Enterprise Initiative: Finance Update

Finance and Audit Committee

7/10/2025

SOUNDTRANSIT

Why we are here

No action requested today; information only

- Long-range financial plan overview
- Economic and revenue update
- Credit forecast review
- Financial levers

Long-range Financial Plan Overview

2026 budget, TIP, and long-range financial plan

Budget 2026
Board Approved

Annual Budget of revenues, sources, and expenditures for 2026.

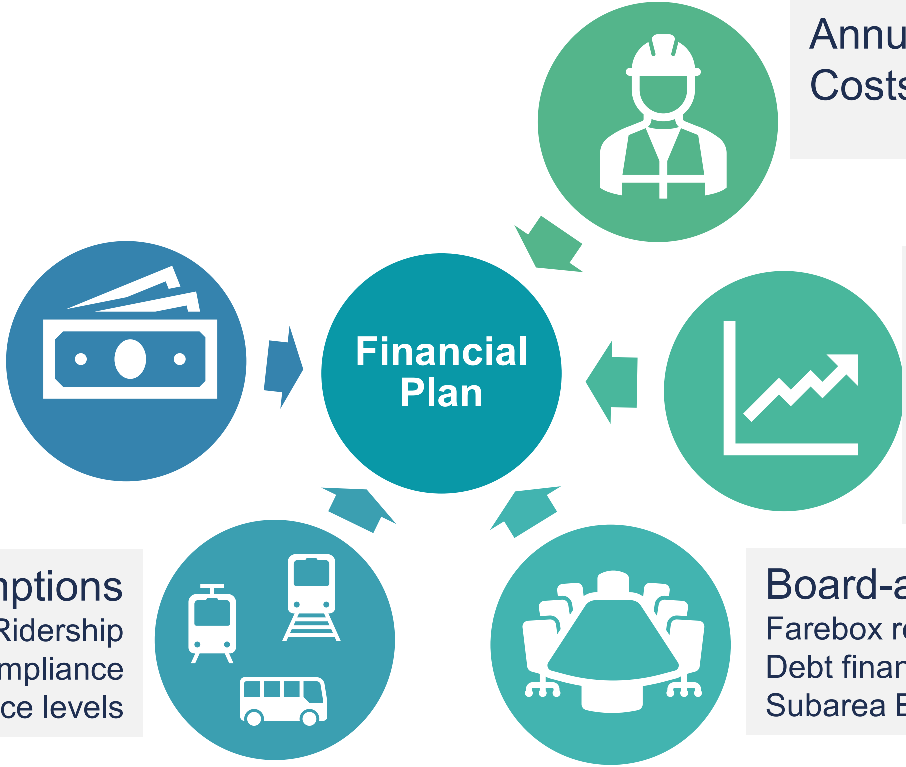
Transit Improvement Plan (TIP) to 2031
Board Approved

Authorized Allocation (lifetime) for all active project costs, including past actuals. (Includes pre-baselined and baselined projects, as well as service delivery projects.)

Long-Range Financial Plan (2017 – 2046)
Board Updated

Includes Sound Move, ST2, and ST3 sources and uses through 2046.

Long-range financial plan inputs



Annual Budget, Operating, and TIP Costs

Updated Independent tax revenue forecast

Independent inflation forecasts
Consumer Price Index (CPI)
Construction Cost Index (CCI)
Right of Way Index (ROWI)
Vehicle Index (VEHI)

Key planning assumptions
Ridership
Fare Compliance
Service levels

Board-adopted financial policies
Farebox revenue targets
Debt financing limits
Subarea Equity

Financial management policies

- Voter-approved financial policies mandate agency financial management.
- Financial plan is management on a consolidated agency-wide basis – all revenues, all expenditures.
  - ✓ Funding for individual project plans are derived from the total plan.
- No sunset on local taxes.
  - ✓ There is a tax rollback provision.

The ST3 System Plan is built on Subarea Equity

As defined in voter-approved plan, subarea equity:

- *"Subarea equity is defined as utilizing local tax revenues for projects and services…in each subarea generally in proportion to the level of revenues each subarea generates"*
- *"If a subarea's actual and projected expenditures exceed its actual and projected revenues and funding sources by 5%, the Board must scale back the program, extend time period for completion, or seek legislative/voter approval for additional resources"*

Building the financial plan

Sources
+ local tax revenues
+ fare revenues
+ miscellaneous revenues
+ federal grants and loans

Uses
- capital outlays
- operations & maintenance
- state of good repair
- reserves

Sources + Uses = our initial balance

If there is a deficit, we issue bonds, and our bonding capacity is determined by the following limits:

- Covenants with bond holders ("gross coverage")
- Covenants with the federal government for TIFIA loans
- Legal debt capacity under state law (5% of assessed value)
- 1.5x net covered (ST Board policy)

Economic and Revenue Update

Summary of Fall 2024 Financial Plan update

- The Proposed 2025 Budget and TIP are affordable within the agency's updated financial plan.
- All Board financial policies are maintained.
- Projected tax revenues decreased by 3.3% or just over $3B compared to fall 2023 Financial Plan.
- Higher projected capital and operating costs through 2046 result in increased debt issuance and decreased excess agency financial capacity.
- Debt capacity and coverage projections decreased compared to the fall 2023 Financial Plan

