

Memo

August 28, 2025

To:	Sound Transit Board of Directors
From:	Dow Constantine, Chief Executive Officer
Subject:	Enterprise Initiative Overview & Balancing the Long-Range Financial Plan

Memo Purpose

This memo provides an overview of Sound Transit's *Enterprise Initiative* and outlines the steps leading to a balanced Long-Range Financial Plan (2026–2046). The initiative addresses affordability challenges in the capital program, light rail vehicle replacement and procurement, operations, system resilience, revenues, and macroeconomic risks.

The **Enterprise Initiative** is Sound Transit's comprehensive framework for methodically responding to these challenges. Encompassing planning, capital, operations, maintenance, and finance, its goal is to ensure we continue delivering the voter-approved infrastructure and operating excellent, reliable transit service **within available financial capacity**.

Executive Summary

Sound Transit's services are more popular than ever. Expansion of Link light rail has led to record ridership, and demand for new high-capacity transit connections continues to grow across the region. Riders are counting on us to deliver the Sound Transit 3 program, and communities see this investment as essential to their future—improving access to opportunity, reducing congestion, and advancing our climate goals.

But this success brings new challenges. Rising capital costs, higher operational demands, and reduced revenue projections mean that, without proactive action, the ST3 program as currently scoped and scheduled will be unaffordable within projected revenues. We cannot let affordability challenges derail the progress voters endorsed and riders rely upon.

Inaction is not an option.

Historically, Sound Transit has closed affordability gaps through project delays or scope reductions. This time, the Board and agency are pursuing a more comprehensive strategy. The **Enterprise Initiative** is Sound Transit's agencywide response to affordability challenges, covering capital expansion, operations, maintenance, service delivery, and finance. To succeed, we'll need to work together to revisit some of the core assumptions and long-standing policies that shape how our regional transit system grows, operates, and serves the region.

While further work is needed to refine and validate the scope of these challenges, the following represents our current assessment of the key cost pressures that must be addressed in the Long-Range Financial Plan:

- **Capital Program:** We are projecting \$14–20 billion in added costs (2025 dollars), or \$22–30 billion in year-of-expenditure dollars, for ST3 light rail projects. These increases are

primarily driven by extraordinary COVID-era construction inflation, right-of-way cost escalation, and the added complexity of project design and delivery. The affected projects include:

- The West Seattle, Ballard, Tacoma Dome, Everett, Tacoma Community College, and South Kirkland–Issaquah Link extensions.
- Infill stations at Graham Street and Boeing Access Road
- **Service Delivery***: As our light rail system grows, so do the resources needed to keep it reliable and resilient for riders. We estimate that service delivery costs will rise by about **\$5 billion over the next 20 years**, reflecting:
 - Replacing our oldest generation of light rail vehicles and procuring new Series 3 vehicles to support expansion.
 - Making upgrades and retrofits that will improve flexibility, reduce disruptions, and ensure the system is ready for future growth.
 - Covering higher day-to-day operating and maintenance costs across a much larger network.
- **Finance and Revenue***: We currently estimate a financing gap of approximately **\$4-5 billion** due to reduced sales tax projections, lower projected fare revenue, and higher financing costs due to market factors and the effect of increased capital and service delivery costs over the 20-year life of the financial plan.

**We are continuing to refine our service delivery and finance and revenue estimates to better align with future capital and operating needs.*

This memo provides further detail on the factors shaping our affordability challenge, the level of confidence in current estimates, and the tools at our disposal to respond. Sound Transit's financial policies are intentionally conservative, helping us steward taxpayer dollars responsibly while preparing for shifts in national and global economic conditions.

Sound Transit has successfully navigated affordability challenges before, and we are better positioned now than ever—with stronger financial policies, a more mature agency, and more tools available. The Enterprise Initiative provides a framework to **proactively manage capital program affordability while delivering the reliable service passengers expect.**

The combined, voter-approved resources of Sound Move, ST2, and ST3 remain solid. With Board leadership, community partnership, and a commitment to innovation, Sound Transit will continue to expand high-capacity transit, deliver on voter expectations, and strengthen a system that moves more people, more reliably, every year.

