Financial Plan update

Board Meeting

11/19/2020

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Why we are here

No action requested today; information only

- Long-Range Financial Plan projections
- Provide response to Board members’ questions

Long-Range Financial Plan vs. 2021 Budget

Long-Range Financial Plan Projections 2017 - 2041

- Includes Sound Move, ST2, and ST3 sources and uses through 2041
- Continual updates of revenue and cost forecasts as new data becomes available; next updates coming in January.

Budget 2021

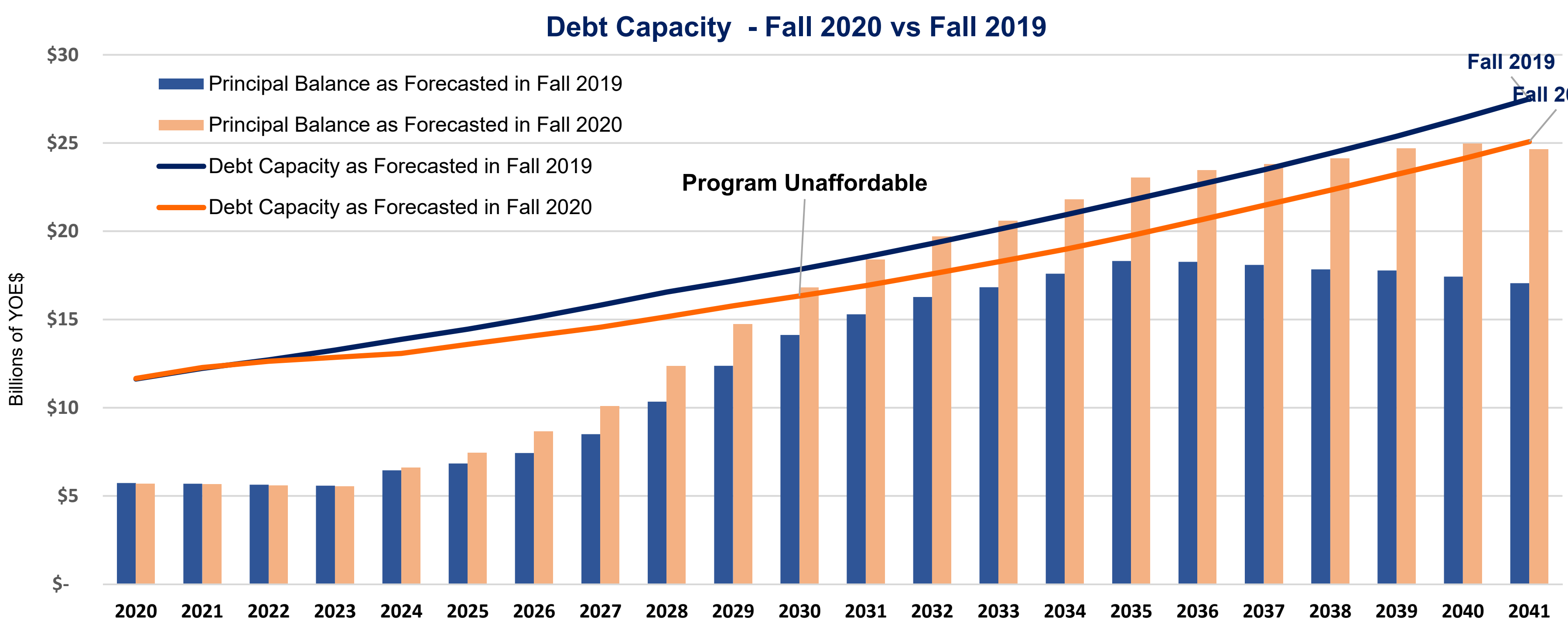
- The 2021 Budget covers a single year, outlining revenue, financial sources and expenditures.

Financial Plan unaffordable under current forecasts

- $6 billion in revenue gap based on current projections.
- Insufficient debt capacity to make up for the revenue loss and cost increase.
- Long term revenue and cost outlook are highly uncertain.

Moderate recession makes program unaffordable

Statutory debt limit is projected to be lower due to slower growth in property value



