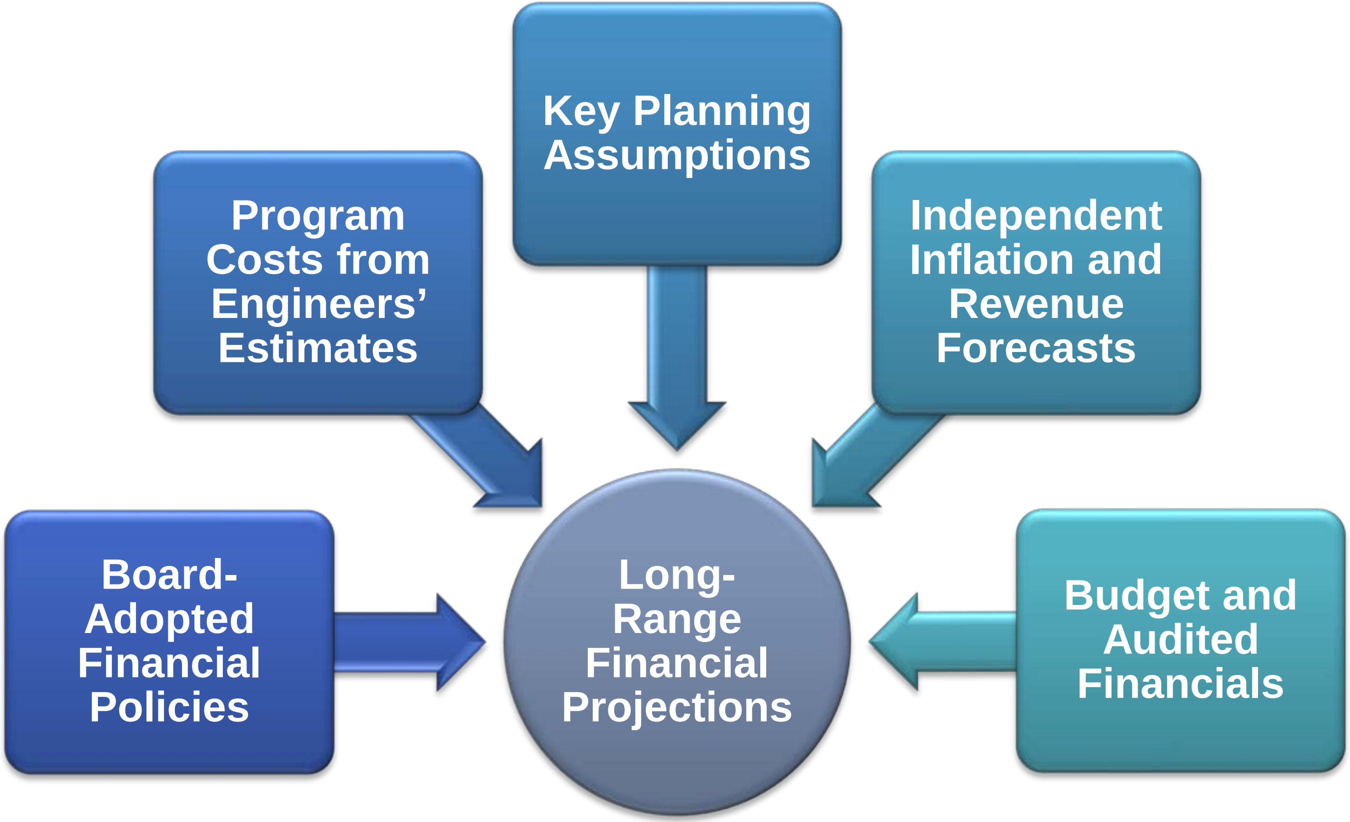
2019 Financial Plan Projections For Period 2017-2041

November 15, 2018

The Long-Range Financial Plan Projections



2019 Projection – Includes SM, ST2 and ST3 Plans

Plans totals for the period of 2017-2041, YOE$ in Billions:

Sound Move and ST2: $38.7 Billion + **ST3: $53.8 Billion** = **Fall 2017 Financial Plan: $92.4 Billion** → **2018 Updates ($3.8 B Change)** → **2019 Financial Plan Projections: $96.2 Billion**

Expenditure Type	Change from Fall 2017 *2017-2041 in Billions*	
Capital	$	1.70
O&M	$	2.10
Total	**$**	**3.80**

Tax Revenue Forecast: Strong Near Term Regional Economy

SOUNDTRANSIT RIDE THE WAVE

- Tax revenues increased $2.8B (2017-2041) over 2017 projection.
  - Sales Tax over 25 years (2017-2041) : $2.2B increase over 2017.
  - MVET over 25 years (2017-2041) : $401M increase over 2017 projections.
  - Property Tax over 25 years (2017-2041) : $245M increase over 2017 projections.
  - Rental Car Tax over 25 years (2017-2041) : $37M decrease over 2017 projections due to decline in growth rates, from 12% in 2014 to 1% in 2017.

