Enterprise Initiative: Finance Update

Finance and Audit Committee

9/11/2025

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Today's Focus: Addressing Sound Transit's Affordability Gap

No action requested today; information only

- Revisit the agency's cost challenges
- Outline strategies to increase financial capacity
- Preview Next Steps

Board Direction: Expand Capacity and Advance Projects

The Finance Division, working with investment banking and consulting partners, developed strategies to increase financial capacity for the Sound Transit Long Range Financial Plan (2017-2046).

This assessment directly responds to Board Motion No. M2024-59, which directed the CEO to develop a workplan for financial measures to improve the agency's financial situation and advance the West Seattle Link Extension through design.

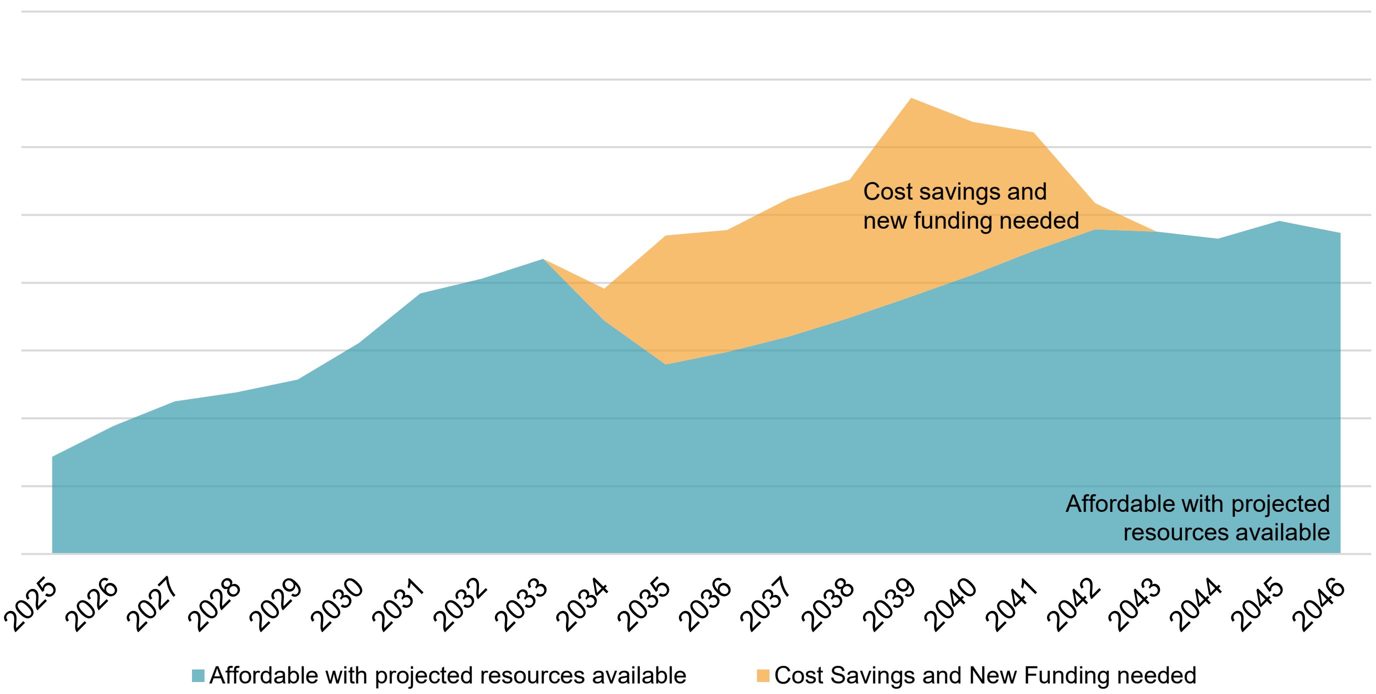
This has been further amplified by Board Motion No. M2025-36.

Enterprise Initiative was established to address the affordability gap

Summary of current cost pressures

- In total, this represents a 20%-25% increase above the current, Fall 2024 Long Range Financial Plan (LRFP) before any cost savings opportunities applied.
- 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.
- Revenue and financing challenges from lower revenues and higher financing costs results in an impact of $4B-$5B in year-of-expenditure dollars.

