

# SOUND TRANSIT

## ST3 FINANCIAL PLAN



Expert Review Panel

JULY 13, 2015



**SOUNDTRANSIT**

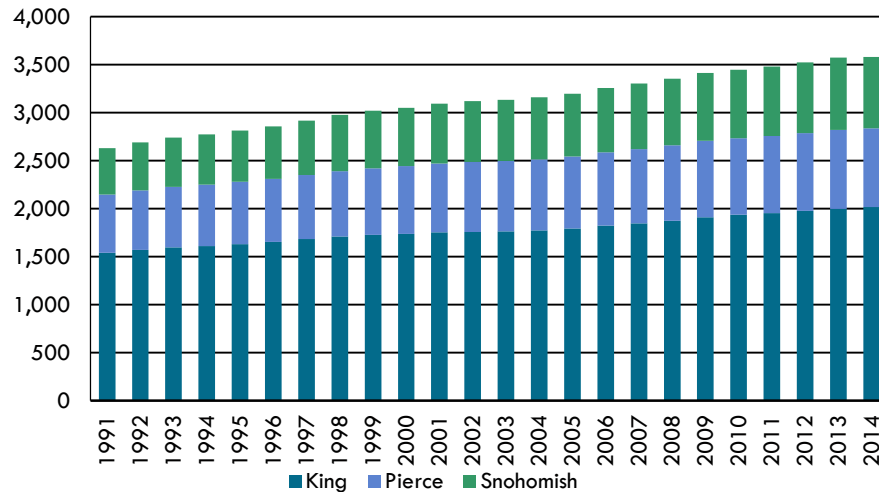


# I. Introduction & Background

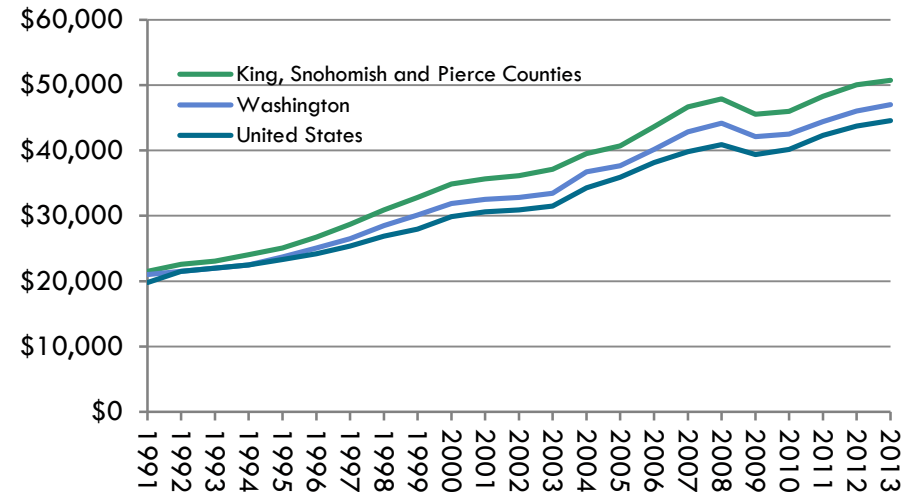


# Affluent, Growing Region and Diverse Tax Base

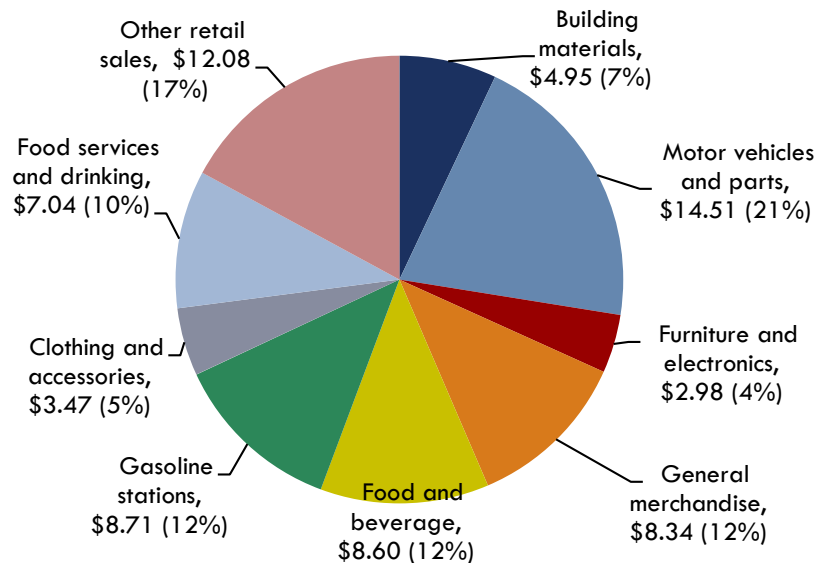
## Tri-County Population (000s)



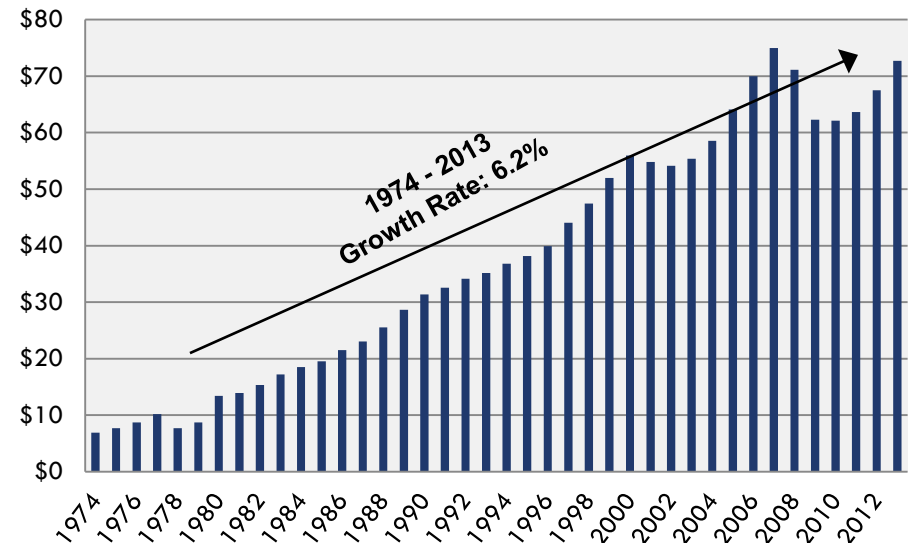
## Per Capita Personal Income



## Breakdown of 2013 Taxable Sales (\$bn)



## Taxable Sales in the Puget Sound Area (\$bn)<sup>1</sup>



1) Source: Bureau of Labor Statistics, U.S. Department of Labor, Conway Pederson Economics. Puget Sound Area refers to King, Pierce, Snohomish and Kitsap Counties.

