

Responding to COVID Capital Program Impacts

*Sound Transit Board
April 23, 2020*



Why we are here

Informational and discussion only, no Board action required

- Discuss possible COVID effects on our capital program.
- Revisit Board precedent from last recession.
- Frame possible agency responses.

We've been here before

Sound Transit's response to the Great Recession after ST2

- 25% initial revenue loss.
- Board held workshops to guide response.
- Board modified system plan to reduce, reschedule, suspend, or cancel select projects.

Sept. 2010 Board workshop

Project realignment priorities

High priorities

- Achieve goals of voter-approved system plan.
- Preserve projects underway or near completion.
- Maintain assets.






Sept. 2010 Board workshop

Project realignment priorities

Lower priorities

- Projects meeting fewer System Plan goals.
- Discretionary programs.
- Maintaining project reserves.
- Projects with undefined scope or uncertain partner commitments.
- Projects or services with low ridership.

ST2 project realignment categories

-  **Design & construct** as planned.
-  **Continue** with schedule and affordability risk.
-  Retain **limited funding** to develop future options.
-  **Suspend indefinitely and remove** from finance plan.
-  **Delete** project from program entirely.

Uncertain future finances

Data available

- March national retail sales: 8.7% in March
- Unemployment claims: 26 million in last 5 weeks
- ST Ridership loss: 86%
- Federal assistance available:\$166 million

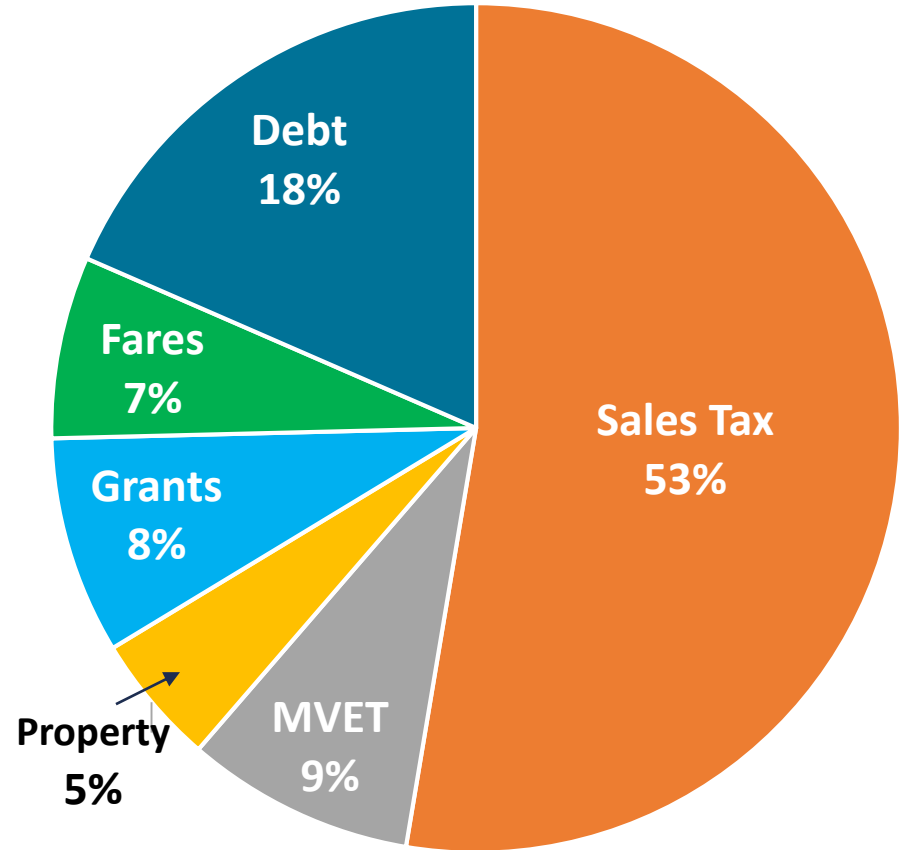
Data not yet available

- March and April actual tax receipts.
- Duration of WA State social distancing.
- **Length and depth of recession.**

Program Funding sources (2017-2041: \$97.9B)

