

***Enterprise Initiative:
Scenario development update
and finance building blocks***

Board of Directors

02/26/2026



Briefing purpose

Why we are here

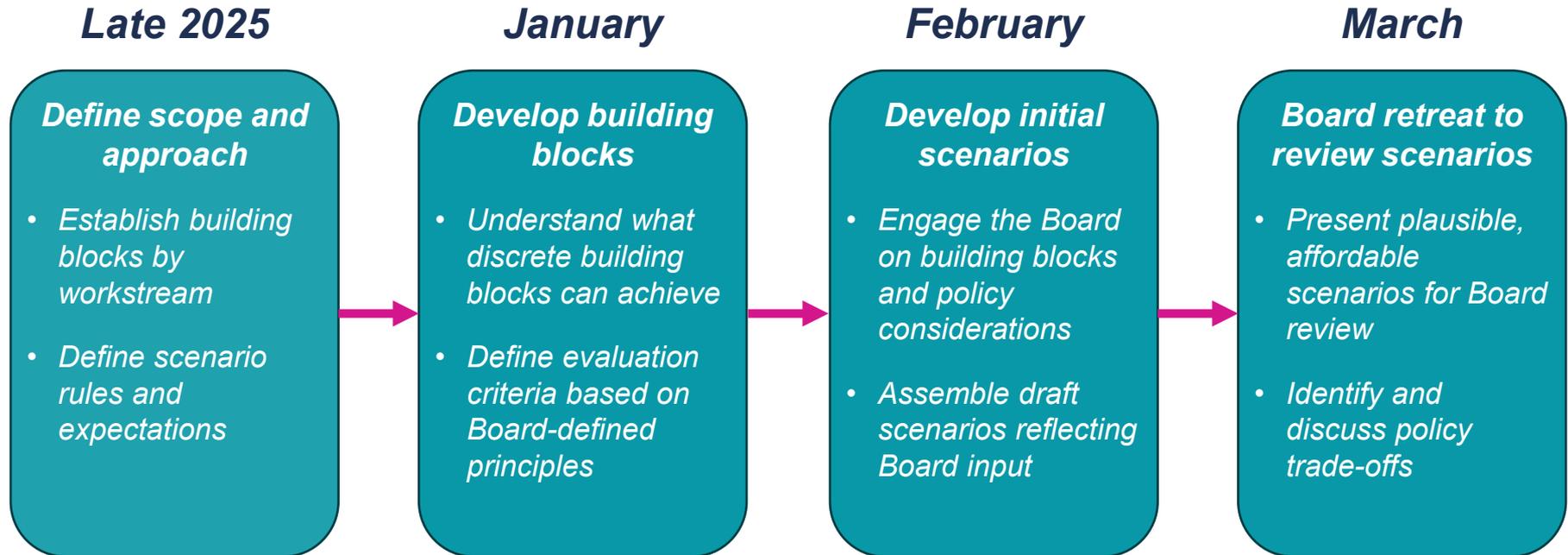
- Scenario development & finance workstream
- Update on finance opportunity register
- Summary of February “building block” briefings and next steps for scenario development

Scenario development

Rules & expectations

- **Ensure meaningful differences:** Scenarios should reveal real trade-offs and illustrate policy considerations for Board members
- **Focus on what matters:** Prioritize and vary components that truly move the needle
- **Keep it simple:** Complex scenarios collapse under their own weight; clarity is critical
- **Build on existing work:** Leverage cost-savings opportunities as the foundation; supplement with additional technical work
- **Expect a blended outcome:** The eventual ST3 System Plan update put forward to the Board is likely to combine elements from multiple scenarios

Scenario development process



Building blocks by workstream

Policy & planning

- Policy changes (by Sound Transit or others) that save capital and operating costs, speed project delivery, or expand financial capacity
- Updated service assumptions based on modified capital program and ridership projections

Transit operations*

- Potential new resiliency investments (e.g., modern signal system, existing tunnel upgrades)
- Revised operating & maintenance and light rail vehicle costs based on updated service assumptions

Capital delivery

- Cost savings opportunities
- Adjusted phasing and sequencing of project investments
- Updated cost allocations for shared/systemwide assets
- Potential deferral of some projects

Finance

- Updated financial planning assumptions (e.g., federal grant strategy)
- Policy changes and exercising existing available revenue authority
- Potential third-party funding opportunities

Quantifying our affordability challenges

The following summarizes unmitigated cost pressures across the major elements of our Long-Range Financial Plan

- **\$34.5B in cost savings and new funding required to fully fund ST3 program**
- Cost growth on the capital program is approximately \$14B-\$20B more in 2025 dollars, or \$22B-\$30B more in year-of-expenditure dollars
- Cost pressures related to improved service delivery could require approximately \$5B more in year-of-expenditure dollars
- Updated revenue projections and financing improvements included since August 2025 have increased agency financial capacity by \$4B

\$149B in total year-of-expenditures dollars is projected to be affordable, including \$51B in pre-baselined capital projects.

