



Summary Minutes

Board Workshop on Program Realignment June 3, 2020

Call to order

The meeting was called to order at 3:11 p.m. by Board Chair Kent Keel in a Virtual Meeting via telephone and video conference.

Roll call of members

Chair	Vice Chairs
(P) Kent Keel, City of University Place Councilmember	(P) Dow Constantine, King County Executive (P) Paul Roberts, Everett Councilmember

Board members	
(P) Nancy Backus, City of Auburn Mayor	(P) Ed Prince, City of Renton Councilmember
(P) David Baker, City of Kenmore Mayor	(P) Kim Roscoe, City of Fife Mayor
(P) Claudia Balducci, King County Council Chair	(P) Nicola Smith, Lynnwood Mayor
(A) Bruce Dammeier, Pierce County Executive	(P) Dave Somers, Snohomish County Executive
(A) Jenny Durkan, Seattle Mayor	(P) Dave Upthegrove, King County Councilmember
(A) Debora Juarez, Seattle Councilmember	(P) Peter von Reichbauer, King County Councilmember
(P) Joe McDermott, King County Council Vice Chair	(A) Victoria Woodards, City of Tacoma Mayor
(P) Roger Millar, Washington State Secretary of Transportation	

Katie Flores, Board Administrator, announced that a quorum of the Board was present at roll call.

Purpose and overview

Chair Keel stated the purpose of the workshop was to lay a foundation for the Board's work to handle the impacts of the pandemic and the agency's finances. He noted that the depth and length of the recession are unknown, but the economic implications are significant. The workshop will discuss current and objective finances, tools to manage the program, and criteria for decision making that will be applied to future meetings. Chair Keel mentioned that the workshop is purely discussion and there will be no final decision made.

Chair Keel introduced CEO Peter Rogoff, to introduce Sound Transit staff who would be presenting. . Before giving staff introductions, Mr. Rogoff noted that Boardmember Prince, Boardmember Constantine, and Boardmember von Reichbauer were present, but were not acknowledged earlier because of complications with the virtual meeting. Mr. Rogoff stated that the workshop format has been beneficial to the Board in the past because it allows a deep dive into materials. He stated that Sound

Transit carries many similarities and many differences in terms of budget and would like this workshop to inform the Board about the challenges ahead.

Mr. Rogoff introduced Tracy Butler, Chief Financial Officer, and Don Billen, Executive Director of Planning, Environment, and Project Development to give presentations on budget and realignment work.

Financial outlook

Tracy Butler, Chief Financial Officer, provided a financial update, and spoke about the tools that are available to the Board to manage program affordability.

Ms. Butler noted the limited data collected in 2020 revealed decreases in retail sales and Motor Vehicle Excise Taxes for April, and sales and rental car taxes for March. Sound Transit ridership was also down. Washington unemployment reached a historic high of 15.4%. The recession depth and duration, and recovery are unknown. Ms. Butler explained that the recession would significantly reduce tax and fare revenues. Ms. Butler provided moderate and severe recession scenarios for revenue loss projections. Moderate scenario projected revenue loss of \$743 million, or -22% in 2020 and 2021, and \$7.8 billion, or -12% through 2041 after CARES ACT funding. In a severe scenario, projected revenue loss of \$1 billion or -27% in 2020 and 2021, and \$12 billion, or -18% through 2041 net loss after CARES ACT funding.

Ms. Butler presented sales tax comparisons to showcase revenue collection with the fall 2019 plan, moderate, and severe recession. Ms. Butler noted the program was designed to continuously leverage debt to pay for portions of expenditures. However, when revenue loss exceeds available debt, the program becomes unaffordable.

Ms. Butler presented the statutory debt limits and program affordability by showing line graphs of fall 2019 projects vs. severe recession scenario. In this scenario, in 2028 Sound Transit will reach the legal debt capacity and will not have sufficient capacity to afford the program. Ms. Butler mentioned that the Board must take actions to adjust the plan knowing the program could become unaffordable without adjustments.