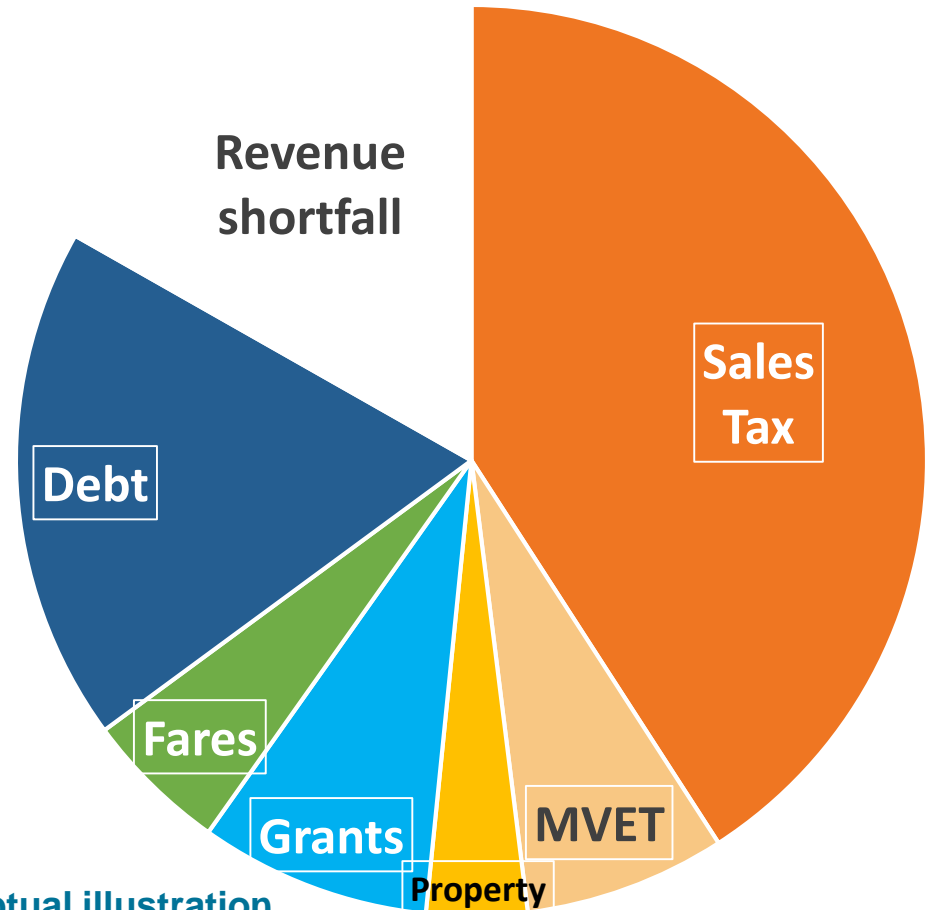
- Tax revenues fund 67% of the program.
- Debt funds 18%.
- Fares fund 7%.

All above funding sources will be negatively impacted by a recession.



Revenue shortfall as a result of the recession

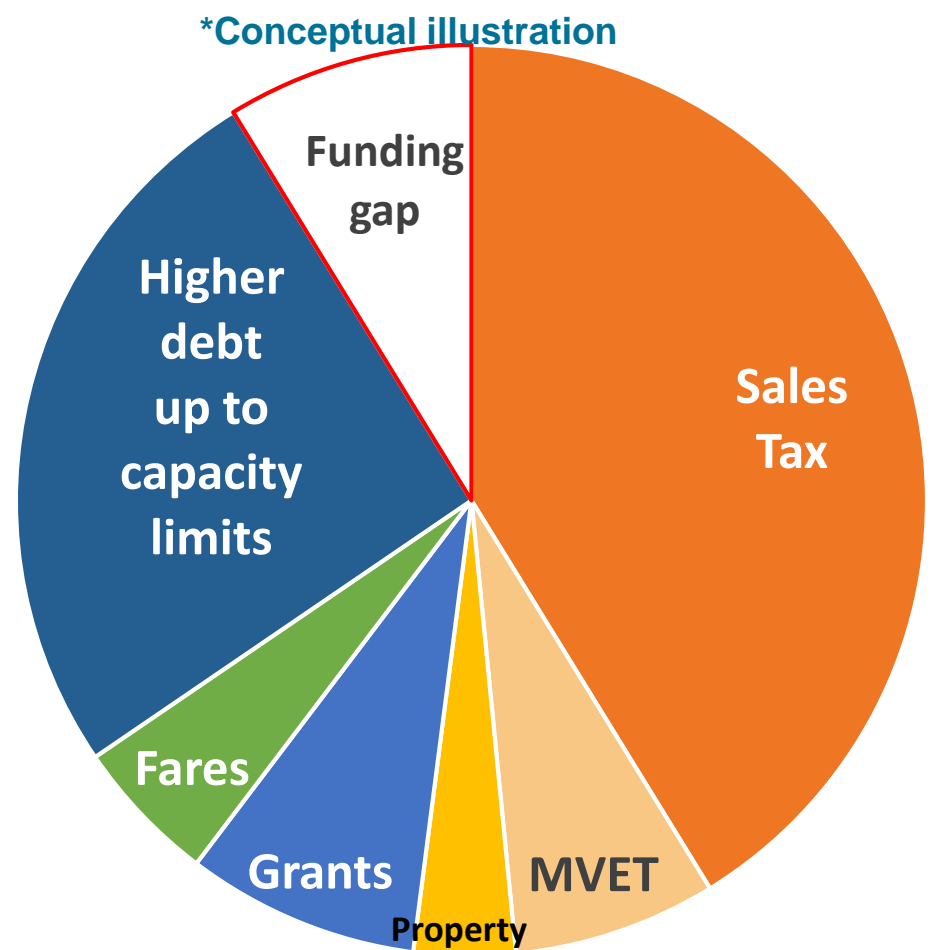
- As revenue sources shrink as a proportion of the total program, more debt will be issued to make up for some or all of the shortfall.