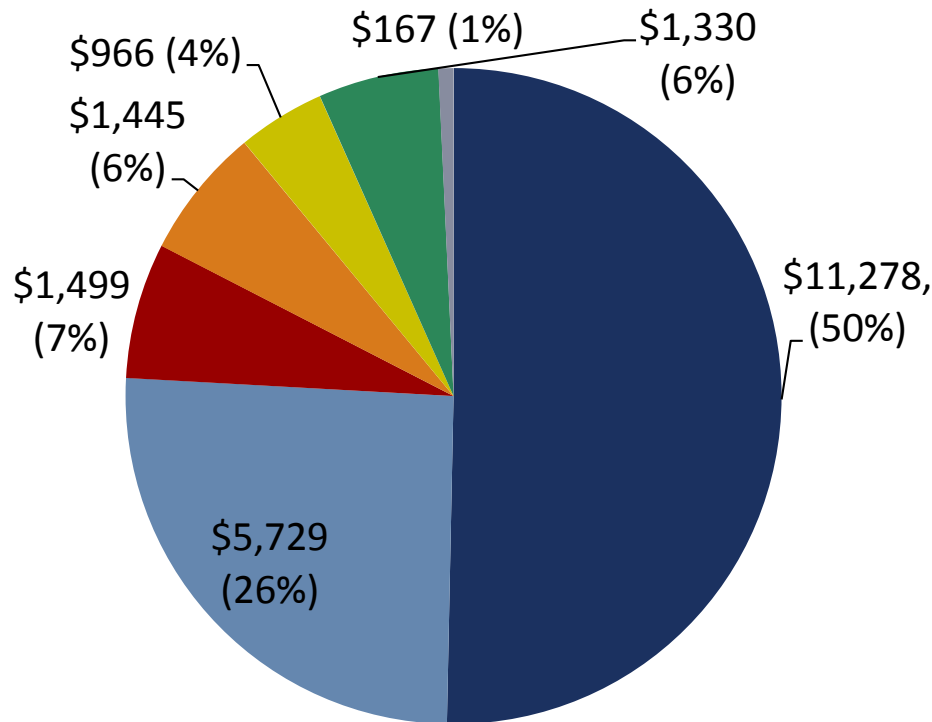
# Overview of Current ST Finances

- ❑ Independent financial entity
- ❑ Single enterprise fund
- ❑ Strong local tax base
  - ❑ Direct deposit of local tax proceeds
  - ❑ Local taxes substantially exceed O&M requirements
- ❑ Highly audited environment
  - ❑ Federal
  - ❑ State
  - ❑ Financial
  - ❑ Performance audit
  - ❑ Internal audit
- ❑ Strong Ratings
  - ❑ AAA/AA1 prior lien
  - ❑ AAA/AA2 parity lien



