Jim MacIsaac, P.E. assesses Sound Transit's financial plan for Proposition 1

ST is seeking the same maximum tax increase as it sought last November. The reduced ST2 program that Sound Transit is proposing has little direct relationship to the tax increase it is seeking. Sound Transit's primary goal is to gain approval of the 0.5% boost in its sales taxing authority to the +0.9% that the Legislature allowed in 1995. With that tax increase it can forever cover its lowball estimates for O&M costs, and have a potentially large revenue income to propose an ST3 rail expansion program for "free" (no tax increase). It is already talking Phase 3 to Eastside cities and Snohomish and Pierce officials to keep them favorable to Prop 1.

The $17.9 billion number ST is presenting only addresses the construction period from 2009-23. However, during that period ST proposes to sell $6.6 billion in 30-year bonds (the $6.5 billion being shown by ST is net revenue after $98 million in bond issuance costs are deducted). The P-I increased the $17.9 billion to $22.3 billion to include the $4.4 billion lump-sum payoff of remaining bond principal that ST claims it will do in 2036. But that still ignores an additional $4.4 billion in <u>bond interest</u> from 2024 thru 2036 before the remaining bond principal is "promised" for payoff.

Sound Transit ST2 Financial Plan

Please see the attached table to view the ST2 financial plan disclosed by Sound Transit (middle two columns down to "Ending unrestricted cash"). ST's financial planning models only project revenues and costs out thru 2040. However, it does reflect debt service (principal and interest) out thru 2053 if the bonds all run for their 30-year terms.

The first data column shows the initial $17.8 billion ST2 program development phase from 2009 thru 2023. It would be $17.9 billion if I had not reflected $112 million of bond principal repayment as negative revenue rather than expense. I have also shown the full $6.62 billion par amount of bond revenue and placed its $98 million issuance costs on the Uses line with bond interest. The reason I revise the ST fin plan estimates to include bond principal payback as negative revenue is to avoid double-counting of bond principal under Uses by including it in both Debt Service and Capital Expenses (remember the $6 billion "mistake" we corrected in Prop 1 last year?).

ST's estimate of "Ending unrestricted cash" as of (assumed) completion of its ST2 capital program in 2023 is only $188 million. That leaves Sound Transit with only a 1% buffer to meet its expense estimates thru 2023. However, there are likely contingencies built into the capital cost estimates.

The 2nd data column shows ST's ST2 financial plan revenue and cost estimates from 2009 thru 2040 (the end of its financial planning period). **These <u>are</u> Sound Transit's estimates, not mine.** The plan reflects paying debt service on all bonds thru 2036, then a lump-sum payoff of the remaining $4.4 billion bond principal at the end of 2036. The ST2 tax would be collected for one more year, and then eliminated (sunset) at the end of 2037. The 0.4% Sound Move tax would continue forever, and Sound Transit claims that it would cover ongoing O&M costs of both program phases.

Thru 2040 ST plans to extract $22.2 billion in new revenues from taxpayers plus $9.5 billion in "*Sound Move* Surplus" revenues that were to be rolled back without approval of ST2. **So by overriding a *Sound Move* tax rollback, approval of Prop 1 would give Sound Transit approval to collect $31.7 billion in new taxes from 2009 thru 2040 per its ST2 financial plan reflecting a "promise" to sunset the ST2 tax at the end of 2037**. Note under Sources ST's proposed total repayment of the $6.6 billion in bond principal during 2036. Note under Uses that <u>bond interest and issuance costs</u> will total $6.3 billion thru 2036.

COP O&M Cost Adjustments

Now look below ST's estimates of "Ending unrestricted cash" to my estimates of adjustments that reflect the minimum side of ST's COP recommendations for O&M costs. Thru 2023 "Sound Move Surplus" revenue would be reduced by

SOUND TRANSIT ST2 FINANCIAL MODEL-A

Sources and Uses

FM-A ST2 8-5-08 PF.xls

Shown in $000s	ST2 Financial Plan[1]		Estimate w/o Tax Sunset[2]	
	2009-2023	2009-40	2009-40	2009-53
AGENCY TOTALS - All Subareas				
Sources Prop 1 New Tax Revs	10,052,530	31,727,681	36,267,704	77,860,777
Tax Revenues	7,751,856	22,220,011	26,760,034	56,271,902
Sound Move Surplus	2,300,674	9,507,670	9,507,670	21,588,875
Bonds (Par Amount)[3]	6,621,000	6,621,000	6,621,000	6,621,000
Bond Principal Repayment[4]	(111,805)	(6,621,000)	(3,291,315)	(6,621,000)
Fares & Operating Revenue	219,233	1,580,767	1,580,767	3,335,531
Interest earnings (DSR)[5]	143,011	543,514	383,658	520,967
Federal Grants[6]	895,499	1,564,746	1,564,746	3,627,339
Released Reserve Funds	0	0	0	
Total Sources	**17,819,468**	**35,416,707**	**43,126,559**	**85,344,613**
Uses				
Capital Expenditures	13,417,987	13,479,250	13,479,250	13,560,388
Light Rail (88% of Cap Program)	11,820,648	11,820,648	11,820,648	11,820,648
Commuter Rail (Sounder) (8%)	1,100,796	1,100,796	1,100,796	1,100,796
Regional Express (2.5%)	343,722	343,722	343,722	343,722
Regional Fund (Agency Admin; 1.5%)	152,822	214,084	214,084	295,222
Subarea Operating + Non-Cap Costs[7]	1,870,883	7,827,245	7,827,245	16,576,482
Bond Issue Cost & Debt Interest[3,4]	1,822,693	6,266,205	7,230,827	8,306,119
To O&M and Capital reserves	52,940	2,426,021	2,426,021	4,276,427
Bond reserve	466,300	0	466,300	0
Total ST2 Uses	**17,630,803**	**29,998,720**	**31,429,642**	**42,719,416**
Ending unrestricted cash (per ST est)[8]	**188,665**	**5,417,987**	**11,696,916**	**42,625,197**
Less O&M Contingency per COP minimum:[9]				
Sound Move Revenue Surplus	(946,000)	(9,436,235)	(9,436,235)	(21,588,875)
ST2 O&M Cost Increase	(89,800)	(1,855,000)	(1,855,000)	(10,371,000)
Available for ST3 Use[10]	**(847,135)**	**(5,873,248)**	**405,681**	**10,665,322**