Average Annual Taxbase Growth 2017-2041		
Tax Revenue	**2017 Financial Plan**	**2018 Financial Plan**
Sales Tax	3.91%	3.97%
MVET	3.15%	3.40%
Property Tax	5.26%	4.98%
Rental Car Tax	3.00%	0.28%

Strong Economy Also Leads to Higher Inflation

SOUNDTRANSIT RIDE THE WAVE

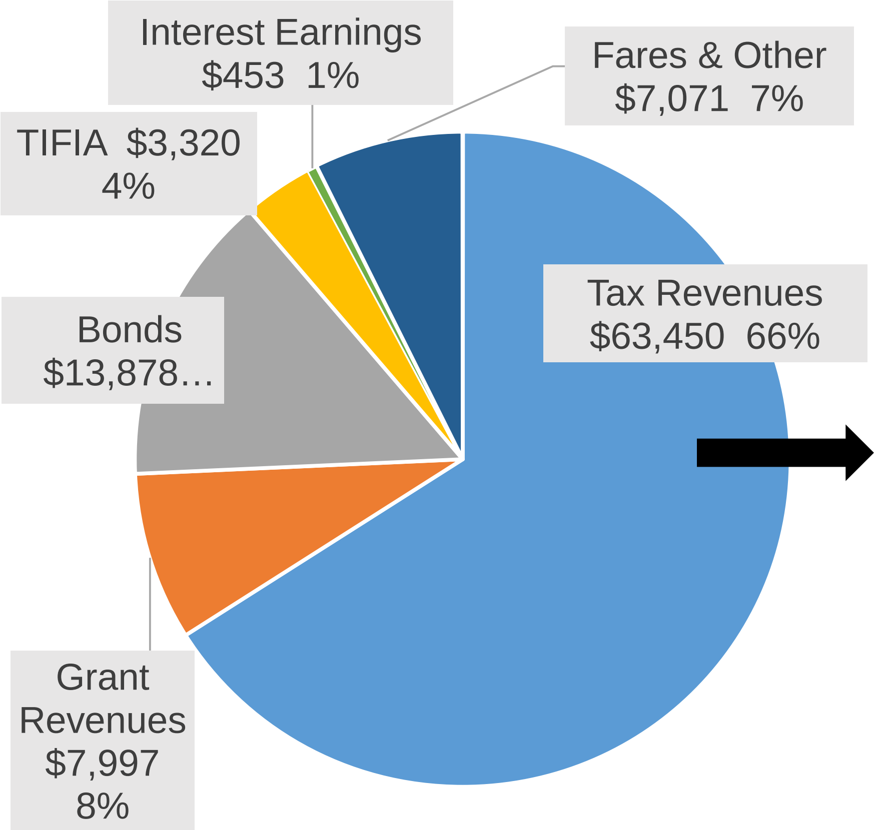
- Capital Expenditures over 25 years (2017-2041) : $1.7B increase from 2017 projection.
  - $600M over 25 years (2017-2041) due to inflation increases and expenditure timing.
- O&M Expenditures over 25 years (2017-2041) : $2.1B increase from 2017 projection.
  - $1.4B over 25 years (2017-2041) due to Link and Bus purchased transportation services, including higher projected inflation.
- Short term forecasts revised to reflect higher inflation, long term forecasts reflect historical average.

	Avg Increase 2018-2019	
	2017 Indices	**2018 Indices**
CPI	2.43%	2.75%
CCI	4.82%	6.59%
ROWI	9.98%	12.29%

	Avg Increase 2020-2040	
	2017 Indices	**2018 Indices**
CPI	2.38%	2.38%
CCI	3.48%	3.64%
ROWI	4.53%	4.63%