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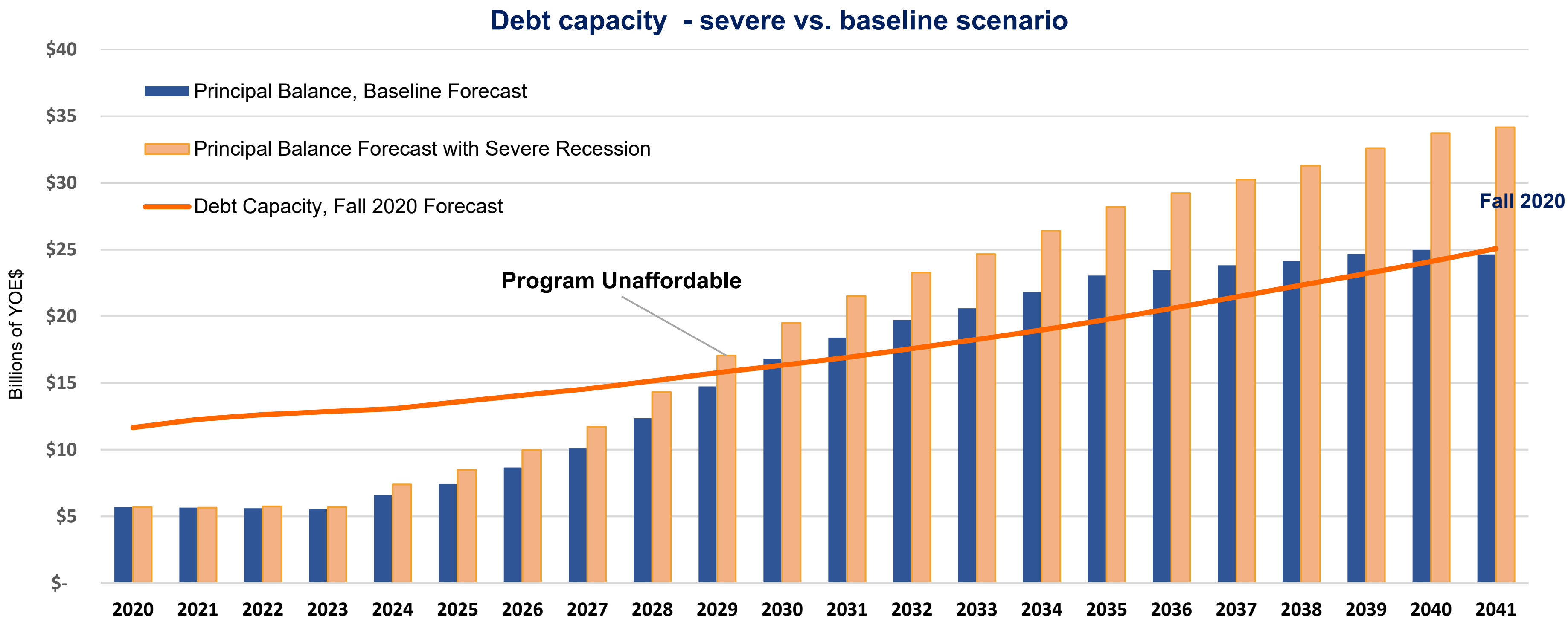
More severe recession remains a possibility



Key threats that could further widen the funding gap

- Long-term revenue outlook is highly uncertain. Revenue loss could potentially double from the current forecast.

- Cost estimates for future projects continue to go up, and could add multiple billions of additional costs to the plan.

- Continued high cost growth on purchased transportation could add another billion or more to the plan.

Follow-up questions from the October Board meeting

Question 1: Is our revenue forecast improving like we have been seeing in other jurisdictions?

- Yes, tax loss projections recently improved based on limited available data.
- Most of the jurisdictions only forecast revenues for the next 1-2 years, our forecast must reflect near term and long term (20+years) revenue impact.
- Future revenue outlook is highly uncertain.

Forecasted revenue loss (through 2041)