*Conceptual illustration

Insufficient funding would require adjustment to the program

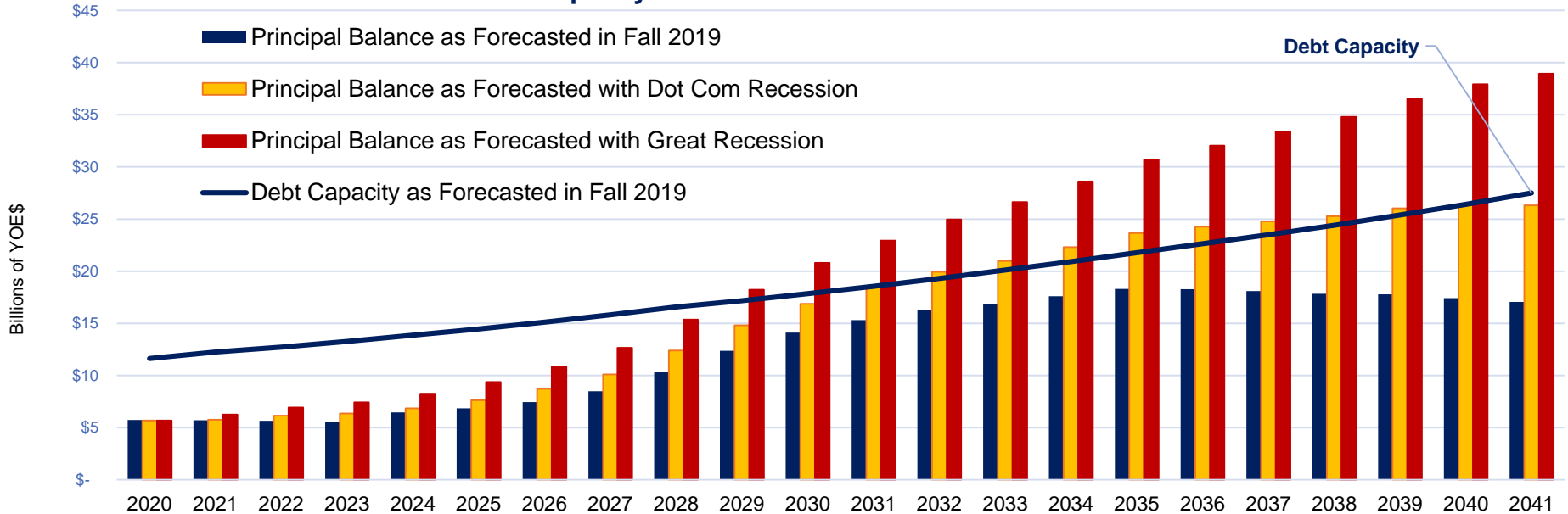
- When funding need exceeds available debt capacity, the program becomes unaffordable.
- One of the debt capacity constraints is based on regional property values, which is also likely to decline in a recession.