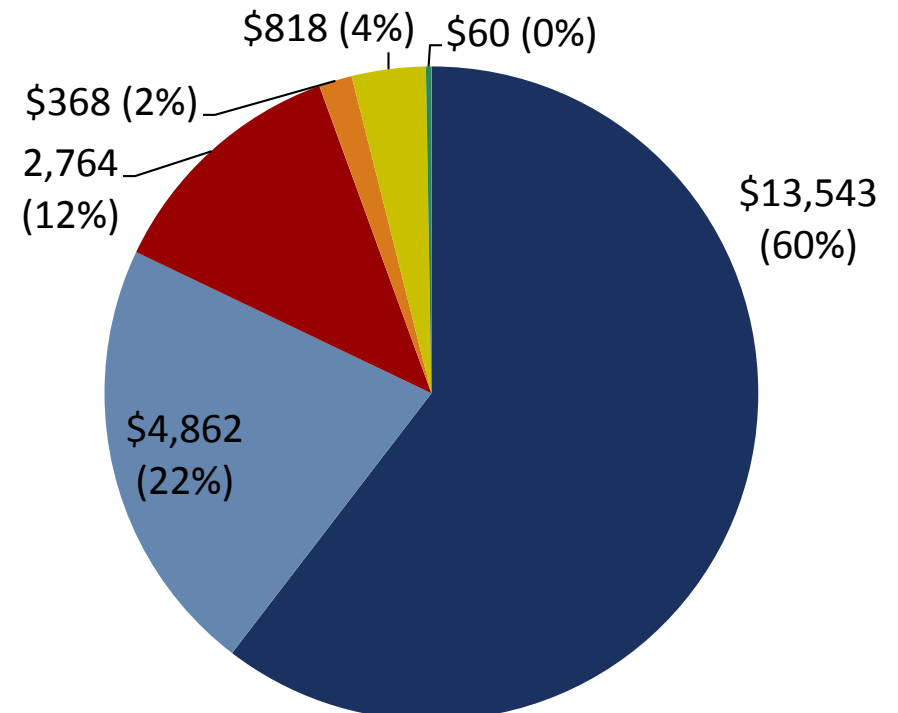
# ST2 System Plan Sources and Uses

**2009-2023 Sources of Funds (\$ millions)**



Total: \$22,415,349,000

**2009-2023 Uses of Funds (\$ millions)**

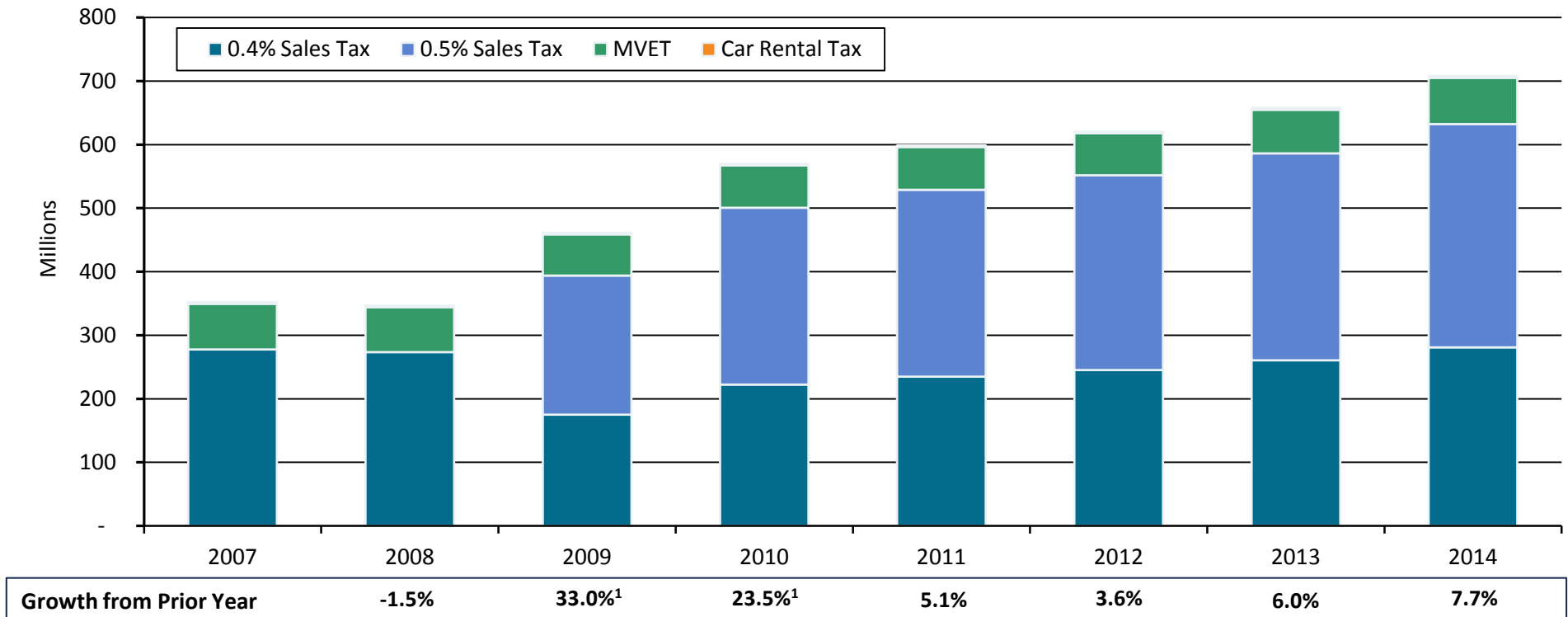


Total: \$22,415,349,000

- Tax Revenue
- Bond Proceeds
- Fare and Other Revenues
- Capital Grant Drawdowns
- FTA Formula Fund Drawdowns
- TIFIA Proceeds
- Interest Earnings

- Capital Program
- O&M Expenses
- Debt Service
- Bond Reserve
- Capital Reserve
- O&M Reserve