[1] Lump-sum bond payoff in 2036; ST2 tax sunset after 2037. Sound Move sales tax continues forever.

[2] IF Sound Transit chooses to continue bond payments per 30-year schedule and NO ST2 Tax Sunset.

[3] Full Bond amounts before 1.5% Issuance Fee that ST deducts in its bond accounting.
The Issuance Fees of $99,315 are here included in the Bond Interest line.

[4] Bond Principal repayment is separated from Debt Service and included as negative revenue to eliminate its double counting under Uses.

[5] Most excess Cash after 2023 will be diverted to an ST3 program or for excess O&M costs;
Interest earnings have been reduced accordingly.

[6] Reflects assumed $600 million FFGA-3; balance is ST's estimate of federal operating grants.

[7] ST growth factors for O&M costs: Light Rail - CPI+0.8%; Sounder - CPI+0.5%; REx - CPI+1.5%.

[8] This is what the ST2 Fin Plan shows as excess tax revenue availiable for an ST3 program.

[9] ST's COP believes O&M costs will grow at CPI+4-8%/year. These adjustments reflect below the minimum side of the COP recommendation by adding only +2.5% to the ST growth estimates by mode.

[10] This shows that Sound Transit may very likely need to ignore any promise of tax roll backs.

$946 million, needed to cover the ongoing expense of *Sound Move*. ST2 O&M cost thru 2023 would be increased by $90 million. The bottom line result is that Sound Transit's ST2 General Fund would decrease from its minimal surplus to a negative $847 million by 2023. Thru 2040, ST's projection of an ST2 $5.4 billion surplus would reverse to a $5.9 billion deficit. **This represents my major concern that an accelerated payoff of ST2 bonds and an ST2 tax sunset may likely never happen.**

No ST2 Tax Sunset and Accelerated Bond Principal Payoff

The 3rd data column shows the adjusted ST2 financial plan thru 2040 IF Sound Transit chooses to maintain the ST2 sales tax increase (as it has done for the *Sound Move* sales tax levy) and play out bond debt service for the full 30-year bond term commitments (as it plans to do with the *Sound Move* bonds). The Sound Transit ST2 fin plan estimates under this scenario would result in an $11.7 billion "Ending unrestricted cash" at the end of 2040. But it would still have $3.3 billion in remaining ST2 bond principal.

However, if we apply the minimum side of the COP growth estimates for both ST1 and ST2 O&M costs, that huge surplus would reduce to $406 million thru 2040 -- a bare financial survival for Sound Transit thru 2040.

The final column extends this fin plan scenario out thru 2053 when the ST2 bond commitments are paid off. Total new taxes collected by Sound Transit from 2009 thru 2053 allocated to its ST2 program would total $77.9 billion. In addition it will have collected about $30 billion to sustain ongoing bond payment and O&M costs of the *Sound Move* program. **That is how the $107.6 billion tax revenue estimate was derived by the NoOnProp1 group.**

If Sound Transit's financial plan projections for Sound Move and for ST2 hold true, up to $42.6 billion of the $107.6 billion in tax revenues thru 2053 would be available for use in an ST3 program. But if the minimum side of the COP estimate for future O&M costs comes to reality, a revenue surplus for an ST3 program would be reduced to $10.7 billion thru 2053.

Proposition 1 is a Tax Revenue Authorization

So I emphasize again, **Prop 1 is a tax measure to gain voter approval of the 0.9% sales tax authorization set by the Legislature**. It has no mandatory tax roll back or tax sunset requirement -- only a "pledge" to roll back the ST2 tax if an ST3 rail extension phase is not approved. If its O&M cost estimates hold true, it leaves Sound Transit with a huge tax revenue stream to cover cost overruns and/or offer an ST3 rail extension program for "free" (no tax increase). If Sound Move and ST2 O&M costs increase at the minimum side of the growth rate recommended by the COP, Sound Transit is marginally covered by the tax stream out thru 2040 with no roll back.