Financial Impact of COVID-19 on Sound Transit

Sound Transit Board
March 26, 2020
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

• Economists across the country predict a deep coronavirus-driven recession by July, some believe the US GDP decline in 2nd quarter would set a new record in history.

• A unprecedented stimulus package in the size of $2 trillion is in place to help the economy
Financial Impact on Sound Transit – Program Delivery

• In the near term, supply chain disruption could negatively affect schedule and cost of current projects.

• In the intermediate term, 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 80%**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Policy</th>
<th>2019 Actuals</th>
<th>2020 Forecast*</th>
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<tbody>
<tr>
<td>Link</td>
<td>40%</td>
<td>34%</td>
<td>21.6%</td>
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<tr>
<td>ST Express</td>
<td>20%</td>
<td>25%</td>
<td>17.4%</td>
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<tr>
<td>Sounder</td>
<td>23%</td>
<td>31%</td>
<td>21.4%</td>
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*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
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
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.