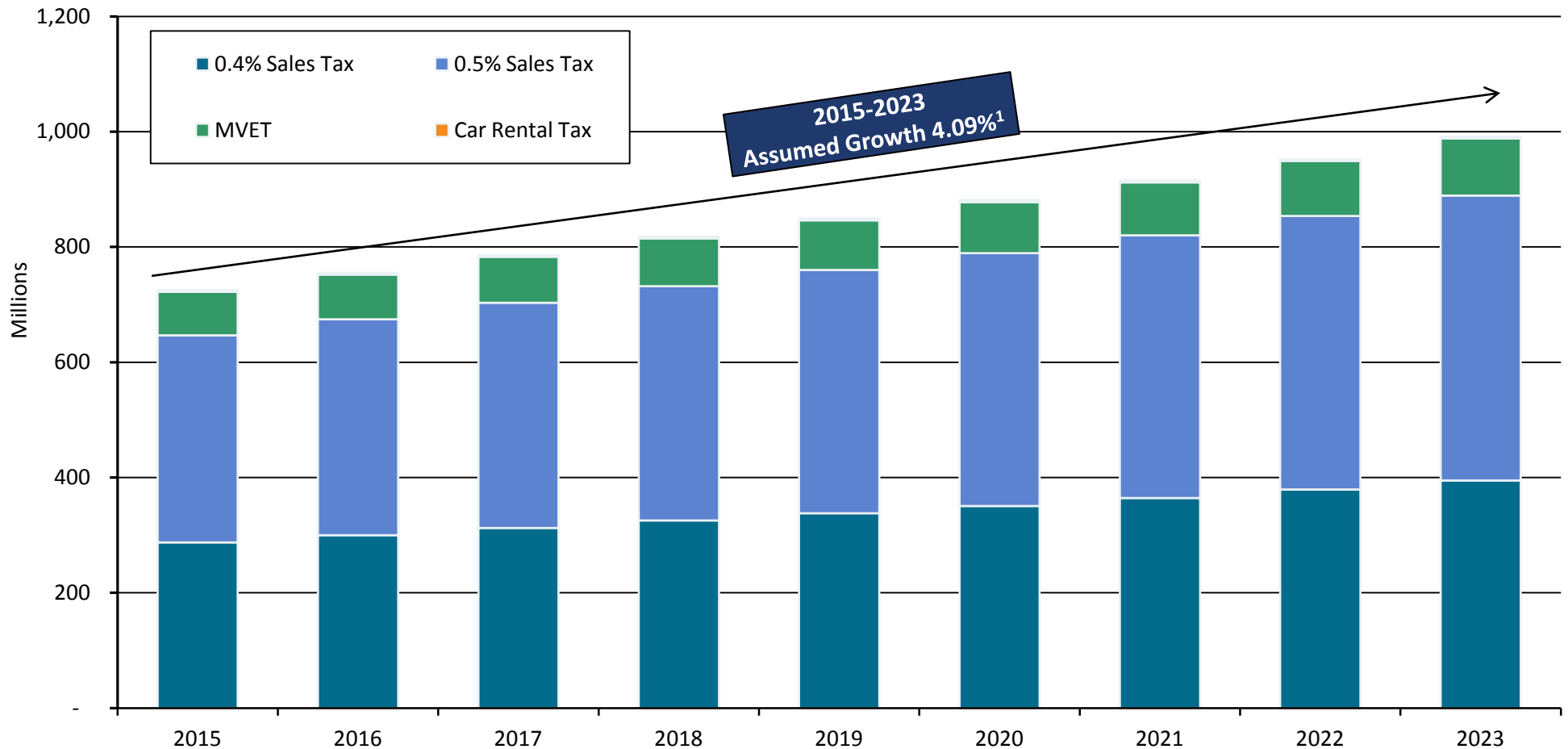
# Current Revenues



- Sales Tax rate increased from 0.4% to 0.9% in 2009
  - 89.2% of FY 2014 revenues

<sup>1</sup> Sales tax increase to 0.9% enacted in April 2009.

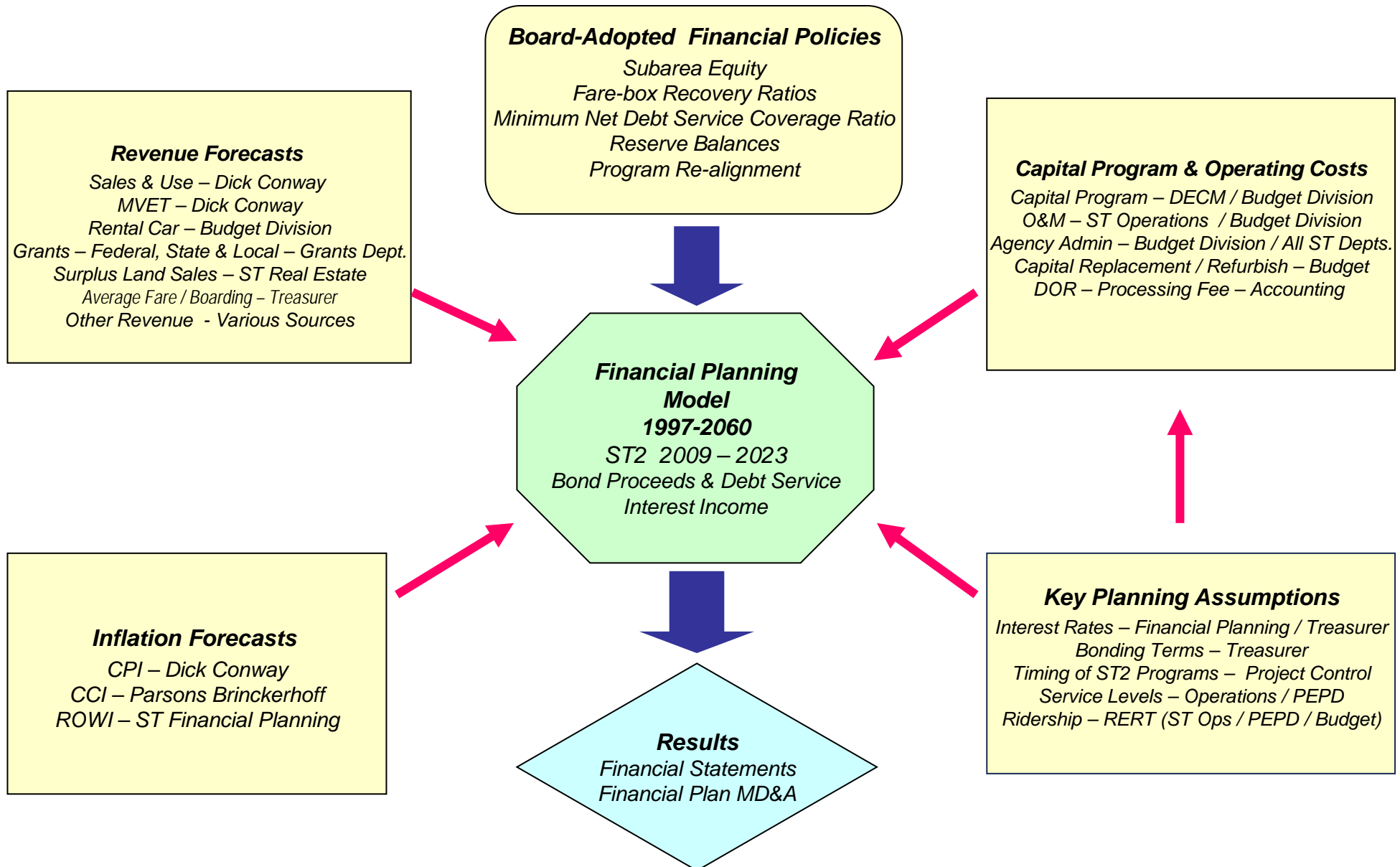
# Projected Revenue Growth



- 2015 (YTD) Local Option Tax revenues through March 2015 are ahead of budget by 2.3%
- Sales and Use Tax growth since FY 2010 (first full year of sales tax increase implementation)
  - Average annual growth: 6.01%

<sup>1</sup> Aggregate assumed growth rate between all taxes

# Sound Transit Financial Planning Process





## II. ST3 Financial Plan



- What's done?
  - Initial revenue forecast
  - ST3 model build; key initial assumptions
  - Initial high level planning scenarios
  