Time Horizon of our Affordability Challenge

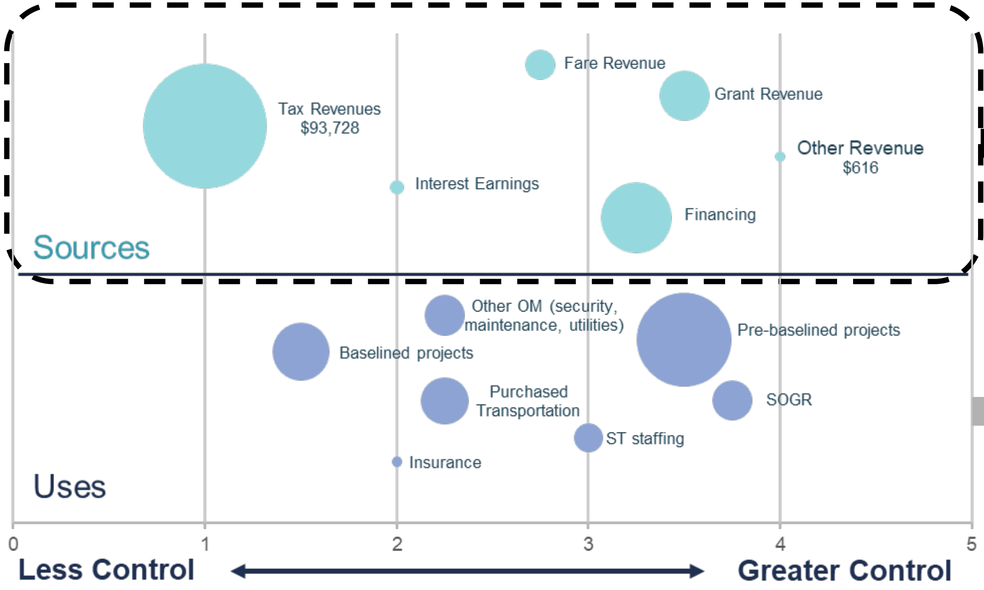


The chart shows updated long-range plan with added costs (as presented at August Board meeting).

Teal = affordable with projected revenues and borrowing capacity.

Gold = additional costs that require new funding or savings.

Where We're Looking for Financial Capacity



- Investigation of revenue and capacity improvement opportunities to enhance financial capacity
- Close collaboration with service (REO) and capital delivery (SEC)
- Increase sources with focus on risk management

REO – SOGR, O&M and Service Delivery

- Developing better information in each area discussed
- Revisiting system design service assumptions
- Collaborating with capital delivery to understand system expansion changes through Enterprise Initiative
- REO briefings on light rail vehicles and resiliency update in September

SEC – Capital program

What Makes a Plan Affordable?

Affordable plans must provide funding to pay for the operations, maintenance, expansion, and administration of the entire system and borrow within these constraints:

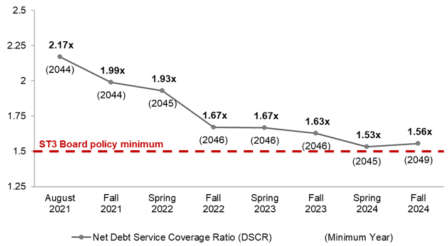
Net Debt Service Coverage Ratio (DSCR)

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.*



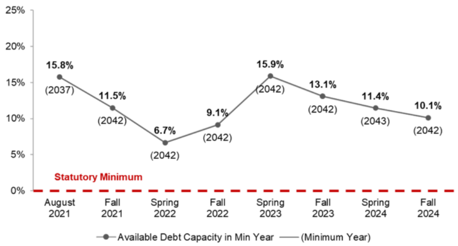
Legal Debt Capacity

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").*



These slides were presented as part of the Fall 2024 Financial Plan, each point on the chart represents a previous financial plan update.

If these constraints cannot be met, the plan is unaffordable

Strategies to Increase Capacity

ST's Finance team and external consultants evaluated options and have created a financial opportunity menu to increase revenue and financial capacity.

- **Financing enhancements –** Adjust *planning assumptions* on revenues, debt, and reserves (could add financial capacity, but with increased risk).
- **Board actions –** Policy changes the Board can make within its authority (varying levels of risk to long-term sustainability).
- **Additional Revenues –** new or increased revenues (federal grants, Board policy updates, revised assumptions).
- **Partnerships –** Work with government or private partners to share costs or expand financing flexibility.