Revenue and financial enhancements

\$4 billion improvement since August 2025

Revenues and financial enhancements	Impact to capacity*
Updated sales tax forecast	\$2 billion
<i>Borrowing rate assumption</i>	<i>\$1.7 billion</i>
<i>Issuance cost assumption</i>	<i>\$70 million</i>
<i>Investment income assumption</i>	<i>\$160 million</i>
<i>Clean fuel standard revenue</i>	<i>\$60 million</i>
<i>Property tax revenue under-collection</i>	<i>\$40 million</i>
Total impact to financial capacity	\$4 billion

**Financing
enhancements**

*Amounts rounded

How we measure program affordability

An affordable ST3 System Plan includes sufficient funding to pay for operations, maintenance, state of good repair, system expansion, and agency administration

The plan relies on our ability to issue debt and borrow within the following constraints:

Legal debt capacity

- The agency's ability to issue new debt
- **Constrained by state law** not to exceed 1.5% of assessed value of real property in the Sound Transit taxing district

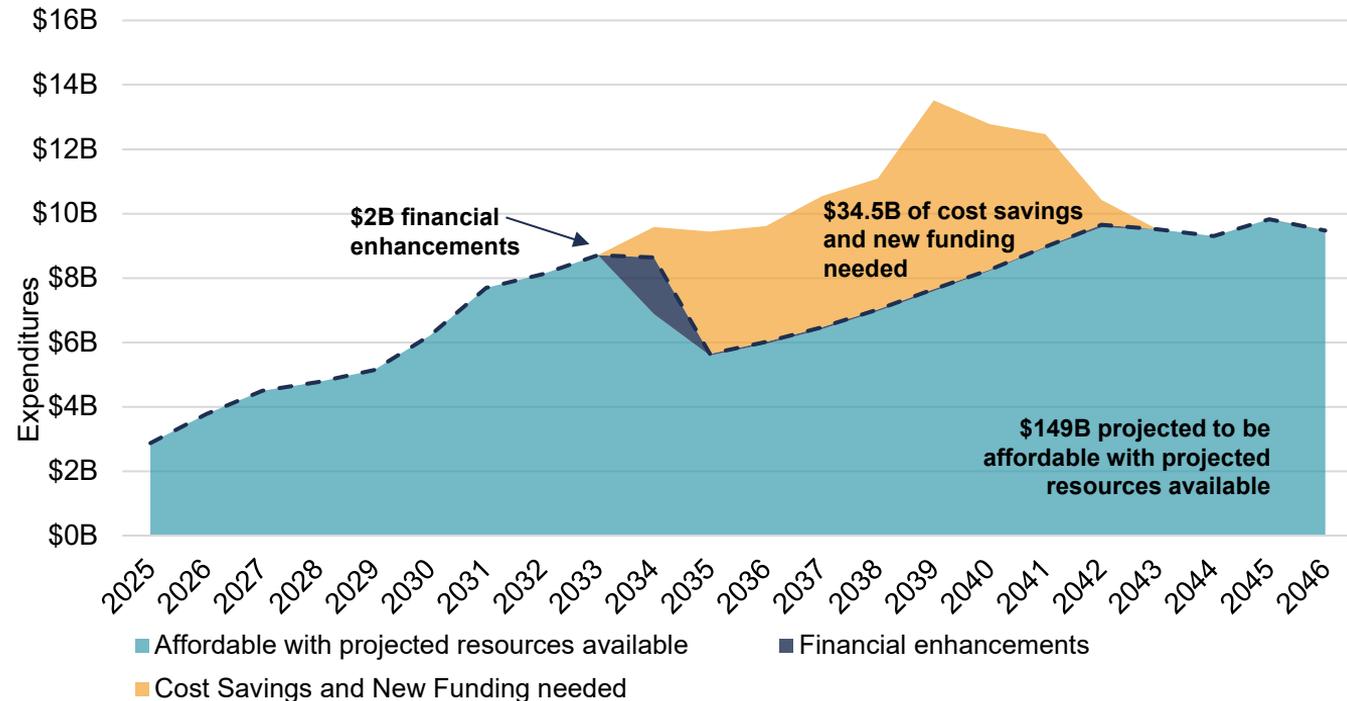
Debt service coverage ratio

- The agency's ability to repay debt after paying annual operating costs
- **Constrained by Board policy** of 1.5x net revenues over annual debt service costs in any given year

Scenarios under development will meet these constraints

Program affordability over time

- Program affordability challenges occur in part based on our ability to issue debt
- Capital project cost growth, coupled with the timing of those anticipated expenditures, limit our ability to issue debt to finance program delivery
- Solving for this adds a temporal dimension to the problem at hand



Finance opportunity register

Opportunity registers overview

Role in the Enterprise Initiative

Objective: identify opportunities for saving costs, speeding project delivery, and expanding financial capacity while still achieving ST3 system plan objectives

Approach: quantify benefits, summarize implementation risks – including financial risk – and assess impacts to operations and passenger experience

- Finance opportunity register considers a wide range of options for expanding existing agency financial capacity without new voter-approved revenues
- Work is ongoing to assess benefits, risks, and impacts across each opportunity register
- We will share opportunity registers in advance of the Board retreat