- What's left?
  - Specific ST3 scenarios
  - Update, refine costs, revenues
  - Present scenarios to board for guidance

- Stand-alone ST3 Model based upon ST-Financial Planning Model
  - Fully reviewed and validated by Parsons Brinckerhoff
- *Updated to include the following enhancements:*
  - Single Input Sheet for: Capital Estimates / O&M / Ridership / Start Date
  - Alternate Spending Curves: 10, 15 or 20 year build-out (*more added as needed*)
  - Ability to toggle prospective projects “In to ” or “Out of ” ST3 plan
  - Automatically recasts cash flows based on Start Date, & Spending curve selected (*Capital / O&M / Fares / Grants / Capital Replacement*)

# Key ST3 Inputs

- Excess cash flow from the Sound Transit Financial Plan
- Capital Cost Estimates from *Parsons Brinckerhoff*
- Spending Curves from Sound Transit Project Controls
- Operating & Maintenance Expense from Sound Transit Cost Estimation Models
- Annual Ridership from *Parson Brinckerhoff*
- Average Fare per Boarding from Sound Transit Financial Plan

## □ Tax Base Forecasting

### ■ Sales Tax -

- Forecast from consulting economist (Dick Conway)
- Average annual growth *2015 – 2025*: 4.2%; *2025 – 2035*: 4.6%

### ■ MVET -

- Forecast provided by consulting economist (Dick Conway)
- Average annual growth *2015 – 2025*: 3.5%; *2025 – 2035*: 3.8%

### ■ Property Tax -

- Tax base estimate developed in-house
- Independently validated by Parsons Brinckerhoff
- Average annual growth rate of 1.5% (1.0% statutory limit + 0.5% real growth)

- ST3 Legislative Authority:
  - Sales Tax – 0.5%
  - MVET – 0.8%
  - Property Tax – \$0.25 / \$1,000 Assessed Value
- Estimated revenues – \$14.7 billion (2017 – 2032)
  - Sales Tax - \$8.5 billion
  - MVET - \$4.0 billion
  - Property Tax - \$2.2 billion

- Currently assuming 10% ST3 capital costs are federal grant funded
  - ST2= 10%
- Refine estimates as projects become defined

# Sources of Funds Other Revenue

- Surplus cash flow imported from Sound Move / ST2
- Fares -
  - Average Fare / Boarding from Agency Transit Improvement and Financial Plans
  - Fare-box recovery rates govern future rate increases:
    - Light Rail – 40.0%
    - Sounder – 23.0%
    - Regional Express Bus – 20.0%
- Interest Earnings
  - Interest Earnings on Reserves & General Fund



- Remaining gap is bond funded
- *Key Assumptions:*
  - 5.75% borrowing
  - 30 year debt
  - “Wrap” structure for overall level amortization
  - Initial debt assumptions
    - Minimum Net Debt Service Coverage Ratio – 2.0x
    - Maximum Debt Load 75% of Non-Voter Capacity
    - To be tightened as cost estimates finalize

- Input from cost estimates:
  - Constant 2014 Dollars
  - Input at Phase level of detail: *Agency Admin / Prelim Engineering / Final Design / Third Parties / Right-of-Way / Construction / Construction Management / Vehicles / Contingency*
- Inflated to YOE Dollars – *Three Cost Indices:*
  - Consumer Price Index (CPI) – *Soft costs & vehicles*
  - Construction Cost Index (CCI) – *Construction; Costs, Management, & Contingency*
  - ROWI – Right-of-Way Index – *Permitting, Land Purchases*
- Cash flow based on 10, 15 or 20 year spending curves
- Project level Constant & YOE Dollar estimates now available.

- O&M unitized cost rates are derived from Sound Transit Modal Cost Estimation models
- Project level units of activity are extended by unitized cost rates to arrive a total annual costs
- Input to ST3 model at individual project level
- *Detailed process overview to be presented by Al McCoy*

- Bond Reserve –
  - 7.15% of Par Value
- Capital Replacement Reserve –
  - Annual funding currently set at 1.5% of initial capital investment  
– *A more refined model in process*
- O&M Reserve –
  - Two months O&M expenditures
- System-wide –
  - Reflects General Fund balance maintained at Agency level

## Key Issues: Inflation Forecast

- ❑ Consumer Price Index – Seattle CPI-U: Provided by consulting economist Dick Conway.
- ❑ Construction Cost Index – CCI: Provided by consulting economists at Parsons Brinckerhoff
- ❑ Right-of-Way Index – ROWI: Developed in-house utilizing external data from *Standard & Poor's*, *King County Tax Records*, *Zillow* and other sources
- ❑ All of the above are updated annually