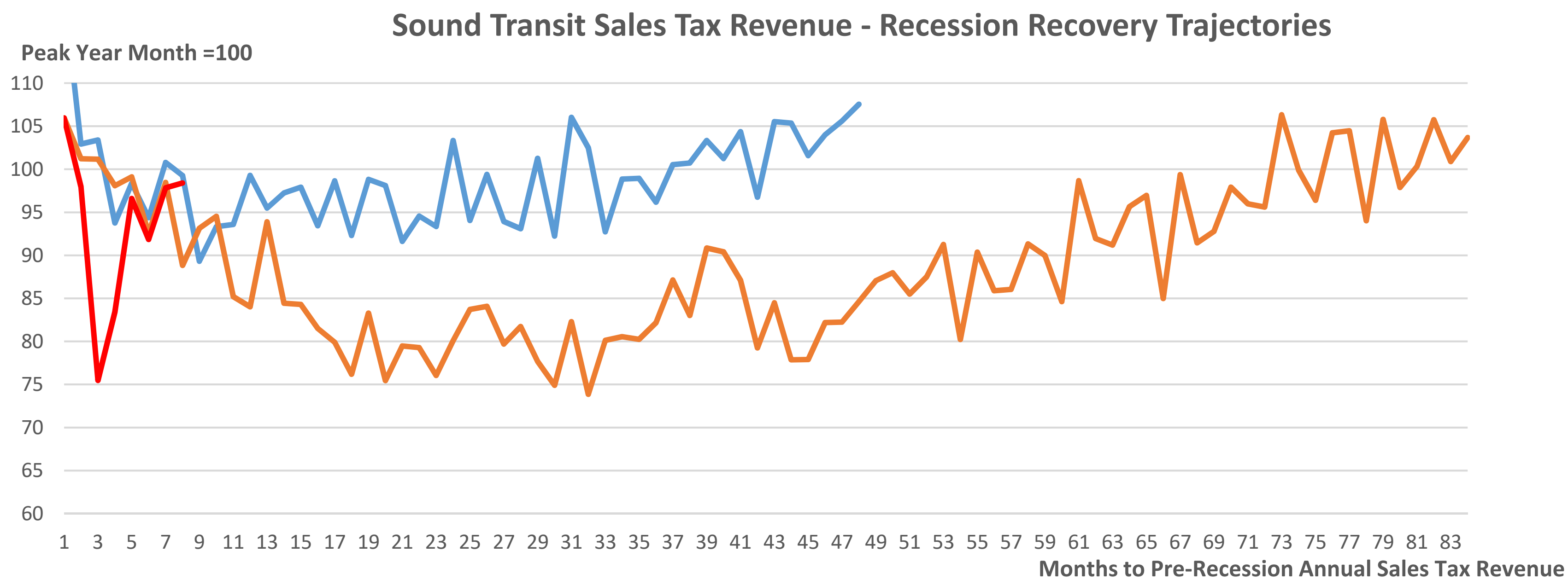
Q2 2020 **$11-12B** ⇒ Q4 2020 **$6-12B** ⇒ Q1 2021 **?-?**

Revenues will most likely never return to ST3 planned level

- Even with the current improved long-term outlook, the level of initial revenue decline has surpassed initial decline of the great recession.
- Previous forecasts assumed growth from the pre-COVID revenue level, but just returning to that level will take years.
- A portion of the previously planned ST3 revenue is most likely lost permanently.

Uncertain period for revenue recovery

- *Dot com and 9/11 recession: 48 months to pre-recession sales tax revenues*
- *Great recession/global financial crisis: 84 months*
- *COVID-19 recession: Unknown (8 months of data so far)*



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Question 2: How has tax revenue changed since 2016? How has the variance been spent?

- Tax revenues from 2017-2019 were $474 million higher than projected.
- Result was a higher cash reserve that is now being used to cover current revenue shortfalls and cost increases.

Question 3: Where are the higher construction costs? What projects?

Project	Cost increase compared to ST3 Plan (in millions)
Downtown Redmond Link Extension	$98
Federal Way Link Extension	$460
Lynnwood Link Extension	$707
Hilltop Tacoma Link Extension	$35
West Seattle – Ballard Link Extension	?
Tacoma Dome Link Extension	?
Everett Link Extension	?
Bus Rapid Transit I-405, SR522	?

Question 4: Why are there differences in expected long-term construction costs and current local conditions?

- Economists project long-term national slowdowns in inflation for construction and right-of-way, but near-term Puget Sound market remains hot.

- Projects currently in planning are experiencing the same or higher cost pressures as the Federal Way and Lynnwood projects.

- Rapid local development activity, particularly in urban centers, means our projects will incur higher property acquisition and relocation costs.

- New increased cost projections will be available in Q1.

Question 5: How do the cost changes net out to the current projection of a $0.6B increase?

Capital costs:	-$ 1.2 billion
Operating and State of Good Repair:	$ 0.8 billion
Debt service	$ 1.0 billion
Total increase	**$ 0.6 billion**

Question 6: Why are our contracts with partner agencies (purchased transportation) not included in the general inflation number?

- Because the cost growth from our operating partner agencies has always exceeded CPI (in 2016-2019 it was 5.7%), we project purchased transportation cost growth using historical data instead of the CPI, which is 2.3%.

- Updated financial plans assume 5% annual cost growth (for the next five years) in purchased transportation instead of CPI.

- If this higher cost growth continues beyond five years, $1 billion of additional cost will need to be added to be plan.

Question 7: Why are vertical conveyance costs so much higher than projected in 2019?

- DSTT condition assessment was completed after the 2019 financial plan update. The average age of DSTT vertical conveyances is 30+ years.
- DSTT needs coupled with conveyance challenges at other stations prompted a system-wide evaluation of long-term resource needs.
- As a result, higher costs are assumed for maintenance and heavier duty replacement for existing equipment.

Question 8: Why is debt service higher?

- In order to make up for the currently projected revenue shortfall, $3.2B in additional debt would need to be issued.
- Therefore there will be higher debt service (interest and principal repayment) costs to pay for additional borrowing.
- Program becomes more expensive when more debt financing (vs. revenue) is utilized.