Economic and financial update

What has changed since the fall 2024 forecast

- 2024 tax revenues performed at 5% ($123M) under budget
- Interest rates remain higher than early pandemic lows
- Q1 2025 GDP contracted 0.5% rate (revised)
- October long-term tax revenue forecast with Q1 data

Full financial plan update at the October Finance & Audit Committee meeting

Credit Forecast Review

Credit quality – ratings update

Strong credit rating affirmed, with risks outstanding

*Sound Transit has historically maintained extremely strong debt service coverage, debt to net revenue, and liquidity, **but the authority's very large capital plan and substantial additional borrowing plans represent a credit weakness, in our view.** Although we expect Sound Transit to likely manage its capital plan and produce financial metrics that support our view of its credit quality, **we believe the magnitude and scope of the capital plan and additional borrowings introduce material uncertainty-related risk**, and we have factored that view into our debt and liabilities assessment.*

- S&P rating update, June 2025

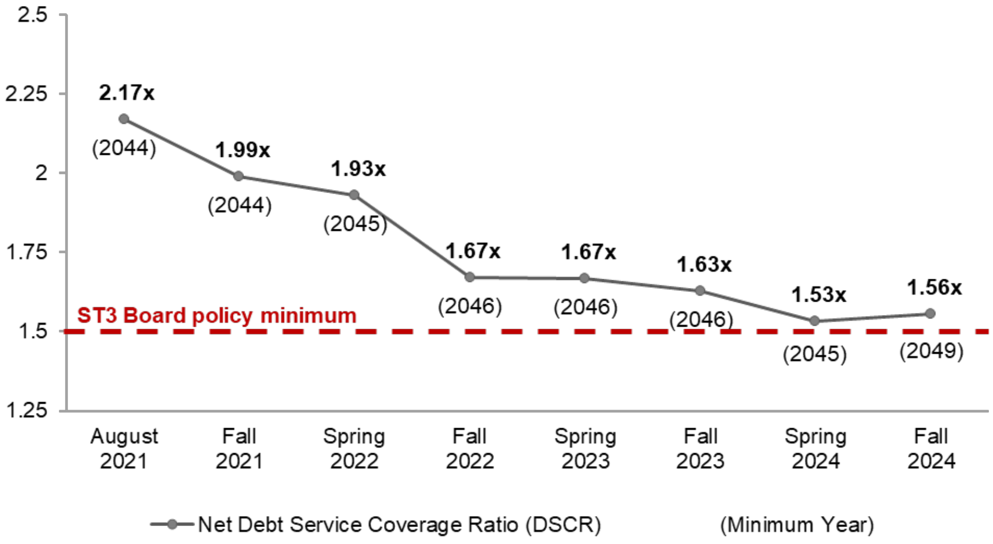
Net Debt Service Coverage Ratio (DSCR)

Current minimum Net DSCR is 1.56x

Debt Service Coverage Ratio (DSCR): *the agency's ability to repay debt after paying annual operating costs.*

ST3 Board Financial Policy: *requires an average debt service coverage ratio of 2.0x for net revenues over annual debt service costs, and not to fall below 1.5x in any single year.*

Current unmitigated trajectory: *DSCR projected to decline to* ***1.56x*** *in 2049 ("pinch point"), very close to the current agency policy minimum.*



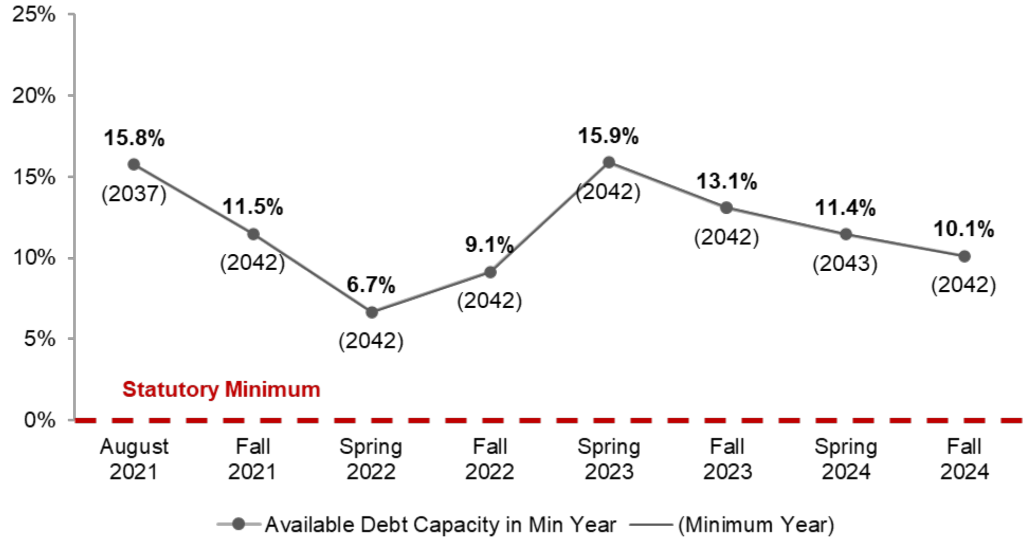
Legal Debt Capacity

Current minimum remaining available debt capacity is 10.1%

Debt capacity: *the agency's ability to issue new debt.*

Legal limit: *total debt is constrained by state law not to exceed 1.5% of the assessed value of real property in the Sound Transit taxing district.*

