

Updates to the Long-Range Financial Plan

Finance and Audit Committee
10/9/2025



2026 Budget, TIP, and Long-Range Financial Plan

Budget 2026

Board Approved

Annual Budget of revenues, sources, and expenditures for 2026.

Transit Improvement Plan (TIP) to 2031

Board Approved

Authorized Allocation (lifetime) for all active project costs, including past actuals.
(Includes pre-baselined and baselined projects, as well as service delivery projects.)

Long-Range Financial Plan (2017 – 2046)

Board Updated

Includes Sound Move, ST2, and ST3 sources and uses through 2046.

Affordability Challenges Shared in August

- Cost growth on the capital program is ~\$14B-\$20B more in 2025\$, or \$22B-\$30B more in year-of-expenditure dollars.
- Cost pressures related to improved service delivery could require approximately \$5B more in YOE\$.
- Revenue and financing challenges from lower revenues and higher financing costs results in an impact of \$4B-\$5B in YOE\$.

Today's update incorporates affordability challenges, updated macro-economic forecasts, financial enhancements, and proposed 2026 budget and TIP

Financial Plan Update Key Takeaways

\$34.5B in cost savings and new funding required to fully fund ST3 program

- Incorporates affordability challenge assumptions shared in August Board meeting.
- \$148B in total year of expenditure spending is still projected to be affordable.
 - \$51B in ST3 pre-baselined expansion and extension investments included.
- State of good repair costs remain fully funded.

Revenues and financing improvements included since August have increased ability to fund by \$4B

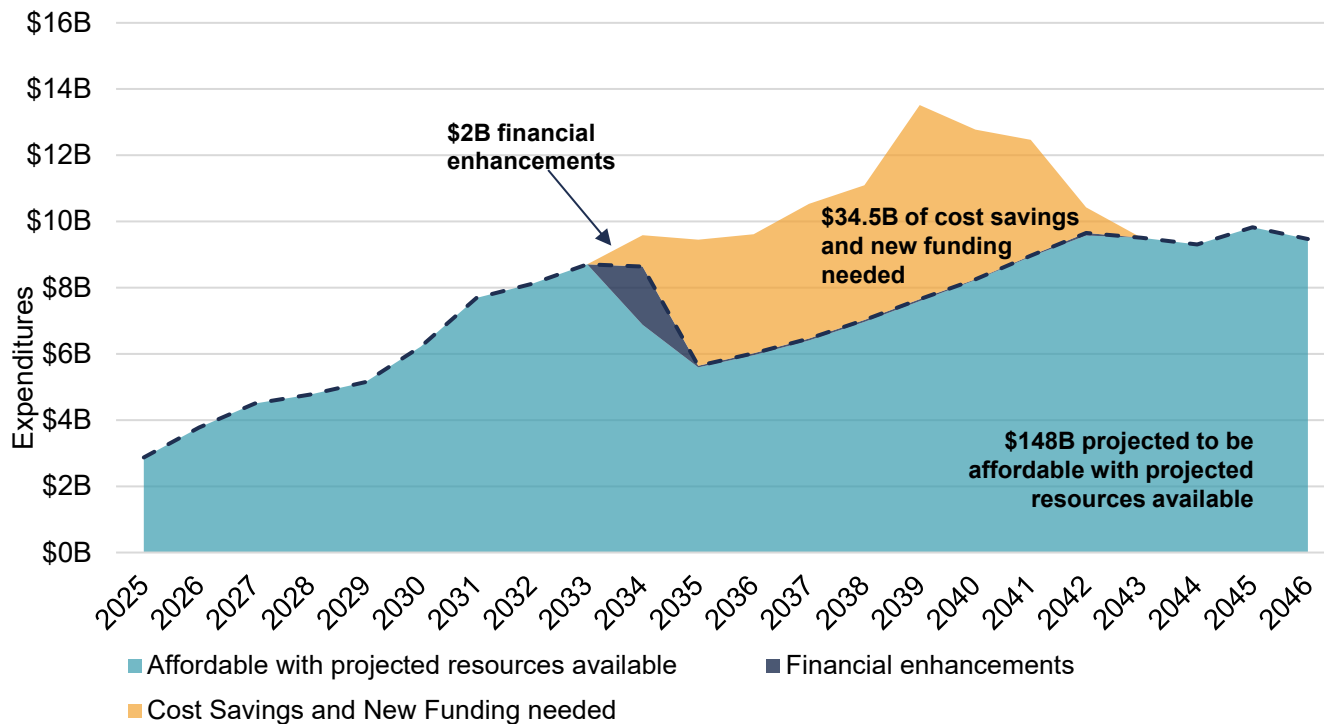
Strategies to Increase Capacity

Multiple opportunities to deploy within different categories

Categories include:

- ✓ **Financing enhancements** – Adjust planning assumptions on projected revenues, debt costs, and reserves (varying levels of risk).
- **Board actions** – Policy changes the Board can make within its authority to improve projected financial capacity (varying levels of risk).
- **Additional Revenues** – New or increased projected revenues from existing sources (federal grants, revised assumptions).
- **Partnerships** – Work with government or private partners to share costs or expand financing flexibility.

Total Expenditure Forecast Through 2046



- The total area represents the unconstrained long-range financial plan, including additional costs and reduced revenues.
- The teal area represents the expenditures affordable with projected resources available.
- The gold area represents the expenditures that require new funding or cost savings.

Cost Growth in the Capital Program

\$28B increase – consistent with August

- **\$0.5B** increase in projected inflation due to a higher Construction Cost Index, partially offset by a reduction in the Right of Way Index as property values cool.
- **\$27B** increase in projected system expansion project costs to build out full scope of ST3 plan, as shared in August.

\$51B in ST3 pre-baselined expansion and extension investments is still projected to be affordable

Cost Pressure Related to Service Delivery

\$5B increase – consistent with August

- **\$1B** in operating expenses - with ST2 projects mostly in service, additional projected resources identified to operate and maintain system reliability, resiliency, and headways.
- **\$2B** in projected resiliency state of good repair costs.
- **\$2B** in projected cost increases for Series 3 LRVs.

Revenue and Financing Challenges

\$4B improvement since August

Revenues and Financial enhancements	Impact to capacity
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</i>	<i>\$40 million</i>
Total impact to capacity	\$4 billion

Financing
enhancements

* Amounts rounded

Financial Enhancements

Financial Enhancements – Borrowing Rate

Future interest rate assumption decreased from 5.3% to 5%

- Investment bankers and Financial Advisor, Piper Sandler, provided input and analysis on the change.
- Based on the range of historical rates, refinancing buffer, and capacity implications, lower rate will remain conservative while not unnecessarily constraining capacity.

Peer Comparison

Transit Agency	Long-term planning rate
Bay Area Rapid Transit	5.0%
Bay Area Toll Authority	5.0% - 5.25%
Dallas Area Rapid Transit	5.5%
New York MTA	4.42% - 4.67%

Increases financial capacity by \$1.7B through 2046

Financial Enhancements – Issuance Cost

Issuance cost assumption decreased from 1.25% to 1.00%

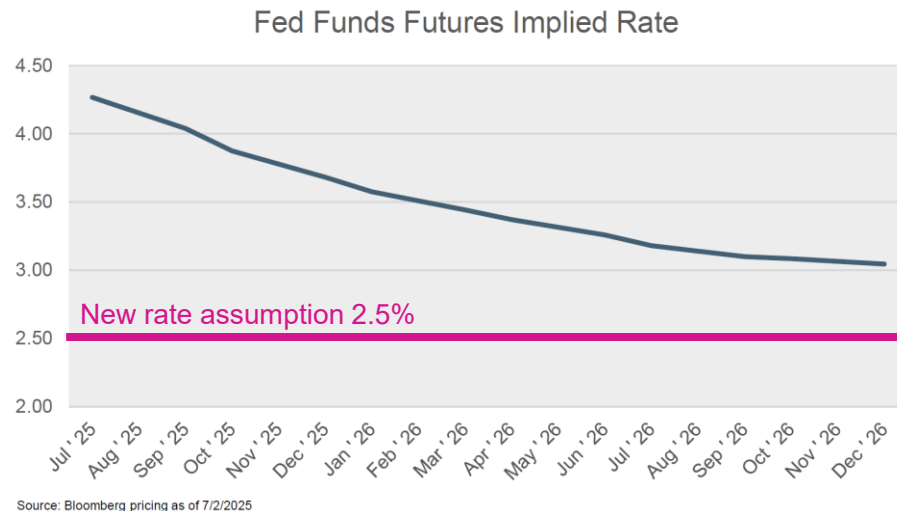
- Assumption for future debt issuance cost decreased by 25 basis points, from 1.25% to 1.00%
 - Sound Transit 2021 issuance cost: 0.33%
 - Port of Seattle 2025 issuance cost: 0.34%.
 - Sound Transit 2022 TIFIA issuance cost: 0.29%

Increases financial capacity by \$70M through 2046

Financial Enhancements – Investment Income

Rate earned on cash increased from 2.0% to 2.5%.