Projected Sources of the 25 year Plan 2017-2041: $96.2B

YOE$ in Millions



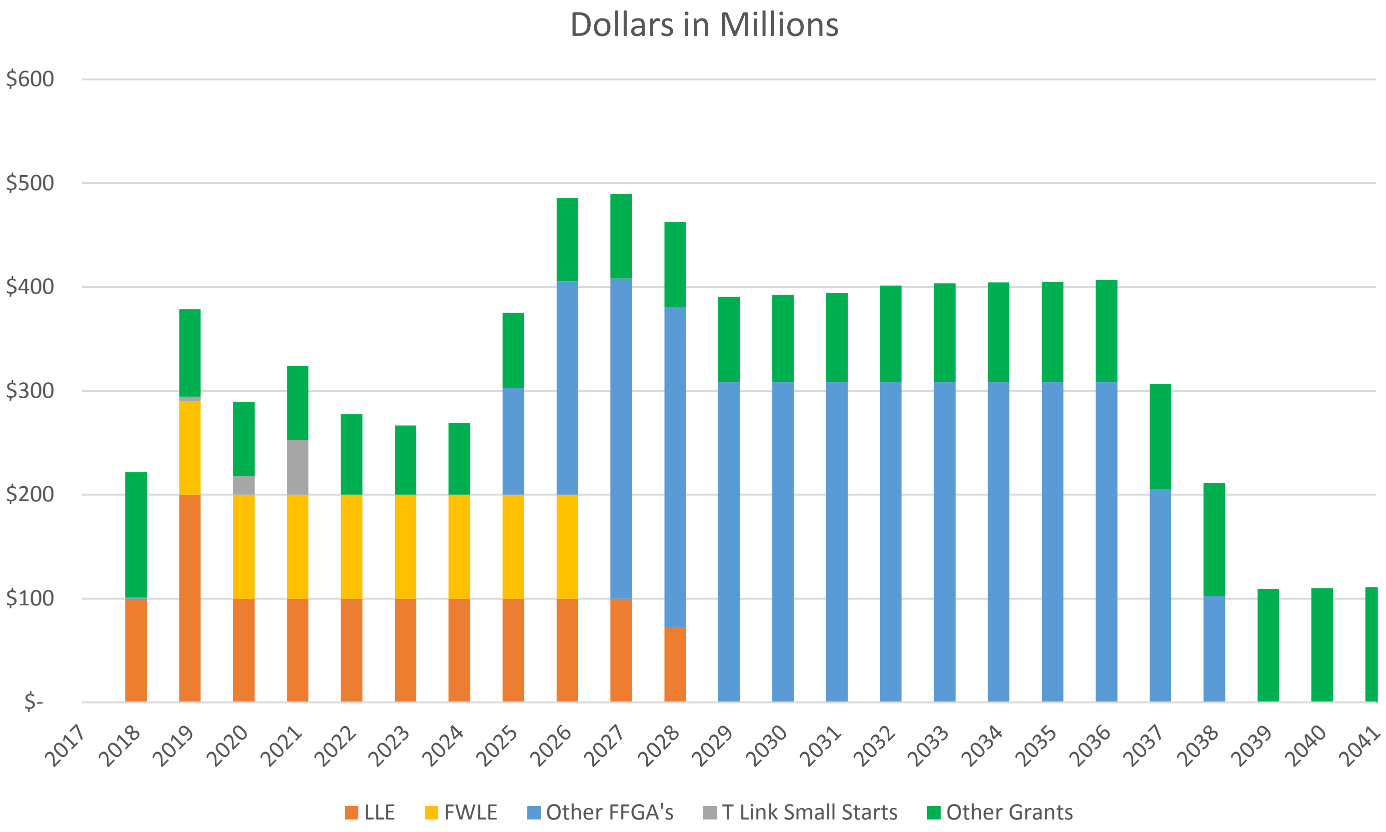
Sales and Use	$	50,311	*79.3%*
MVET	$	8,213	*12.9%*
Property Tax	$	4,833	*7.6%*
Rental Car Tax	$	94	*0.2%*
Total	**$**	**63,450**	*100.0%*

Plan Continues to Assume Federal Partnership

SOUNDTRANSIT
RIDE THE WAVE

- $8.0 Billion federal grant program 2017-2041

    - $1.2 B Lynnwood
    - $0.8 B Federal Way
    - $3.7 B other FFGAs
    - $2.2 B other grants
    - $75M small starts
      (Tacoma Link secured)