Current trajectory: *debt capacity is projected to fall to **10.1%** in 2042 ("pinch point").*



Financial Levers

ST3 program considerations

Sound Transit faces significant affordability challenges. Actions are underway to manage costs and address constrained financing via the Enterprise Initiative.

Risks

- Capital cost growth is the primary source of risk to the overall ST3 program.
- Service assumptions need to be revisited given travel behavior changes.
- Grant assumptions may need to be reconsidered given recent federal direction.

Opportunities

- There are significant cost savings opportunities in both capital and service delivery.
- Updating existing financial policies and assumptions could increase agency financial capacity.

Critical to retain some financial contingency post-baselining

- There will be high uncertainty for costs until the construction phase begins.
- There are significant consequences when addressing cost growth after projects are baselined.

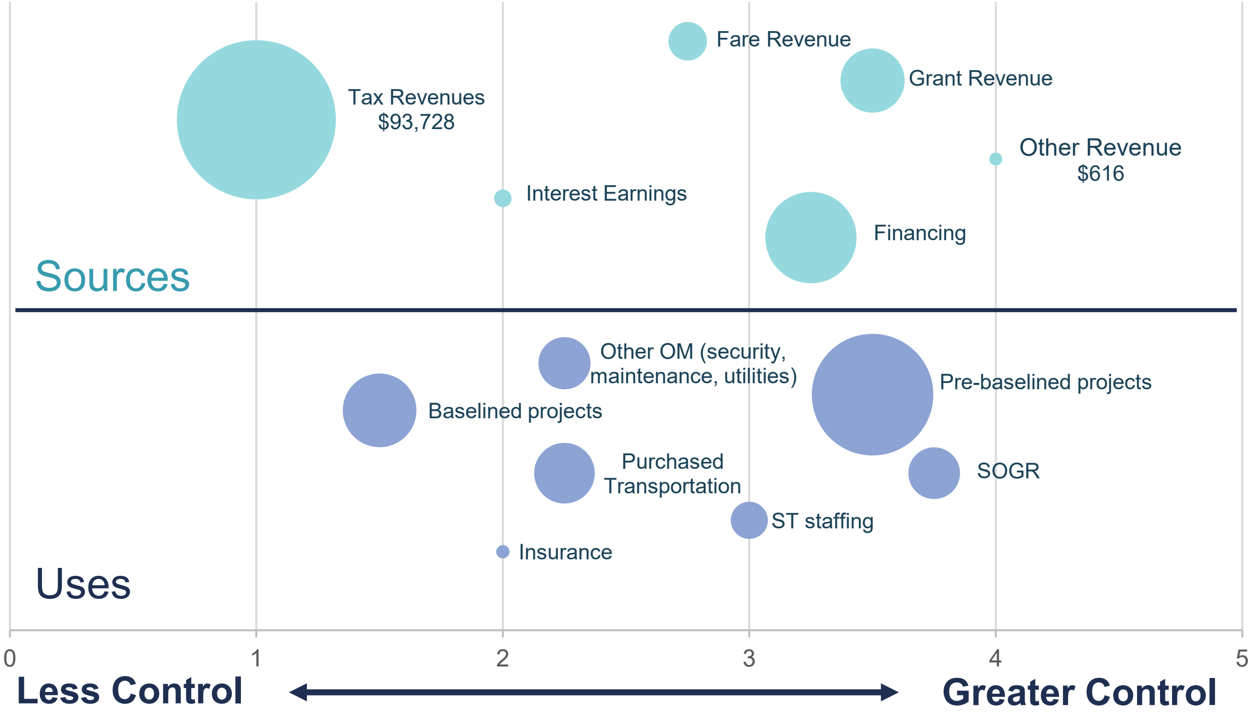
Long-term variables – risk management

Sources

- Board has greater influence over underlying assumptions
- Board has less influence over changes in tax rates
- Staff are beginning to explore tools to enhance existing agency financial capacity

Uses

- Capital, service, and planning teams are exploring cost savings opportunities
- Pre-baselined projects are easier to influence



SOUNDTRANSIT

Next Steps

- Finance staff are leading finance workstream component of the Enterprise Initiative
- Close collaboration with Enterprise Initiative work underway related to capital delivery, service delivery, and planning/policy
- **September FAC:** Deeper dive on financial policies and assumptions as well as potential revenue enhancements to maximize agency financial capacity
- **October FAC:** Fall 2025 Financial Plan update

Thank you.

SoundTransit

soundtransit.org