Sound Transit 3 Expert Review Panel

Summary of Conference Call on Financial Plan

Held March 31, 2016

Panel members participating: Jim Jacobson, Kimberly Koenig, Panel Administrator John Howell

Staff and consultants participating: Sound Transit: Brian McCartan, Brian Stout; Washington State Dept. of Transportation: Annie Johnson; Cedar River Group: Rhonda Peterson

Purpose of Call (John Howell)

- Get an advance look at the financial planning assumptions to be presented at the Expert Review Panel’s April 11 – 12 meeting.
- Give Ms. Koenig an opportunity to ask questions, since she will not be able to attend the April panel meeting.

Activities Since Last Panel Meeting (Brian McCartan)

- Ran scenarios and financial model.
- Incorporated changes per Board guidance.
- Made changes in the projects included and the timing to support the ST3 Draft Plan released for public comment on March 24.
- Finance plan shows the Draft Plan is affordable and will be in conformance with subarea equity.
- Continuing to refine the model to update costs and reflect changes in projects.
- A consultant is building a new, independent ST3 model to confirm the results of Sound Transit’s draft financial model.
- Parsons Brinckerhoff is continuing quality control efforts and developing a risk tool to conduct a Monte Carlo analysis of the whole model. This tool is expected to be ready at the end of April.

Status of Draft Finance Plan (Brian McCartan)

- Have developed the plan dashboard showing its parameters, a sources and uses table by year for 2016 through 2060, and a coverage chart showing the minimum over time.
- The timing may be challenging for the panel to review the full Finance Plan before the Board has to make a final decision. For this reason, staff have provided the panel with information on the assumptions on which the plan is based.
- Changes in finance assumptions include:
  - Added advertising revenue per Sound Transit’s experience with this revenue so far.
  - Added parking revenue, a new source, of approximately $6 million annually. The current assumption is there will be parking revenue on the whole system. It is not known yet how much it will cost to collect this revenue. There is a discussion in the region about charging for parking at park-and-rides to manage the lots.
  - Assume that Sound Transit will qualify for federal formula funds of approximately $500 million over the ST3 project period, and that there will be federal New Starts grants for
the Ballard, Everett and West Seattle light rail projects. The total in federal funds would be approximately 11.4 percent of the capital program. Depending on the final decisions about project timing, this number could change. This is still a conservative assumption.

- Reduced the interest rate to 5.3 percent, which is the five-year average for high-rated tax-exempt debt.
- Eliminated inflation contingency. Used Parsons Brinckerhoff’s high estimate inflation forecast, which means there is no need for an additional contingency.
- Update the amount for the Lynnwood full funding grant agreement to reflect the President’s proposed budget.
- Assume 2-3 federal loans for projects

- There is a net savings of $70 million for University Link. This will roll into ST3 North King projects.
- The Finance Plan will show the total ridership and the farebox recovery, but will not break out new riders separately.
- On operating revenue and operating expense ratio, Sound Transit will have this information, but it is difficult to pull out the ST3 services as a stand-alone number.
- An enhancement to the plan is that approximately $100 million has been set aside for “state of good repair.”

Panel comments:

- It might be useful to survey other jurisdictions that charge for parking in conjunction with transit to see if the staff’s assumptions about parking revenue are in keeping with their experience.
- State law appears to require showing both the cost per rider and the cost per new rider.

Risks (Brian McCartan)

- The greatest risks in the Finance Plan are:
  - The assumptions on the tax base, especially if there is a large economic downturn early in the program, such as there was in 2008 – 09 at the start of ST2.
  - Capital cost overruns.
  - Federal funding shortfalls.
- Sound Transit will conduct two kinds of sensitivity analyses: a static analysis of the plan and a Monte Carlo analysis. Before conducting these analyses, the Finance Plan needs to be grounded in the final program plan.
- Overall, the gross coverage is strong, with only 21 percent of capital funded by debt. This is less than in the ST2 plan. There is room for debt capacity in a 25-year plan.

Subareas

- On the “quick win” projects, Sound Transit is not assuming that any subarea will pay for a quick win that is outside its subarea.
- In the proposed ST3 capital program, 90 percent works with a strict subarea definition. The last 5 percent will require policy judgments by the Board as to what makes the system as a whole work. The Board decides how to attribute the benefits by subarea.
• The pinch points are the Snohomish County segment with Paine Field, and the two Seattle projects, which maximize the North King resources. Ballard and Everett are half of the capital program. Ballard is high because it includes a second Downtown Seattle Tunnel and several deep mine stations.
• Delivering more projects earlier in the ST3 schedule adds to the financial challenge.

Taxes (Brian Stout)
• The plan does use the maximum of all three taxes allowed. Sound Transit looked at the impact of not using the motor vehicle excise tax (MVET), but found that those funds were needed to fund the full draft system plan proposed by the Chair.
• Staff looked at each jurisdiction and found that Sound Transit could raise up to $1.40 per thousand in assessed property value before reaching the state limit. The tax is well within the 1 percent constitutional limit. The only two jurisdictions that could be close to the ceiling are Newcastle and Kent.

Panel comments:
• There needs to be discussion with Ric Ilgenfritz about the timing of the final Finance Plan and the Board’s decisions, and when the panel could productively review and comment on the Finance Plan to be helpful to the Board.
• The panel could suggest what kind of risk analysis Sound Transit should run.

Panel requests:
• It would be helpful to have a roll-up of the net costs to provide parking in ST3 (including the cost to collect parking fees). Mr. McCartan noted that Karen Kitsis is working on this analysis and can provide it to the panel when completed.
• The panel would like to see the schedule for combined ST2 and ST3 expenditures.