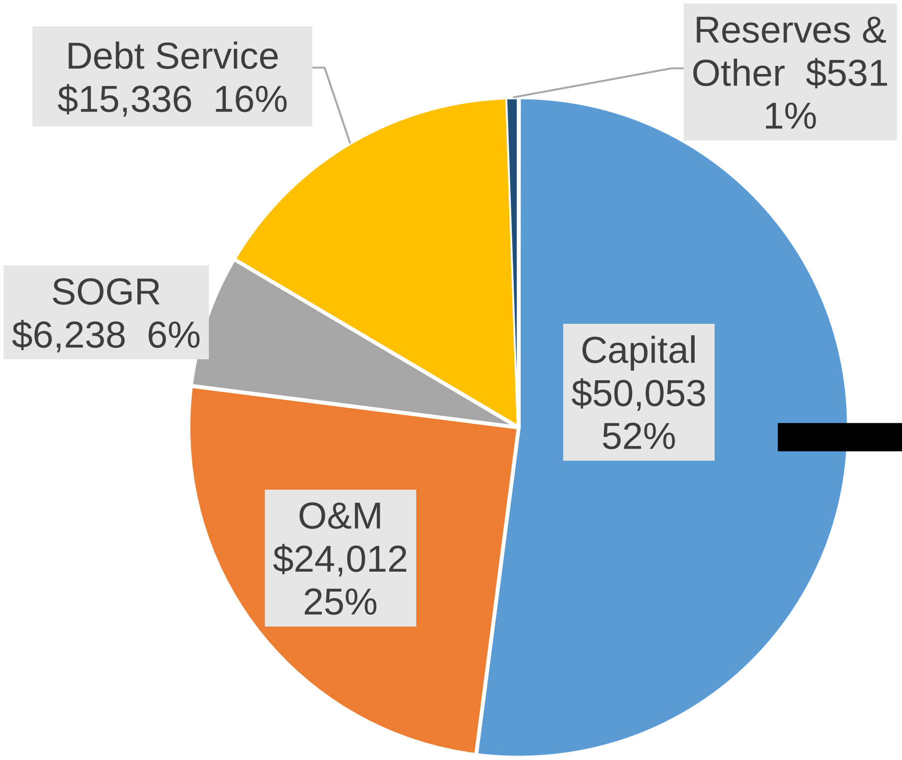


TIFIA Project Loans

- Plan includes TIFIA loans for:
  - East Link $1.33 billion at 2.38%. ✓
  - Northgate (Master Credit Agreement (MCA) $615.3 million at 3.13%. ✓
  - OMFE (MCA) $87.7 million at 2.73%. ✓
  - Lynnwood (MCA) $657.9 million at 3.95% - Scheduled to close in Dec.2018.
  - Federal Way (MCA) $629.5 million at 3.95% - Application submitted.
- Opportunity:
  - Potential for lower than assumed borrowing rates.
  - Exploring other federal programs and local funding options.

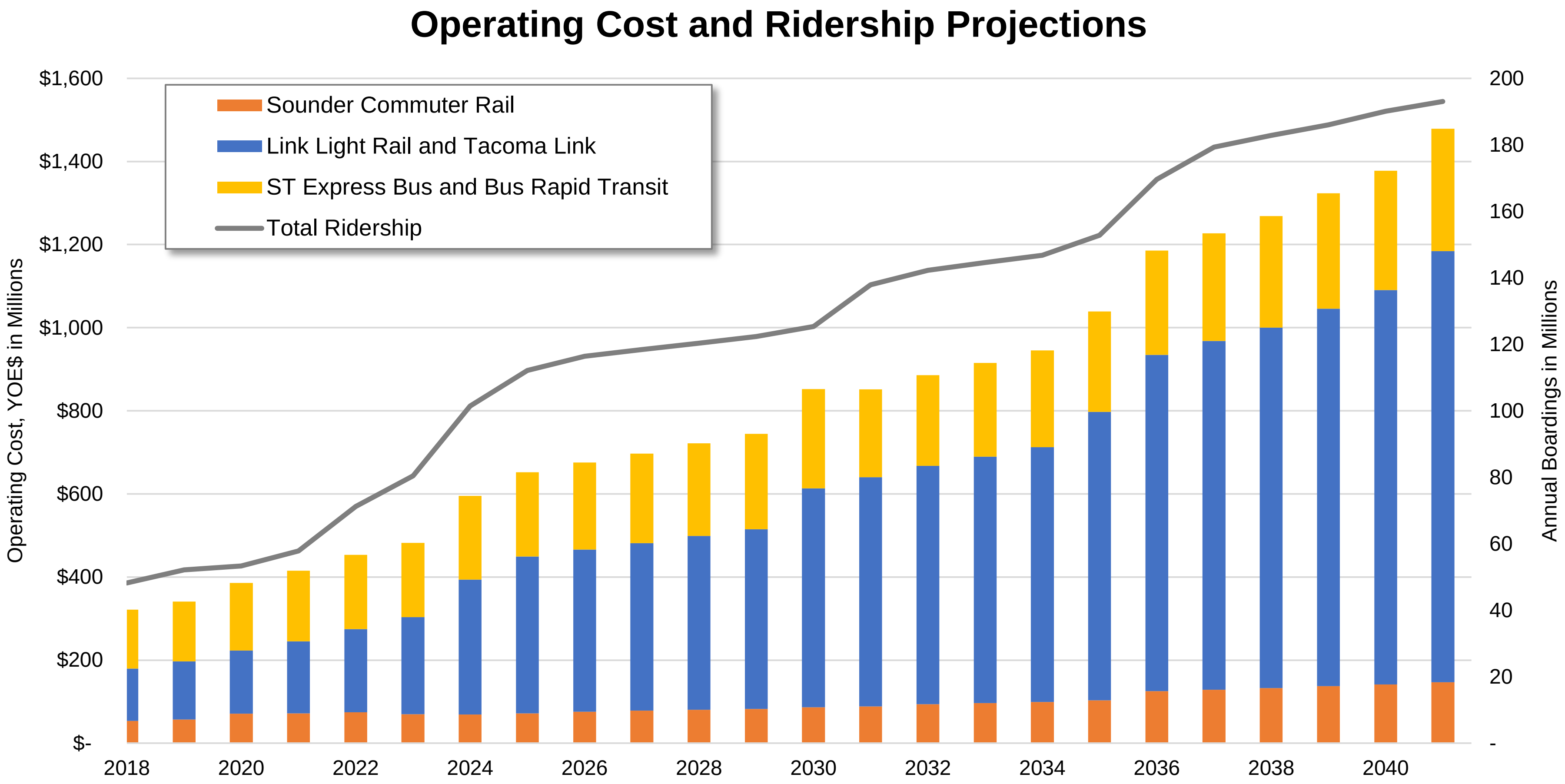
Projected Uses of the 25 year Plan 2017-2041: $96.2B