Finance opportunity register

Initial takeaways

- There is no single financial opportunity that solves program affordability; a range of opportunities are needed to expand financial capacity in addition to cost savings
- We are focused on maximizing existing financial capacity through the Enterprise Initiative and are not considering new voter-approved funding
- Some financial opportunities require action by others and may not be reflected in anticipated Board action in Q2
- Some opportunities are more impactful to system affordability while others have a greater effect on subarea equity
- Federal grant assumptions will change based on capital program building blocks

Finance opportunities to increase capacity

Categories of financial opportunities

- **Financing enhancements.** Adjusting planning assumptions on revenues, debt, and reserves can add financial capacity but can mean increased risk.
- **Board policies.** Updating or modifying policies within the Board's authority that carry varying levels of risk to long-term sustainability.
- **Additional revenue.** Considering new or increased revenues from existing or already-authorized sources like federal grants and fares.
- **Partnerships.** Working with governmental and/or private partners to share costs and expand financial capacity and flexibility.

Finance opportunities to increase capacity

Financing enhancements

- The **most impactful, lowest risk financing enhancements were already incorporated** through the fall 2025 Long Range Finance Plan update
- Agency financial practice is to regularly review finance planning assumptions and broader landscape and **to act proactively to increase financial capacity** (e.g., refinancing bonds to take advantage of favorable interest rate environment)
- In Olympia, SB 6814 (modifying the maximum terms of regional transit authority bond issues) would **provide an enhanced financing tool** to help address debt-related pinch points.

Finance opportunities to increase capacity

Board actions

- Board actions related to **incorporating cost savings in the capital program and adjusting service assumptions** through the Enterprise Initiative will positively affect – and increase – agency financial capacity
- Considering changes to the Board's policy for **debt service coverage ratio**:
 - » *Within the Board's authority to modify this policy*
 - » *Benchmarking of peer agencies indicates our debt service coverage ratio is more conservative*
 - » *Enables additional financial capacity but with some additional risk*

Finance opportunities to increase capacity

Additional revenues

- Scenarios will reflect **updated federal grant assumptions** based on the capital projects included and their competitiveness for federal funding
 - » *Incorporating **updated federal guidelines** that increase competitiveness for some projects*
 - » *Opportunities for **FTA Core Capacity grants** later in the program*
- Consider **raising the existing rental car tax rate** to the allowed maximum of 2.172% from the existing rate of 0.8% – within Board authority
- Revisit assumptions related to revenue sources within Board authority
 - » ***Fare revenue** from increased compliance and/or higher ridership*
 - » ***Parking fees** reflecting full implementation of Board's parking management policy*

Finance opportunities to increase capacity

Partnerships

- Potential **third-party contributions** to individual capital projects, which have previously been under consideration
- Opportunities to **creatively use local jurisdiction financing tools and available debt capacity** for specific plan investments (e.g., light rail vehicles)
- **Public-private partnerships** for more efficient program delivery and potential revenue opportunities
 - » *Parking facilities – both future investments and current portfolio – offer the most promising opportunity*
 - » *Joint development can create revenue opportunities depending on context-specific development potential*

Opportunity register summary

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Policy opportunity register

Initial takeaways

- Many policy opportunities will have a positive effect on program affordability, but none solve the problem alone
- Some are contingent, which reduces certainty that we will realize the potential benefits identified
- Some require both Sound Transit and another entity to act
- Opportunities that require others to act are likely to take more time, and most opportunities will require work beyond the update of the ST3 System Plan
- Scenarios will include select policy actions to understand the influence of cost savings and expanded financial capacity

Transit operations opportunity register

Initial takeaways

- Unlike capital delivery, there are no service delivery “levers” that save equivalent costs that phasing implementation of megaprojects do
- Transit operations costs are tied to capital program size and schedule and so we will see cost changes based on a modified capital program
- Most cost saving opportunities from service delivery are farther in the future, are contingent, and are incremental (i.e., they “bend the curve”)
- Some opportunities (e.g., resiliency investments) require upfront capital costs to achieve longer lifecycle cost savings

Capital delivery opportunity register

Initial takeaways

- Real cost savings are being identified across all projects in active development
- Additional cost saving opportunities will be identified as projects move through their design phase
- Bigger moves, such as station deferral, can unlock additional cost savings
- The scale of cost growth challenges in the capital program will require consideration of phasing projects and potentially project deferrals
- Speeding project delivery through policy changes or procedural and programmatic efficiencies will be carried forward through the policy opportunity register

Finance opportunity register

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Next steps

Enterprise Initiative scenario development

- Work is ongoing to develop plausible, affordable scenarios to present at the Board retreat
- We are working to develop affordable scenarios at the system level, but they may not be affordable at the subarea level
- Upcoming key dates:
 - » **March 5:** *Retreat preview and discussion of policy considerations emerging from scenario development with the Executive Committee*
 - » **March 18:** *Board retreat to review plausible, affordable scenarios*

Thank you.



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