Chair Keel asked for more clarity on the amount of cash during the severe recession scenario – whether it means there are no longer any funds or funds aren't being replenished. Ms. Butler replied that Sound Transit has cash to extend to the foreseeable 12-18 months. However, prior to the recession with the fall 2019 Forecast, Sound Transit's Capital Program starts peaking around 2025. With the recession, the revenue loss will speed up the debt limits even with property value continuously growing. Mr. Rogoff reiterated that the legal debt limit is established in the State Constitution. Property taxes are a small part of Sound Transit's budget, while sales taxes are the larger tax source. Boardmember Constantine commented on percentage of funds that come from Federal sources, and commented that the existing tax sources are a mix of imperfect tools can be corrected by the State Legislature. Mr. Rogoff also noted that Sound Transit has been a successful TIFIA borrower due to the agency's credit worthiness.

Ms. Butler explained that the program has always been designed for a portion of expenditures to be funded by debt or bonds. That way, the program can be maximize delivery and minimize the tax collections from tax payers over time. The debt is treated as an instrument to provide flexibility to the program in times when debt requires more leverage or when the economy is doing well Sound Transit can leverage less. She explained that during a severe recession scenario, there is no longer enough debt capacity because of revenue loss, and a portion of expenditures may become unaffordable. After 2041, there is potential capacity to move some unaffordable expenditures into the later excess capacity. Mr. Rogoff commented that a portion of the expenditures funded by available revenues are funded by tax revenue and cash positions and the agency spends above that for the benefit of the capital program. He noted that Sound Transit is charged by the voters to continue to collect taxes until the program is built. Mr. Rogoff noted that the illustration shows that project expenditures cannot occur in the periods they were originally intended to take place. Realignment with the program must take place now to avoid

going over the line of debt-funded expenses during the times illustrated. Delaying projects may be the strongest tools to push out the projects to the excess capacity timeframe.

Ms. Butler shared tools to manage affordability. The first is to increase debt capacity, which entailed receiving 60% voter approval to increase debt limit from 1.5% to 5% of assessed property value. The Board could increase revenue, by increasing rental car tax rates, increasing fares, find alternative revenue sources, and increase grants by ensuring project readiness and competitiveness. The Board could reduce costs, by containing operating cost growth, pursuing lower-cost debt, reducing borrowed costs, and reducing capital costs by reducing project scope or eliminating/reducing certain programs. Finally, the Board could extend project timelines, by delaying projects and utilizing capacity in years beyond 2041. Boardmember McDermott asked about how the State's revenue forecast data will be used in updating projections. Ms. Butler answered that updates are being made with any upcoming data and the State's revenue forecast data and any other local, regional data will be incorporated into the next update.

Timeline for system expansion decisions

Don Billen, Executive Director of Planning Environment and Project Development, provided information on delaying projects and program phasing options.

Mr. Billen presented a summary of high capacity transit extensions that are part of the ST3 plan, which included BRT and Link, stating that despite the global overview being important, individual projects occur over time. He listed two critical milestones of projects—selecting the project to build and baselining. The stage of selecting the project to build makes the project more eligible for grant opportunities. However, this stage does not commit construction budget or spending. The baselining stage commits to scheduling and full budget. At this stage, a project becomes shovel-ready. Cost of planning and environmental review and making the project eligible for grant opportunities is relatively small compared to a project's cost over its lifetime. Mr. Billen shared how the Board could keep projects in a readiness state. Mr. Billen presented costs per phase of major ST3 projects based on Environmental/Planning Environment, Final Design/Right-of-Way, and Construction costs.

Mr. Billen noted the Board will receive additional revenue information and cost projections during summer and fall 2020 to inform Board members for decisions on how to move forward on projects.

Mr. Rogoff summarized that decisions are made over a period of time and the baseline decision carries more importance as it is the decision that proceeds spending, such as construction funds. Peter noted the Board will need to question, after the financial overview, whether they'd like to continue with environmental work for all projects during the originally scheduled timeline to allow projects to move ahead if funds become available; or whether the Board wants to act slower in developing these projects. Project affordability cannot be determined on a single basis. Mr. Rogoff encouraged Boardmembers to approach this unique situation to develop a collective framework with criteria to make decisions on moving to the next stage of the project. He emphasized that some projects are more expensive than others and that will require speediness in developing said framework to move forward fairly.