YOE$ in Millions

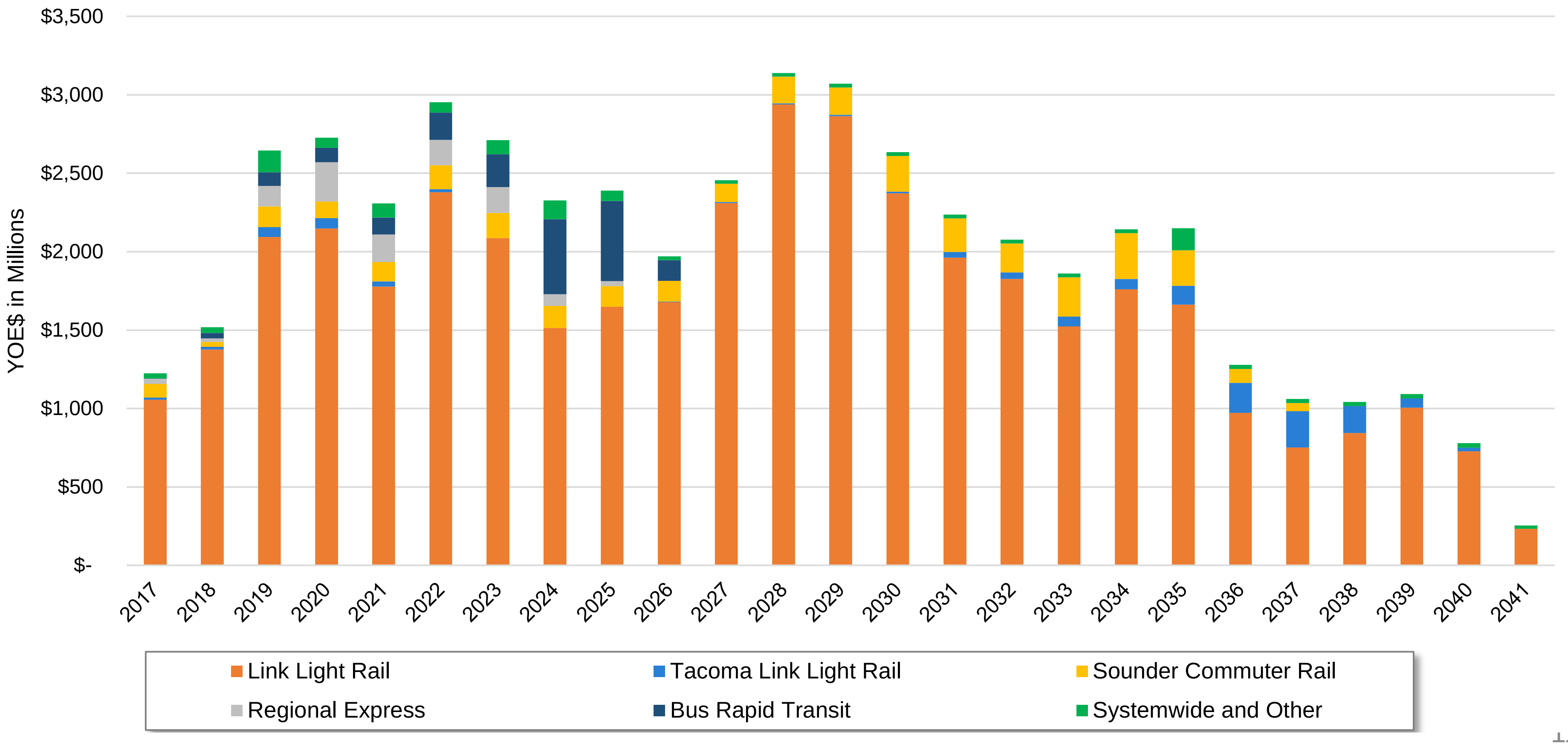


Light Rail	$	42,766	*85.4%*
Commuter Rail	$	3,190	*6.4%*
Regional Express Bus	$	1,048	*2.1%*
Bus Rapid Transit	$	1,824	*3.6%*
Other	$	1,225	*2.5%*
Total	**$**	**50,053**	***100.0%***

