Financial Impact of COVID-19 on Sound Transit

Sound Transit Board
March 26, 2020

General Market Updates

COVID-19 has caused significant financial market volatility.

- 11-year bull market ended on 3/12
- 10-year Treasury yield dropped below 1% for the first time in history
- Access to the capital market is extremely limited and the credit spreads have widened significantly
- Federal Reserve cut rates to zero and launched a massive quantitative easing program.

General Market Updates

- March 25: A unprecedented stimulus package in the size of $2 trillion is in place to help the economy
- March 26: 3.3 million weekly unemployment claims for the week ending on 3/20
- March 26: Federal Reserve Chair Powell stated that "the U.S. economy is likely already in recession". Some Economists believe the US GDP decline in 2nd quarter would set a new record in history.

Financial Impact on Sound Transit – Program Delivery

- In the near term, supply chain and construction disruption could negatively affect schedule and cost of current projects
- A recession that leads to loss of revenues and financial capacity would jeopardize the affordability of the voter-approved program

A recession would threaten close to 90% of the program funding sources

- ***Taxes fund 66% of voter approved program (2017-2041)***

52.2% Sales Tax	8.6% MVET
5.0% Property Tax	0.1% Rental Car Tax

- ***Debt funds 15% of voter approved program (2017-2041)***
  - Debt capacity is constrained by future available revenues and Assessed Value of properties (property value and tax)
  - No benefit from the current market environment as access to market is extremely limited and premiums are priced in for non-Treasury bonds
- ***Loss of fare and other revenues***

Farebox Recovery is forecasted to be below policy target for all modes in 2020

- ***ST Ridership has declined 83%***

Mode	Policy	2019 Actuals	2020 Forecast*
Link	**40%**	34%	**21.6%**
ST Express	**20%**	25%	**17.4%**
Sounder	**23%**	31%	**21.4%**

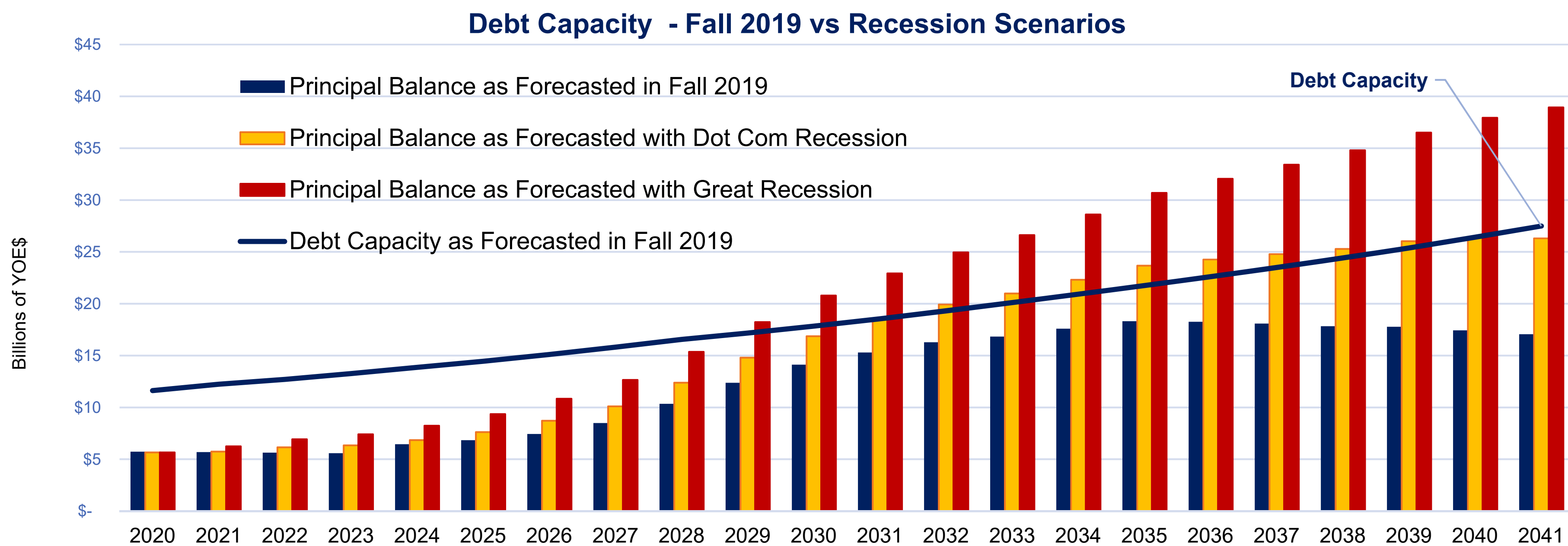
*Assuming the steep ridership declines last until June with a ramp back up over time

What we know so far

- Ratings agencies put transportation sections on negative credit watch
- APTA estimates 75% of Sales tax revenue decline
- ST’s short term borrowing rate jumped to 5.5% last week from 1.5% a month ago
- We have adequate cash and access to TIFIA loans in the next 12-24 months without the need to borrow in the debt market

Potential Impact on Program Affordability

- *Scenario 1: Mild recession similar to 2002 dot com recession*
- *Scenario 2: Severe recession similar to 2008 great recession*



SOUNDTRANSIT

What we still do not know

- The magnitude of the recession
- The length of the recession
- The size of any program adjustment that may be required to stay within forecasted financial capacity

Current management actions

- Acquiring federal assistance
  - Currently estimated to be approximately $152m
- Gathering data to better understand financial impact
- Seeking ways to reduce operating and capital costs
- Exploring criteria for potential re-alignment decisions to be made by the Board

Key Takeaways

- A recession is most likely and it could jeopardize program affordability and delivery dates
- Current data is insufficient to predict the full magnitude and duration of the recession
- Measures are being developed to contain costs and increase revenues
- Exploring criteria for potential re-alignment decisions to be made by the Board

Thank you.

SoundTransit

soundtransit.org