Mr. Rogoff invited questions and comments. Boardmember Somers questioned the estimate of shelf life of engineering, environmental, and permit life. Mr. Billen responded that environmental documentation remains valid so long as progress with a project is occurring. Progress can occur during a delay and can include actions towards permits or Right-of-Way acquisitions. If new development were to appear and require environmental review, it does not need to start over, but can incorporate changes to design codes or changes to conditions in the field that require rework.

Boardmember Roscoe asked about reducing projects or services that these projects will replace or make redundant. For example, when Tacoma Dome is finalized there will be a reduction in ST Express busses. Mr. Rogoff responded that the financial plan has already included assumptions of further rail extensions that will replace bus extensions and consider those operating costs. Boardmember Roscoe

commented that it would be interesting to compare regions. Mr. Billen added that if a light rail extension is delayed, it may disperse capital cost spending but may require bus service for a longer period of time.

Tools available to the Board

Mr. Billen shared types of extended timelines which included delaying all projects equally, delaying some projects more than others, or phasing projects by breaking them into segments or deferring some elements to a later date.

Mr. Rogoff summarized that there are many ways to approach phases of projects but many are project specific. He reflected that with ST2, services were provided as far as Star Lake, while environment work was occurring all the way to the Federal Way Transit Center. After the passing of ST3, there were sufficient funds to construct light rail to reach the Federal Way Transit Center. He noted this as an example of how this tool had been used in the past by the Board. He noted that delaying projects by five years would move expenditures into an excess capacity of future years. A blanket five year project delay is not a staff recommendation but a way to observe projects that the Board may want to deliver sooner while others be delivered later to maintain a balance.

Chair Keel commented on the importance of the upcoming criteria to Boardmembers as it will shape the framework of the program.

Boardmember Roberts asked for some examples of projects in a situation like the current situation we able to get to a project that is permitted and asked about revenue and ridership issues as they have been impacted. Mr. Rogoff noted that projects with more complex schedules were developed with complex issues in mind, for example projects that include water crossings have involvement of tribes, fish, and the Coast Guard, which are considered in the initial scheduling. With ridership, the agency is seeing changes based on riders working from home and will need to continue monitoring commuting patterns. For revenue, there are significant equity issues based on continued use of transit and who is dependent on transit.

Mr. Billen presented potential realignment criteria by prefacing that scheduling can be used by the Board as a tool and advised the Board to use the criteria to help think through the scheduling decisions for these projects. Mr. Billen noted that the program needs to be affordable on a system level and on a subarea level. The resolution that was adopted by the Board to put the plan forward to the voters states that in the event of a recession when reprogramming is needed, the Board should to deliver upon as many goals of the plan as possible within the revenue that is available. He shared the core principles that informed the Board's discussion around plan development. He offered other project considerations related to schedule decisions that included operability, sequencing, constructability, readiness, tenure, equity, and outside funding.

Chair Keel called for Boardmember discussion on the criteria suggestions that were given.

Boardmember Somers, Roberts and Backus requested to see all criteria laid out in matrix next to the projects given the endless considerations. Boardmember Roberts also suggested incorporating ridership projections that existed leading into the selection of projects for the system plan, due to the difficulty of gathering new projections.

Boardmember Roscoe felt that tenure and ridership take priority. Boardmember Balducci stated she didn't want to losing key elements in the program in order to reserve money and felt it was important to continue a cadence in delivering systems.

Chair Keel suggested it was an appropriate time for Boardmembers that have not yet spoken to proceed with any comments. Boardmember Baker acknowledged that questions he had planned to ask were asked previously by other Boardmembers. Boardmember Prince did not have any questions at the given time. Mr. Rogoff understood the workshop presented a lot of information in a short period of time and

welcomed Boardmembers to email him with any further questions or discussions. He stated another workshop will occur but the timing must be decided.

Chair Keel thanked Boardmembers for engaging in the discussion and acknowledged staff efforts to prepare the workshop materials.

Adjourn

The meeting adjourned at 5:06 p.m.

Kent Keel
Board Chair

ATTEST:

Kathryn Flores
Board Administrator

APPROVED on _____, JG.