Enterprise Initiative Overview

Given the magnitude of the projected cost increases and the operational challenges Sound Transit faces, it is important to establish what exactly is included in the ST3 Plan. The Plan is comprised of the System Plan and the Long-Range Financial Plan. The System Plan includes the

tax rates and other revenue sources, all capital expansion, transit operations, system maintenance and state-of-good-repair work, and operational characteristics such as transit mode, headways, reliability, and projected travel times. The agency's Long-Range Financial Plan, which the Board is updated on annually, incorporates the System Plan assumptions and forecasts all agency sources and uses through the completion of the capital expansion program.

While previous 'realignment' processes have successfully addressed program affordability challenges by narrowly focusing on system expansion projects' scope and schedule, none of these past efforts have reviewed the entirety of the System Plan. Since it was last adopted in 2016, evolved conditions require a more holistic review of the current System Plan. It is no longer adequate to rely on only capital expansion and tax revenue-based tools to ensure program affordability.

These changes include:

- The light rail network has more than doubled in length, is now operating on a significantly larger scale, and operations will continue to grow as a proportional share of agency resources over the life of the Financial Plan.
- COVID-19 has permanently reoriented ridership and travel patterns in ways that are not accounted for in the current System Plan's assumptions for service design and operating characteristics. This reorientation includes lower peak-hour ridership, higher off-peak, evening, and weekend ridership, and greater proportional recovery of, and passenger preference for, Link light rail when compared to other transit modes.

In summary, the primary output of this Enterprise Initiative process will be a revised System Plan that refines and rebalances both capital expansion and long-term operational assumptions and is the basis for a sustainable Long-Range Financial Plan.

Capital Program Cost Growth Summary

We currently estimate an increase of approximately \$14-20 billion in 2025 constant dollars or \$22-30 billion in year-of-expenditure dollars for the ST3 light rail projects which include:

- The West Seattle, Ballard, Tacoma Dome, Everett, Tacoma Community College, and South Kirkland-Issaquah Link extensions, and
- The infill stations at Graham Street and Boeing Access Road.

It is important to note that these are conservative estimates based on the current project scope and before *any* of the opportunities being investigated by Sound Transit's Capital Delivery department under the Board-directed cost savings workplan are applied.

Our updated cost estimates have increased due to the following factors:

- **Inflation:** Historic inflation during and after the COVID-19 pandemic ranges between 18%-25% since 2020 across our right of way, construction, and consumer price indices.
- **Updated estimating methods:** Based on our experience from the updated cost estimates on the West Seattle Link Extension, the other light rail project teams employed a modified

bottoms-up estimating approach (appropriate to each project's level of design) to better account for project-specific construction challenges and construction cost inflation.

- **Scope:** Design advancement and scope changes – and better knowledge of design for more complex project elements, in particular – also contributed to cost growth.
- **Soft costs:** Soft costs include things like administrative costs and professional services that are calculated as a percentage of the overall project cost and so increased proportionally as a result.
- **Contingency:** Increased construction cost estimates require increased construction contingency set-asides.

These cost drivers are not felt consistently across the capital program. Projects with more complexity in their scope are subject to higher potential cost growth. This complexity includes elements like water crossings and tunneled segments where additional design detail based on current market conditions give us an improved understanding of potential cost.

We have been aware of cost pressures since the publication of the West Seattle Link Extension Final Environmental Impact Statement in 2024, and the Board directed staff via Motion M2024-59 to develop a workplan on the programmatic, financial, and project level measures and opportunities the agency should pursue to improve the agency's financial situation.

Since that time, Sound Transit's Capital Delivery department has implemented this approach to the four major light rail extension projects currently in active development. All projects are undergoing a process to identify cost savings levers, which comprise a combination of opportunities. These opportunities include those that can be implemented at the project level, those that require coordination across the agency to ensure operational and design deviation trade-offs are accounted for, and more impactful opportunities that require Board and partner input like scope reductions or project phasing.

Service Delivery Cost Growth Summary

We are also experiencing significant cost pressures for light rail vehicles, system operation and maintenance, and long-term state of good repair cost forecasts. Increases in state of good repair costs are a product of the existing and expected system, and we have little leeway to alter these increases because the ST3 Plan and federal regulations require state of good repair costs to be prioritized over other agency expenses.

The increases in our service delivery costs fall into three categories: 1) cost pressures for new and replacement light rail vehicles, 2) investments required to achieve promised/desired system performance, and 3) higher than forecasted daily operations and maintenance costs.