# Key Issues: Inflation Forecast

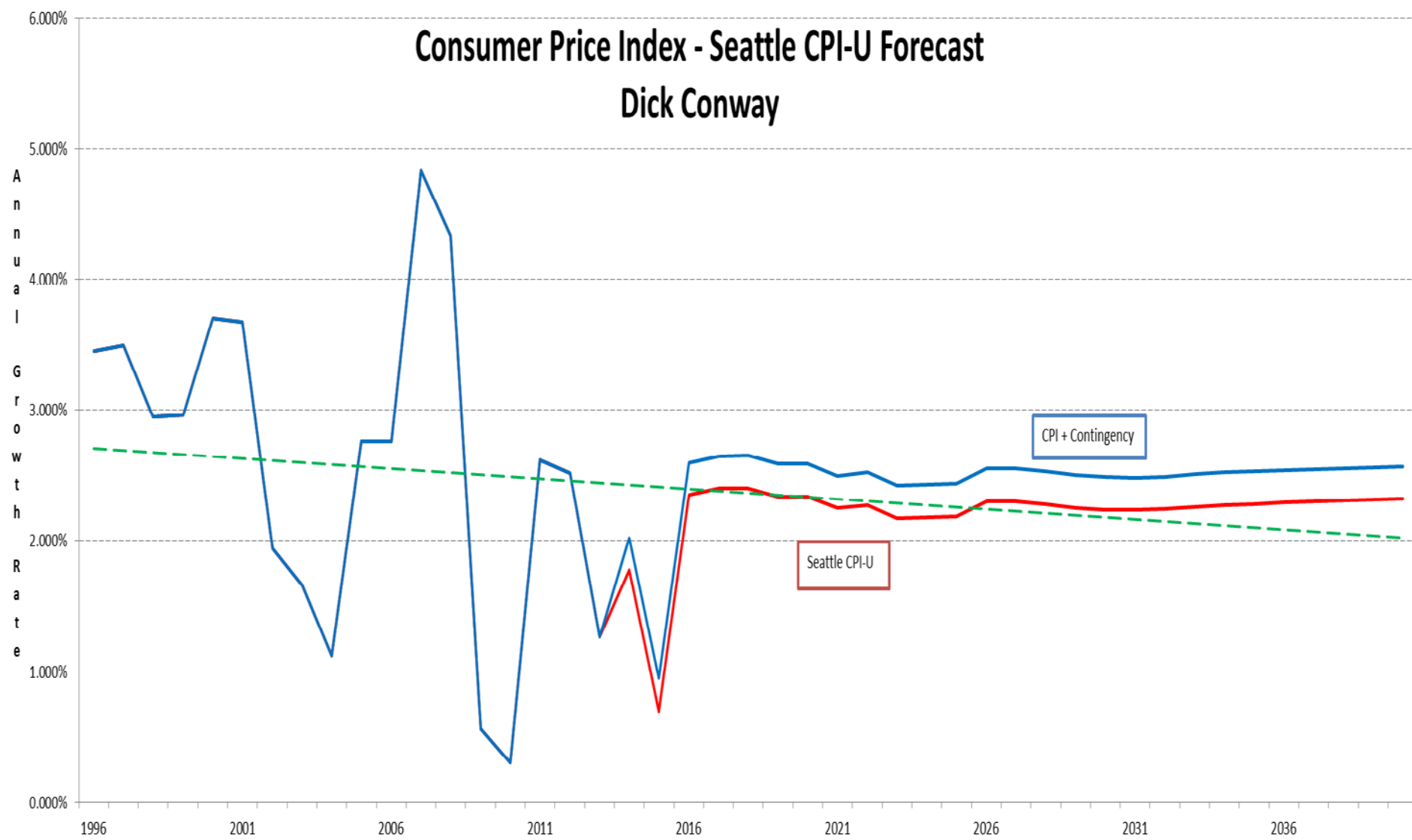
## Forecast Summary (Average Annual Growth)

	<u>2015-2025</u>	<u>2025-2040</u>
CPI	2.4%	2.5%
CCI	4.6%	4.0%
ROWI	4.1%	3.6%

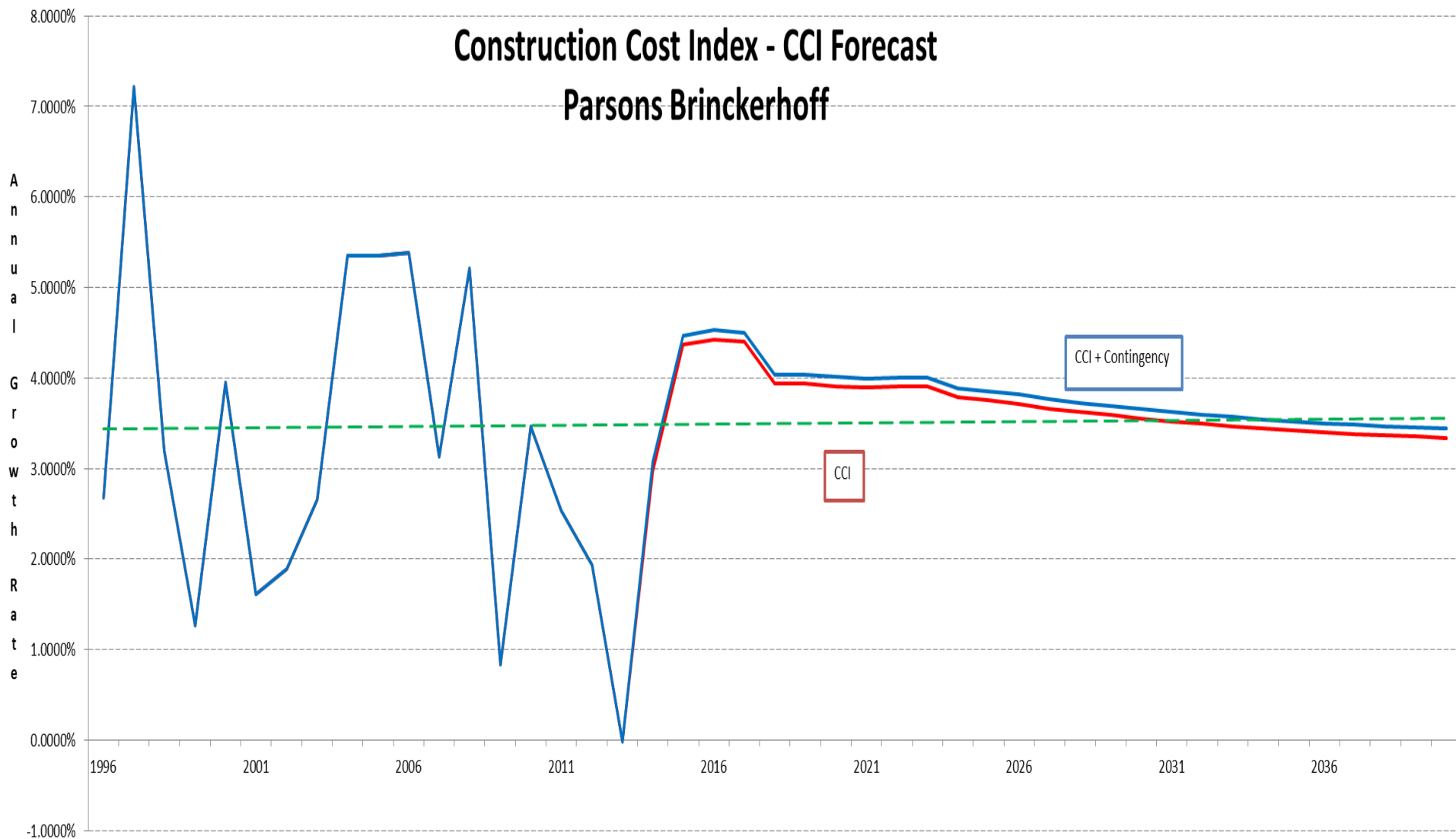
### NOTES:

1. Above figures based on economic forecasts July 2014
2. Percentages include ST contingency (+0.25% CPI, +0.1% CCI, 0.0% ROWI)

## Consumer Price Index - Seattle CPI-U Forecast Dick Conway

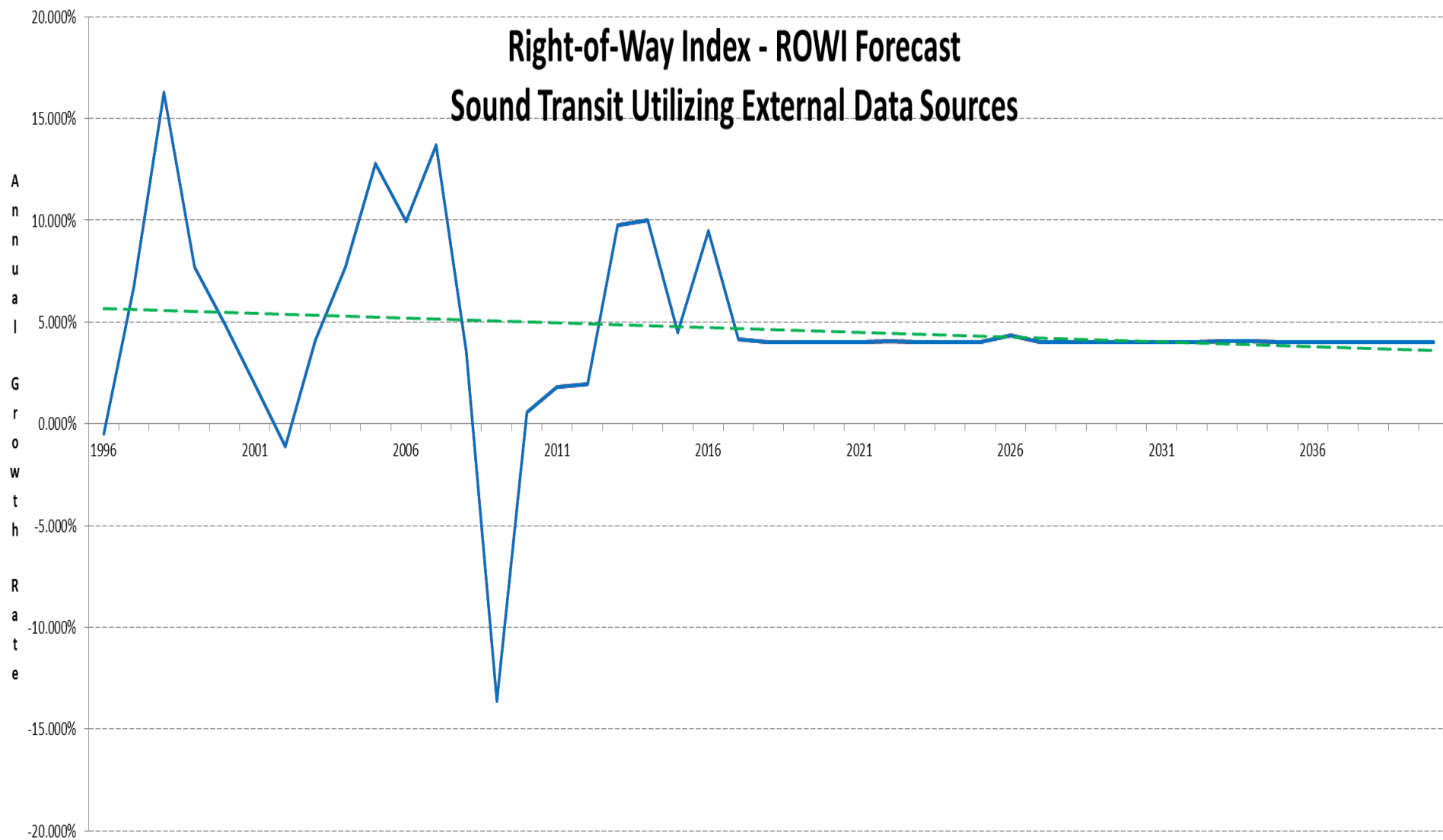


## Construction Cost Index - CCI Forecast Parsons Brinckerhoff





## Right-of-Way Index - ROWI Forecast Sound Transit Utilizing External Data Sources



# Update Financial Policies

- Sound Move financial policies
- ST2 Financial policies
- ST3 Financial policies