Operating Costs Will Grow Significantly, Driven by Increased Ridership

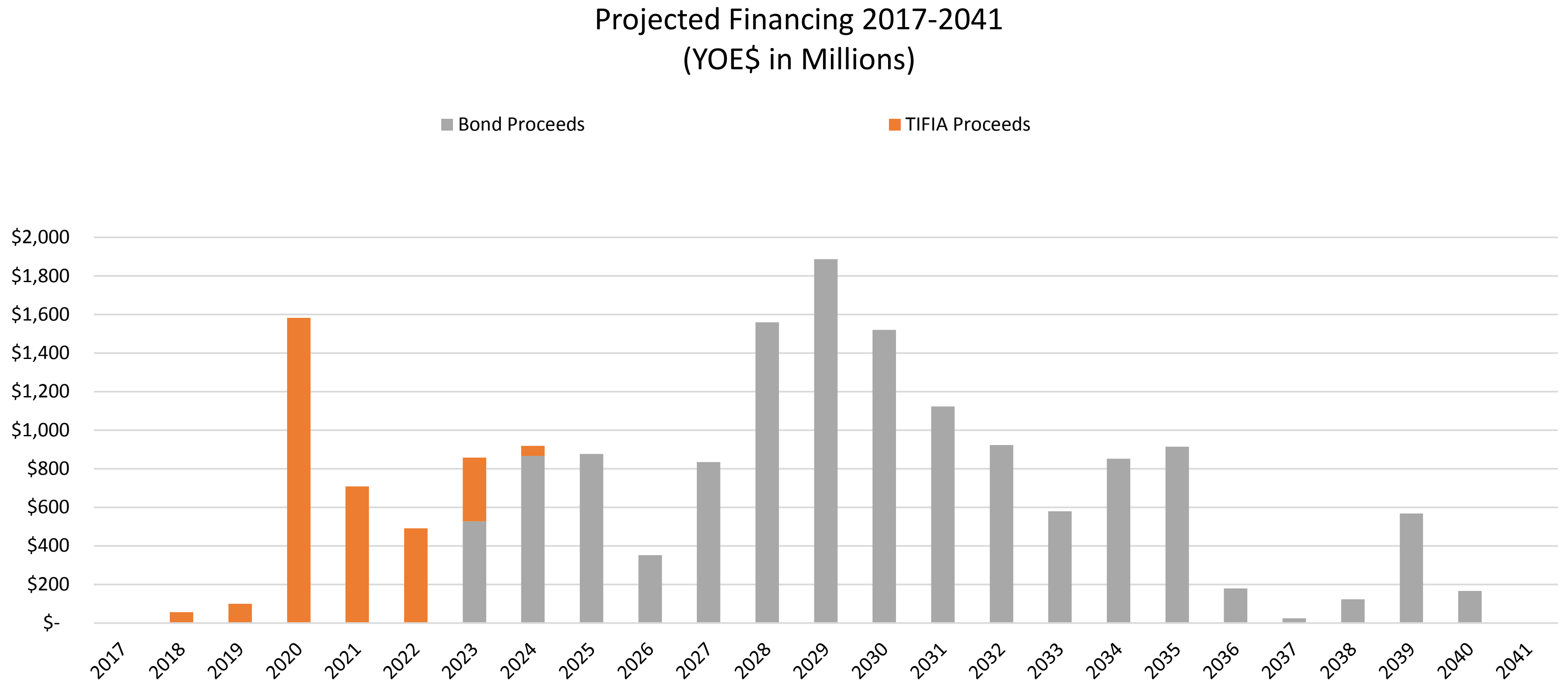


Capital Expenditures by Mode

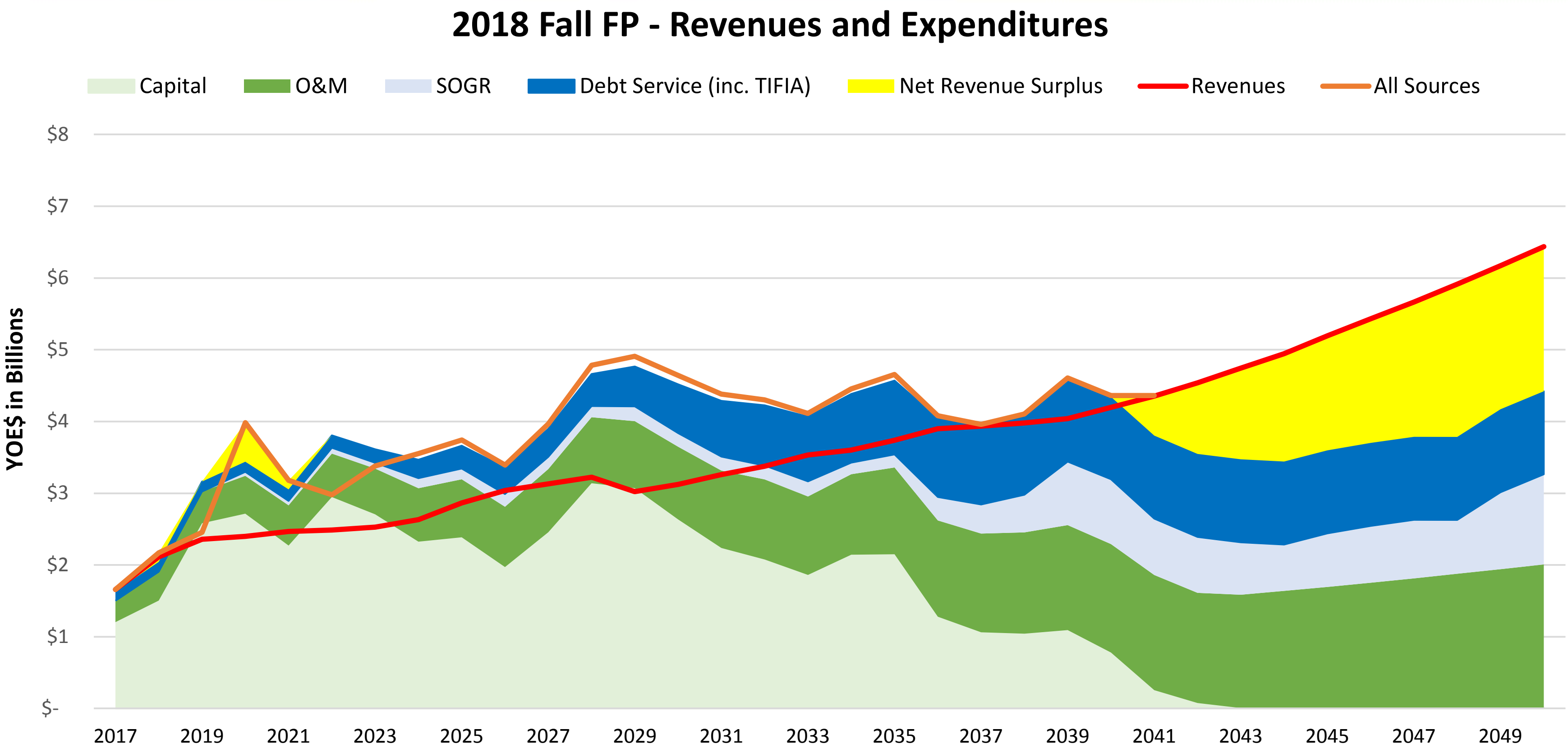


