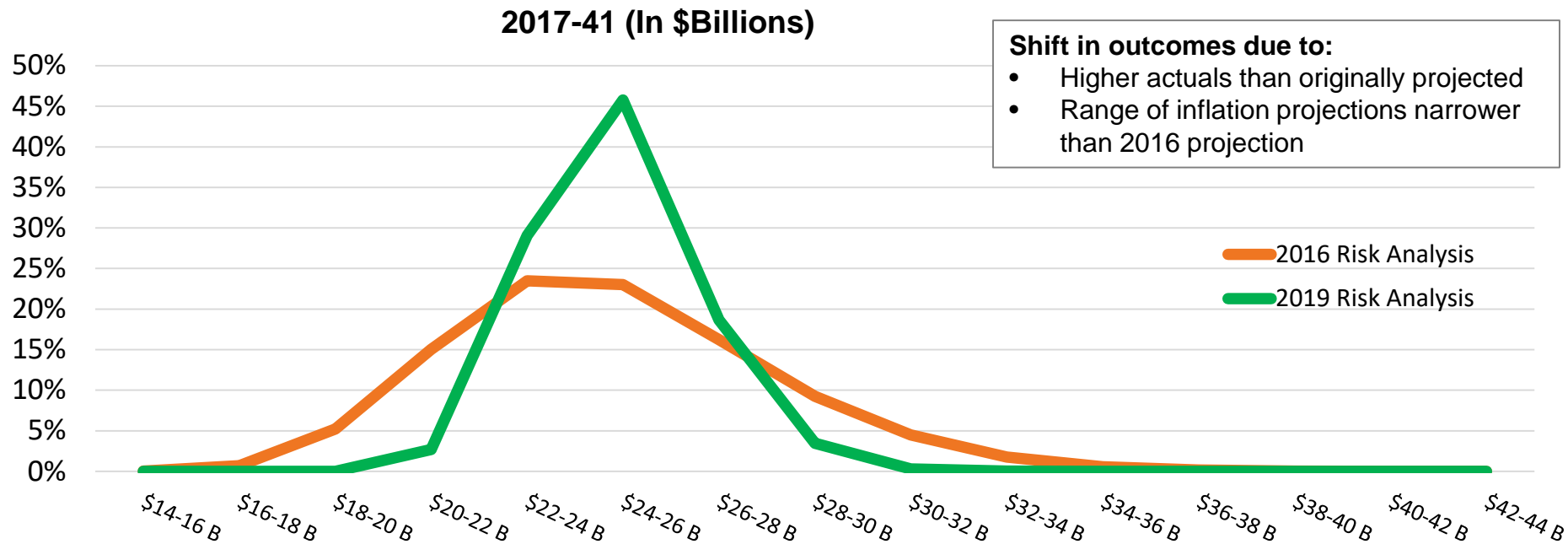
More certainty about likely outcomes of tax revenues



Comparison of Risk Assessment Outcomes

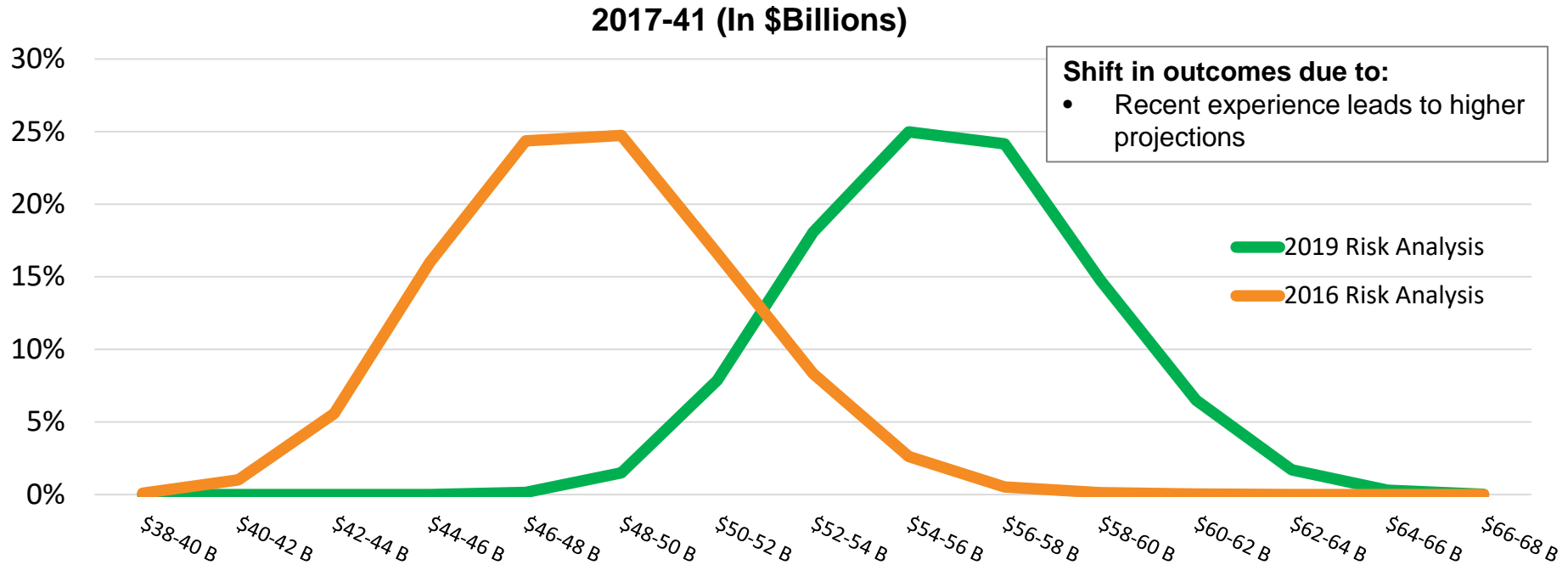
– Operating Expenses:

More certainty about likely outcomes of operating costs



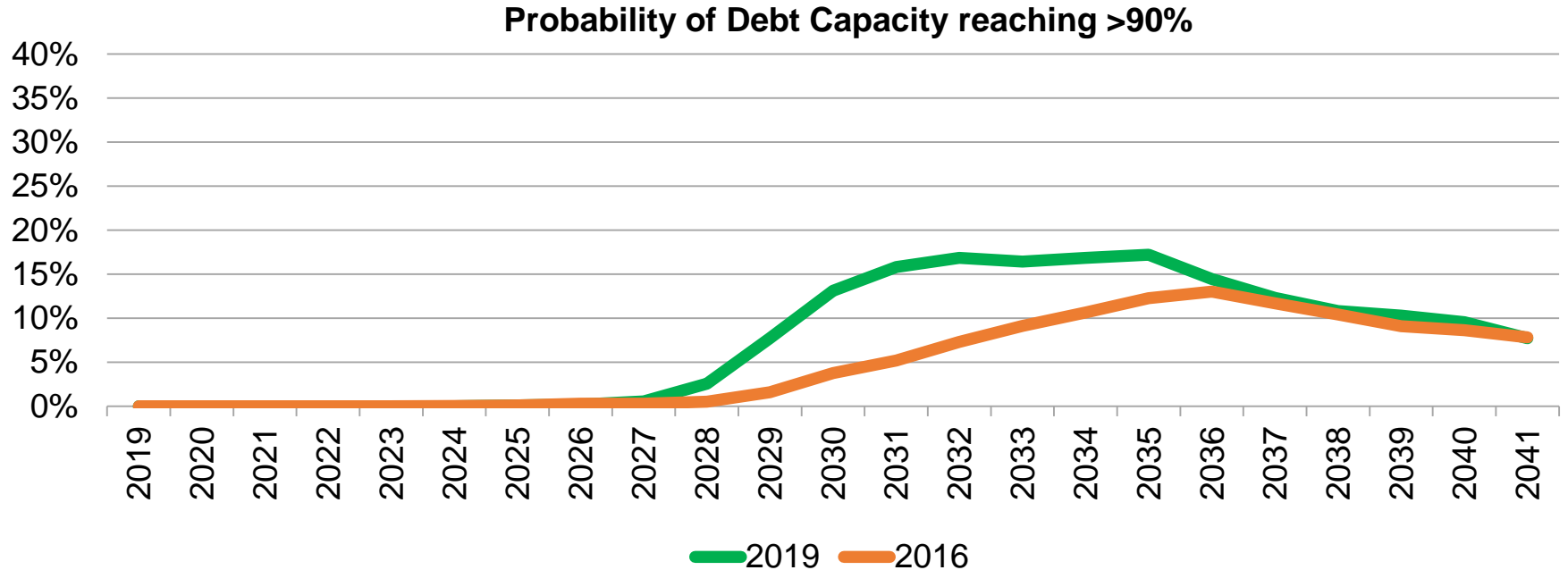
Comparison of Risk Assessment Outcomes

– Capital Costs: *Higher probability of higher capital costs*



Capacity Measure: Legal Limit (1.5% of AV)

Probability of debt reaching above 90% of legal limit has increased



Takeaways

Evolving Financial Risk Profile

- *Expenditures are the largest drivers of future capacity uncertainties*
- *Increased risk of reaching financial capacity limits.*
 - Legal Debt Capacity is no longer the only likely capacity constraint
 - Higher costs and more projected borrowing create pressure on coverage ratios.
- *Likely higher interest cost, due to higher probability of lower financial capacity and debt coverage ratios.*

Financial Risk Management Considerations

- *Scope discipline remains an imperative*
- *Contain operating cost growth to ensure program affordability*
- *Continuously evaluate assumptions and manage risk*
- *Closely monitor all three capacity measures and triggers for potential program adjustments*

Thank you.



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