Assessing Our Opportunities

Opportunities are evaluated based on the following categories:

- Benefit to the Sound Transit Financial Plan, in terms of specific financial metrics
- Financial risk (relative to others)
- Implementation barriers (relative to others)

Legend			
Benefit to Financial Plan		Financial risk/ Implementation barriers	
$	Less than $500M		High
$$	$500M-$2.5B		Medium
$$$	$2.5B - $5B		Low
$$$$	Above $5B		

Risk ratings are relative

Lever 1: Adjusting Assumptions

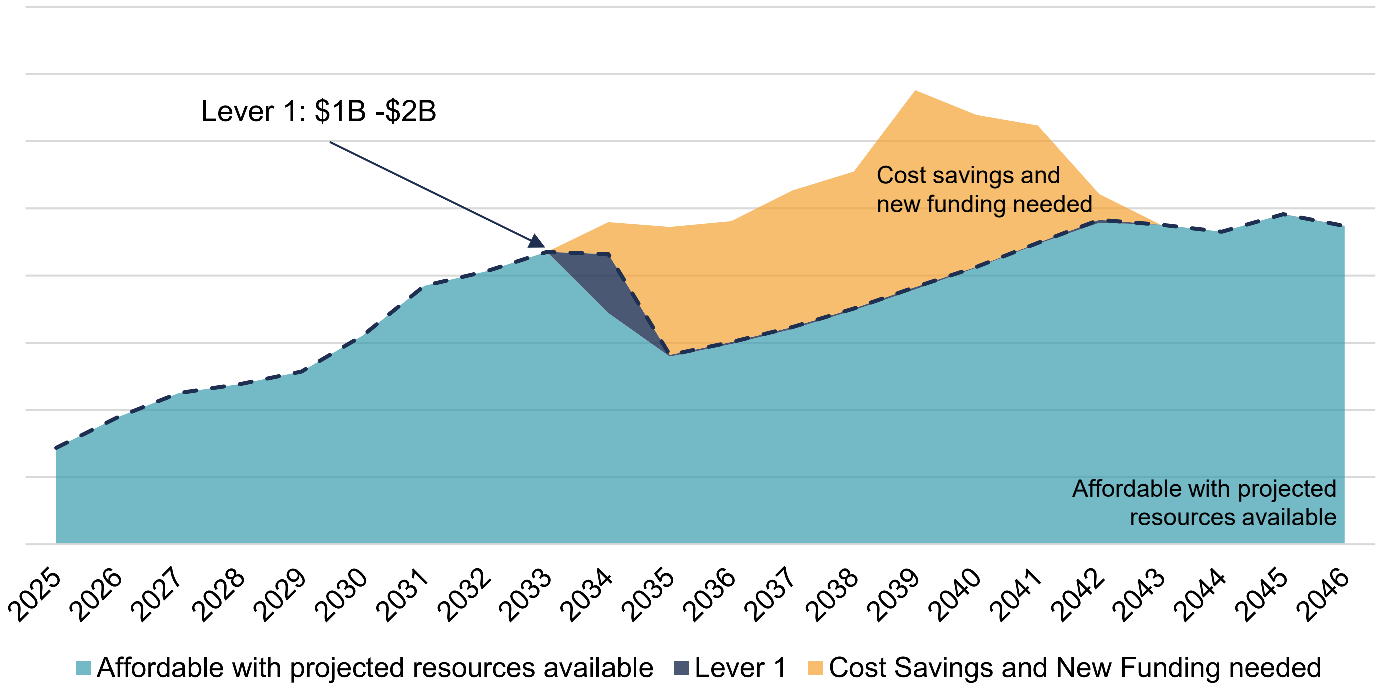
Assumptions

Options	Description	Benefit to Financial Plan	Financial risk	Implementation Barriers
Property tax undercollection	Remove the undercollection assumption of 1%.	$		
Clean fuel standard revenue	Assume $80 million in revenue through 2046 at $40/credit.	$		
* Interest earnings	Increase interest earnings assumption 50 basis points.	$		
* Debt - borrowing rate	Adjust borrowing rate assumption from 5.3% to 5.0%	$		
* Debt - issuance cost	Decrease issuance cost assumption from 1.25% to 1%.	$		

Revisiting key assumptions (revenues, interest earnings, borrowing rates) to reflect current performance and trends:

- Initial estimates potential to add $1–2 billion in capacity with relatively low risk and effort
- Closely monitor macroeconomic markets — shifts in rates or costs could offset these gains
- Findings validated with finance team and consulting partners

Lever 1 Potential Impact: $1–2 billion in Capacity



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Next Steps

- Vet the assumption changes as part of development of the Fall 2025 Long Range Financial Plan
- Explore risk and impact of potential Board actions (policy changes within the Board's authority)
- Assess other levers in the opportunity menu

Thank you.

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