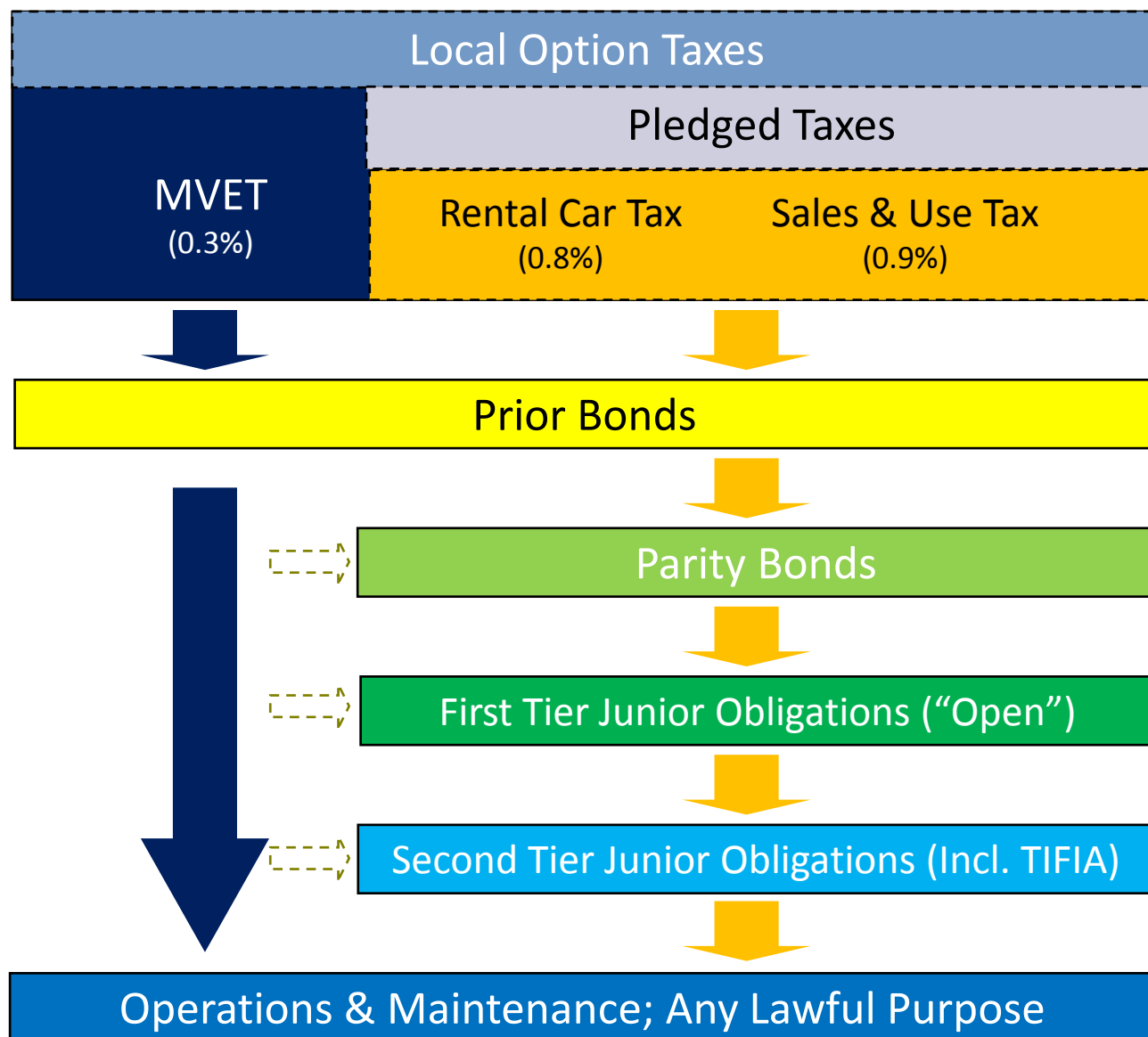
- **State requirement:** “the system plan approved by the authority’s board before submittal of a proposition to the voters shall contain an equity elements which
  - (a) Identifies revenues anticipated to be generated by corridor and by county within the authority’s boundaries
  - (b) Identifies the degree to which revenues generated within each county will benefit the residents of that county, and identifies when such benefits will accrue”
- **Sound Move & ST2 Subarea Equity – 5 Subareas**
  - “utilize local tax revenues for projects and services that provide...benefits to the residents and businesses in each of the subareas generally in proportion to the level of revenue each subarea generates”
- **ST3**

# Debt-Equity Ratio

- RCW 81.104.130 requires Sound Transit to determine optimal debt-to-equity ratio.
- Definition of debt-to-equity for public agencies not clear, but ST interprets as follows:
  - Debt – total debt issued (bonds)
  - Equity – amount of capital expenditures made (taxpayers equity)
  - Defined as:  $\text{Bonds Issued} / \text{Capital Expenses}$
- ST2 Debt-Equity 52%
- Other agencies: “debt equity” ratios from 28% to 66%

## III. Appendix

# Flow of Funds Provides Strong Coverage



- “Local Option Taxes” secure Prior Bonds
  - MVET
  - Sales and Use Tax
  - Rental Car Tax
  
- “Pledged Taxes” secure Parity Bonds and Junior Obligations, including Series 2015 Bonds
  - Sales and Use Tax
  - Rental Car Tax

\* Debt service includes all existing debt, bonds being issued and assuming TIFIA loan is fully drawn. Second Junior ABT must be passed for future issuance of all Prior, Parity and First Junior debt

# Summary of Outstanding Debt

- Sound Transit has approximately \$1.37 billion of outstanding debt (all fixed rate)

Summary of Outstanding Bonds (\$)				
Prior Lien Bonds				
Series	Issue Date	Final Maturity	Original Principal Amount	Outstanding Principal Amount
1999	1/6/1999	2/1/2028	350,000,000	297,270,000
2009P-1	9/29/2009	2/1/2016	23,155,000	17,620,000
2009P-2T (BABs)	9/29/2009	2/1/2028	76,845,000	76,845,000
2012P-1	8/22/2012	2/1/2028	216,165,000	178,440,000
<i>Total Prior Bonds</i>			<b>\$666,165,000</b>	<b>\$570,175,000</b>
Parity Lien Bonds				
Series	Issue Date	Final Maturity	Original Principal Amount	Outstanding Principal Amount
2007A	12/18/2007	11/1/2036	450,000,000	397,955,000
2009S-2T (BABs)	9/29/2009	11/1/2039	300,000,000	300,000,000
2012S-1	8/22/2012	11/1/2030	97,545,000	97,545,000
<i>Total Parity Bonds</i>			<b>\$847,545,000</b>	<b>\$795,500,000</b>
<i>Total Prior and Parity Bonds</i>			<b>\$1,513,710,000</b>	<b>\$1,365,675,000</b>