Recession threatens program affordability

- *Mild scenario: similar to dot com recession (2002)*
- *Severe scenario: similar to great recession (2008)*

Debt Capacity - Fall 2019 vs Recession Scenarios



Revenue and Capacity Impact

2020-2041 (YOE\$ in millions)

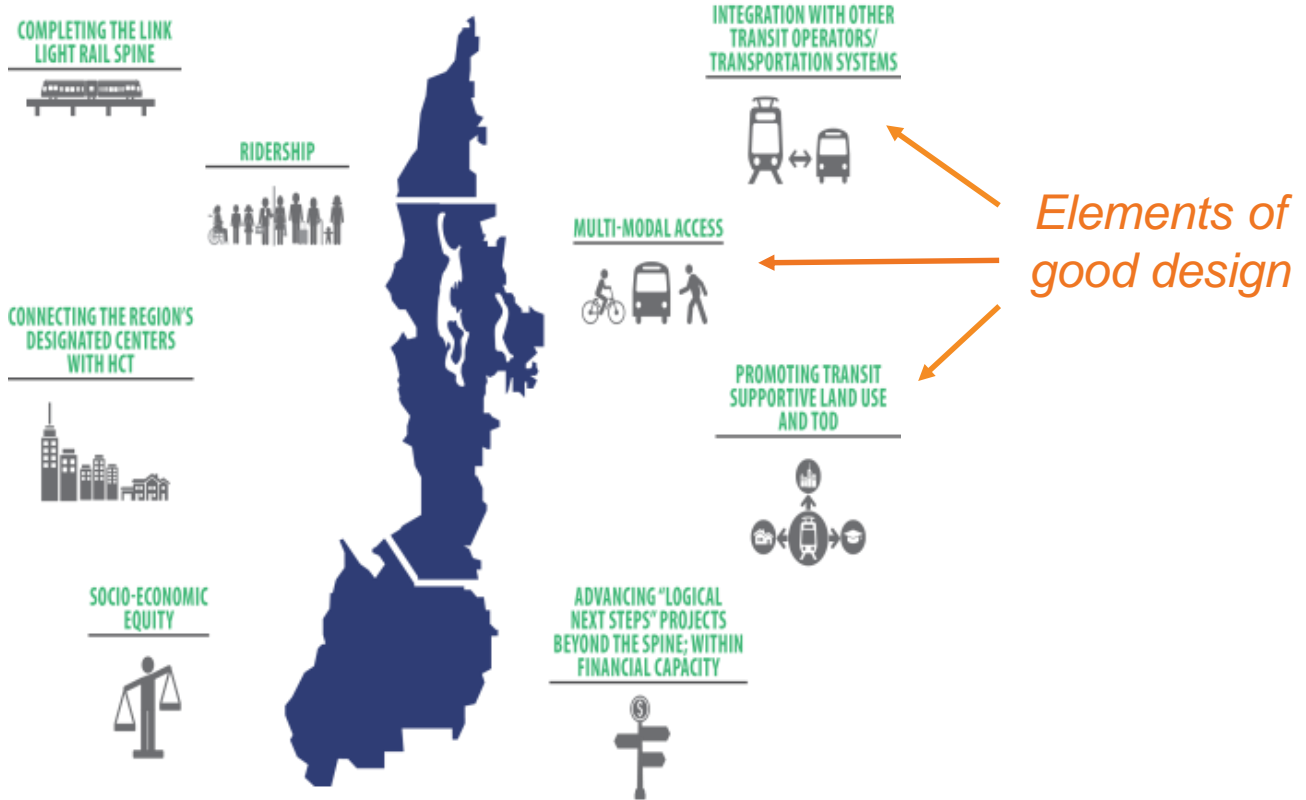
	Dot Com Recession	Great Recession
Loss of revenue	-\$5.6 Billion	-\$11.9 Billion
As % of remaining capital	-11.8%	-25.2%
Loss of debt capacity	-\$4.9 Billion	-\$14.5 Billion
As % of remaining capital	-10.5%	-30.8%

Remaining capital (includes 2020): \$47.2 Billion

Board tools to manage affordability

- Extend the time to complete the system.
- Modify project scope.
- Secure new grant funding or funding partners.
- Suspend or delete projects.
- Request a further tax increase from the legislature and voters.

ST Board's Core Priorities for ST3



CEO's near-term approach

Maintain Board's flexibility and readiness for uncertain future

Keep construction going safely

- Northgate, East Link, Lynnwood, Federal Way, Downtown Redmond, Hilltop Tacoma Link, OMF East.

CEO's near-term approach

Maintain Board's flexibility and readiness for uncertain future

Continue work in planning and final design

- Maintain readiness for variable revenue/grant scenarios.
- Slower, more incremental approach in some instances as longer-term realignment takes shape.

CEO's near-term approach

Maintain Board's flexibility and readiness for uncertain future

Hold on moving further projects into final design or construction

- Avoid over-commitment until Board priorities become clearer.

Board discussion schedule

Board, Executive Committee, Finance & Audit Committee

- April** Establish context & process
- May** Board workshop (History, context)
- June** Board workshop (Criteria, options, evaluation)
- July** Establish initial project priorities
- Fall** Review project priorities via 2021 budget process

Thank you.



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