- Cash balance is projected to be above policy minimum until 2030.
 - 2–5-year treasury rate is consistently above 2.5% post COVID.
 - Realized investment rates were north of 4% in past cycle.
 - Agency investment advisor go-forward rates through 2028 are above 2.5%

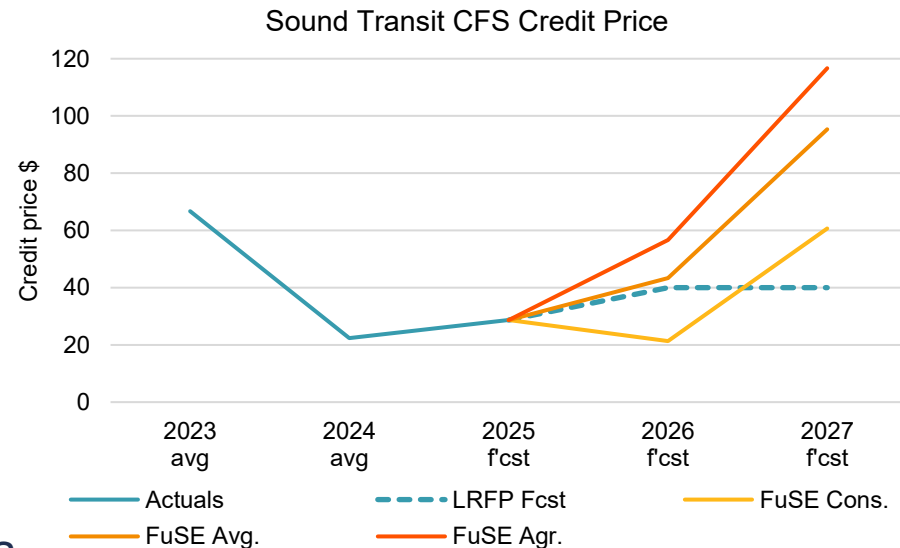


Increases financial capacity by \$160M through 2046

Financial Enhancements – Clean Energy Revenues

Increases financial capacity by \$60M through 2046

- Began receiving clean fuel standard (CFS) revenue in 2023.
- Prices have fluctuated from \$15/credit to \$103/credit while the credit market stabilizes.
- Forecast assumes new CFS revenue at \$40/credit.
- New state law accelerates carbon reduction goals for WA which should increase future credit prices.



Financial Enhancements – Property Tax Revenues

Update under-collection assumption with latest data

- When ST3 was passed, Sound Transit started collecting property tax
- To be conservative in collecting this new tax, a 1.5% under-collection assumption was included.
- Now that we have 9 years of collection data, averaging 100.0%, we feel confident removing the under-collection assumption.
- No additional Board action or taxes being levied.

Increases financial capacity by \$40M through 2046

Summary and Next Steps

Increased Projections are Beyond Debt Capacity and Coverage Constraints

- Debt capacity each year is constrained to 1.5% of the assessed value of real property in the Sound Transit taxing district.
- Service on this debt is monitored by the net debt service coverage policy, which requires that annual net revenues (after operating costs) cover not less than 1.5x annual debt service costs.

Motion No. M2025-36 directs the agency to achieve a balanced and affordable long-range finance plan.

Enterprise Initiative

Goal to deliver the greatest benefits of ST3 within available financial capacity

- Motion 2025-36 directs us to develop:
 - A comprehensive framework to deliver the Enterprise Initiative: **Fall 2025/Board retreat**
 - An updated ST3 System Plan: by the end of **Q2 2026**
 - A new Regional Transit Long-Range Plan: in **Q3 2026**
 - An updated Long Range Financial Plan: in **Q4 2026**

Thank you.



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