Bond and TIFIA Proceeds fund 1/3 of the Capital Program

SOUNDTRANSIT
RIDE THE WAVE



Financial Plan Snapshot



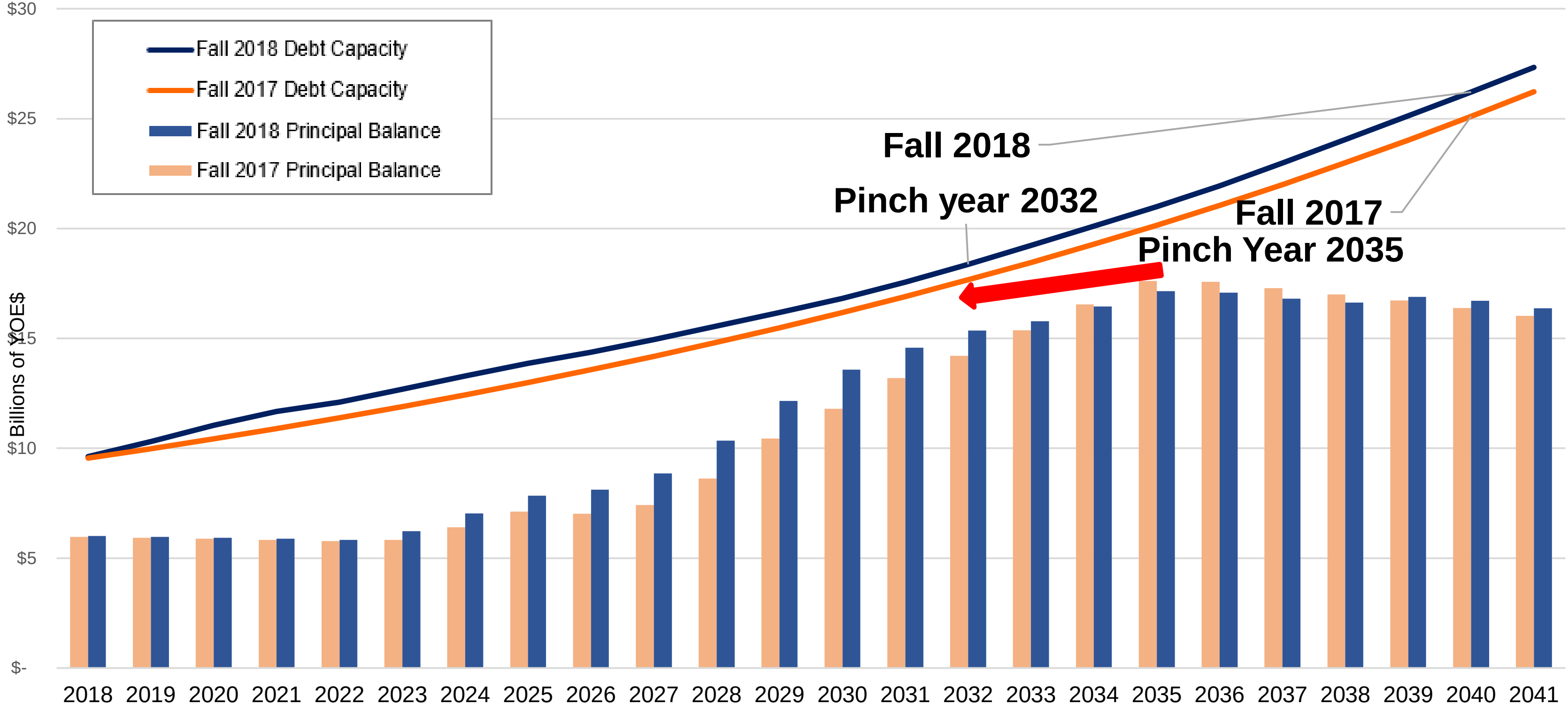
Financial Capacity Constrained by 3 Measures