The rapid growth of the Link system has brought both enormous travel benefits and significant operating challenges, which have been comprehensively detailed in both internal- and consultant-issued reports. Fully addressing these challenges will require investments not contemplated in the ST3 System Plan and a thorough assessment of operation and maintenance costs. Some investments, if approved by the Board, would be net increases in the Long-Range Financial Plan

to meet service levels approved by voters, while others have the potential to improve operational efficiency and reduce long-term costs.

The three broad areas of work in the Enterprise Initiative include the following:

Light Rail Vehicles

- We are observing cost growth trends for new and replacement light rail vehicles from post-COVID market supply chain issues resulting in a permanent upward shift in pricing that is likely to be exacerbated by potential impacts from tariffs. We have seen this directly through a recent purchase of ten additional Series 2 light rail vehicles as well as recent industry engagement in advance of the procurement process for Series 3 light rail vehicles.
- There is also potential risk associated with additional light rail vehicle needs based on current system performance and service assumptions embedded in the ST3 System Plan. While this risk is real, the Board has greater control over this variable, and the Enterprise Initiative will support a reassessment of service assumptions and associated fleet needs to meet changes in ridership demand and travel patterns since the pandemic.

Operational Resiliency Investments

- **Signal improvements and modernization:** Link light rail will need systemwide improvements in signaling and train communication systems. Current Automatic Train Protection (ATP) operates only on parts of the system, though it is being expanded. Upgrading signals and/or adding greater automation and precision through Communication Based Train Control technologies would improve long-term safety and efficiency and could ultimately lower operating costs. Some level of signaling investment and improvement is required to reliably meet the promised system performance.
- **Downtown Seattle Transit Tunnel (DSTT) retrofitting:** The four-station DSTT was built as a bus tunnel in the late 1980s, predating the arrival of light rail by two decades. Its design, function, and its general age and condition limit the resilience and flexibility of Link light rail operations. Ensuring this facility meets our long-term needs will require significant investments in transit systems – such as the addition of cross-over tracks – as well as improvement and expansion of passenger areas, such as station platforms.
- **Adding a Unified Control Center:** The current control center for Link light rail may need to be expanded in the next 5-10 years to accommodate the continued growth of the system. This need is also an opportunity to adopt best practices for operational control, efficiency, and the application of new technologies to meet emerging operational needs and could also allow for integration of critical Service Delivery functions like Security, Passenger Support, and more.

Ongoing Operations and Maintenance

- Costs for operations and maintenance continue to trend higher than predicted, and because Sound Transit purchases these services for most of our operating modes from partners and third-party vendors, we do not fully control their costs.

- Increased long-term investments will be required to improve the speed of emergent repairs and reduce the occurrence and duration of unplanned service disruptions. This is particularly important for areas such as traction power that have been the primary causes of extended service disruptions.

Revenue Projections Update

Though Sound Transit has a robust and enduring source of long-term voter-approved funding, there are risks to revenue in three main areas in the Spring 2025 forecast:

- **Sales tax receipts** are lower than previously anticipated.
- **Fare revenue** projections are lower than assumed in the ST3 System Plan, principally due to pandemic-influenced structural ridership changes.
- **Uncertainty in the federal grant environment** may reduce the current assumption of an approximately 16% federal share of capital construction costs in ST3.

Please note that, per our routine practice, we are updating revenue projections for the fall version of the Long-Range Financial Plan.

Managing Financial Capacity

Beyond containing cost growth and increasing revenues, the other major financial tool available is to increase financial capacity, primarily by amending financial policies that limit the debt Sound Transit may incur or carry.

Some tools exist to increase the allowed proportion of debt to revenue, but the benefit of this added capacity must always be carefully balanced against the risk of negating these gains by potentially reducing the agency's credit rating, increasing borrowing costs and elevating the chances the agency would not be able to meet its future financial obligations. Any changes to the agency's financial policies must be considered carefully.

Next Steps

Through the end of 2025, we will continue working with you to establish a shared understanding of these affordability challenges, the tools and levers available to address them, and to receive your direction on the major policy questions and subarea priorities that we must understand in order to develop alternatives and scenarios for your consideration in 2026. We anticipate another Board retreat this fall or winter to set aside dedicated time to do so.

In 2026, we will complete this process by presenting alternatives and scenarios for your consideration, conduct any required or prudent public engagement, ultimately ask you to adopt a new System Plan and Regional Transit Long-Range Plan to guide the agency's work and, based on that work, deliver a balanced Long-Range Financial Plan.