SOUNDTRANSIT RIDE THE WAVE

1. Financial Policy (net coverage ratio): 1.5x
2. Bond Covenants (gross coverage ratio)
   - Prior Bonds Coverage: 3.0x
   - Parity Bonds Coverage: 1.5x
   - TIFIA Coverage: 1.1x
3. Legal debt limit (1.5% of assessed property value)
   - **Key constraint under current forecast**
   - Projected capacity: ~$3 billion
   - Smaller if assessed property value growth declines
   - Higher if assessed property value grows faster than forecast

Capacity "Pinch Year" Shifted From 2035 to 2032

- Strong economy and property value increase create additional capacity.
- Higher cost growth creates earlier financial burden.



Key Risks

- Near term recession (loss of tax revenue and debt capacity)
- Scope discipline on capital projects
    - Financial plan forecast assumes funds for capital projects consistent with scope reviewed/disclosed in voter approved ST2 and ST3 plans.
- Continued inflation impact both the capital and the operating programs.
- Loss of Full Funding Grant (FFGA) program
- Continued threat on MVET revenue

One or a combination of the these scenarios threatens our ability to delivery the program as planned.

The Agency Remains in Strong Financial Condition

- Ongoing operating expenses, state of good repair, and reserves are fully funded.

- Agency’s financial performance is consistent with its AAA Rating from two rating agencies.

- Maintaining project scope discipline and controlling operating costs are equally critical to preserving long term financial capacity.

Board can utilize existing tools to on-schedule program delivery

SOUNDTRANSIT RIDE THE WAVE

- Voter approved plan continues to be affordable based on updated projections.
  - Certain subareas face future fiscal constraints that may threaten to delay project delivery dates and tax rollback for the region.

- Financial Policies provide framework for Board management of voter-approved program.
  - Per the voter-approved Financial Policy, the Board can “take action to allocate [grant] funds to other subareas as it deems in the best interest of Sound Transit after consideration of the funding needs to complete, enhance or extend the system plan.”

- ST3 Plan assumed 16% federal contribution for total capital program. Since it is impossible to know which specific projects in which subarea will receive federal grants, ST3 Plan just assumed 16% of each subarea’s capital costs will be covered by federal grants. Actual funding will come in higher or lower for each subarea based on grants eligibility of individual projects.

Proposed Board Action to Allocate Federal Grant Benefits

Proposed Board action, as part of the 2019 budget resolution, to authorize the allocation of federal grant benefits to any subarea where resource constraints could threaten project delivery schedule.

- Surplus local funds freed up by federal grants can be designated as system-wide assets, and be allocated to any subarea as financially necessary to ensure the on-schedule completion of the program and allow for the system-wide tax rollback as soon as possible.

- Funds designated as system-wide assets may not exceed value of federal funding granted to recipient subarea. The reallocated surplus funds freed up by federal grants will not endanger the delivery of projects in the recipient subarea.

Benefits/Impacts

- Proposed Board action consistent with management of the agency’s finances on a consolidated basis.
- Utilizes an available tool to avoid delay in project delivery and permits agency to maintain projected system completion date of 2041.
- Allows agency to begin tax rollback as early as possible.
- All requirements for federal grant compliance and grant reimbursement will continue to be met.

Ongoing Risk Monitoring and Board Update

- Financial plan projections are continuously updated to reflect the most current information.
- Stress tests are regularly performed on the long term plan to assess and monitor risk and its impact to the agency.
- New Finance Committee in 2019 will receive regular updates on financial capacity and risk status.