Enterprise Initiative Update & Balancing the Long-Range Financial Plan

Board of Directors

08/28/2025

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Why we are here

- Provide a brief reminder on the role and purpose of the agency's Long Range Financial Plan.
- Share updated information on:
  - » Cost growth in the capital program.
  - » Cost pressures related to service delivery needs.
  - » Projected revenues and financing costs.
- Show how the Enterprise Initiative will address current affordability challenges in these areas through different tools and levers available to the Board.

Enterprise Initiative

What is the Enterprise Initiative?

- Sound Transit’s effort to ensure we can deliver the greatest benefits of ST3 within available financial capacity.
- A comprehensive approach touching planning, capital, operations, maintenance, and finance to ensure we are meeting both current and future regional mobility needs.

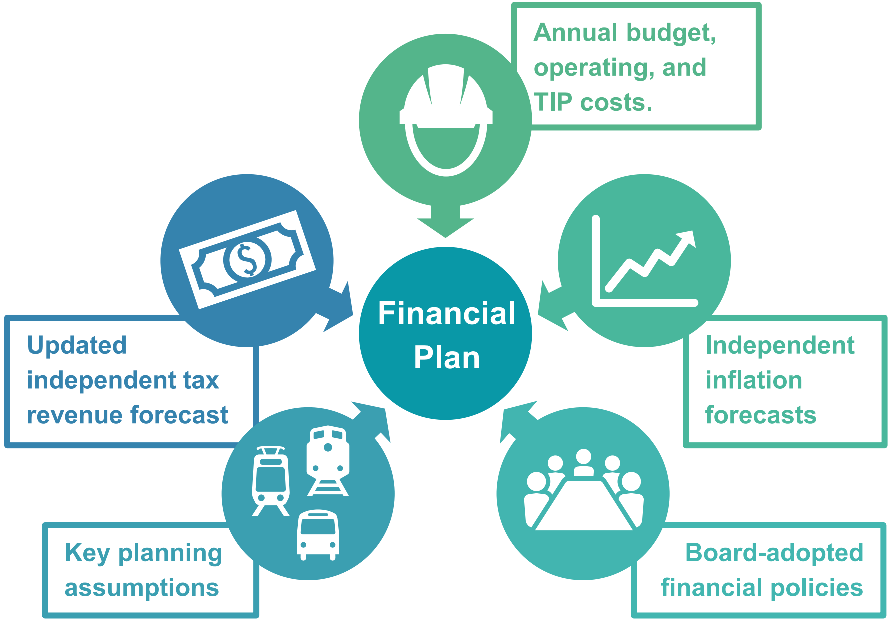
What has the Board directed us to develop per Motion M2025-36?

- A comprehensive framework to deliver the Enterprise Initiative: **Fall 2025/Board retreat**
- An updated ST3 System Plan: **by the end of Q2 2026**
- A new Regional Transit Long-Range Plan: **in Q3 2026**
- An updated Long Range Financial Plan: **in Q4 2026**

Long Range Financial Plan

Documents agency sources & uses from 2017 through 2046

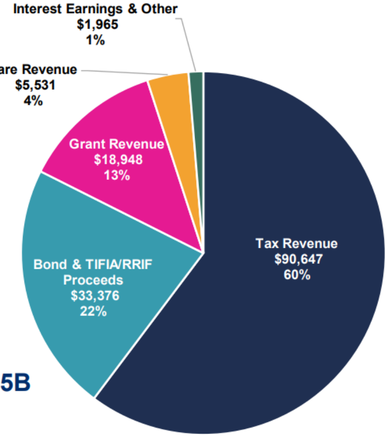
- Incorporates costs to build, operate, maintain, and administer our entire system.
- Projects revenues from taxes, fares, and grants, and proceeds from bonds and subsequent financing costs.
- All figures in the Long Range Financial Plan are reported in year-of-expenditure dollars.



Long Range Financial Plan

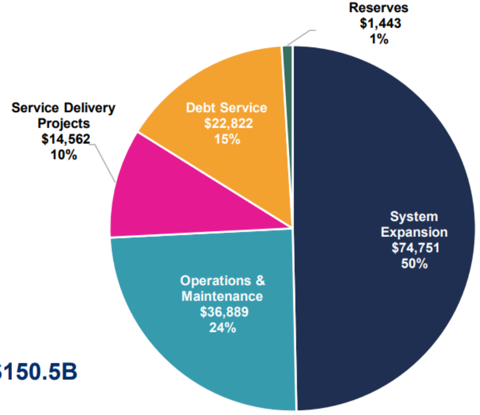
Documents agency sources & uses from 2017 through 2046

- Such a large program will inevitably face volatility over its 30-year life.
- The Board's financial policies require a response when expenditures are anticipated to exceed projected revenues.
- There is still significant financial capacity to deliver ST3 outcomes.



Sources of funds $150.5B

(YOE$ in millions)



Uses of Funds $150.5B

(YOE$ in millions)

Graphics from the Fall 2024 Long Range Financial Plan

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2025 vs. Year-of-Expenditure Dollars

2025 dollars

- Shows current value if you purchased the investment or expended all the money today.
- Allows for comparison between similar alternatives.
- Capital project estimates at various milestones are delivered in constant year dollars.
- We use constant year dollars for capital projects until they are baselined.

Year-of-expenditure dollars (YOE$)

- Shows the value as realized over its full timeline of delivery.
- Incorporates anticipated future inflation as measured by multiple indices.
- If a base year estimate, the timeline of delivery, or projected inflation rates change, so will the YOE$.
- We use YOE$ for our long-range financial plan to account for the timing of delivery with expected resources available.

Where appropriate in this presentation, we report both values

Summary of current cost pressures

The following summarizes unmitigated cost pressures across the major elements of our Long-Range Financial Plan

- In total, this represents a 20%-25% increase above the current, Fall 2024 Long Range Financial Plan before any cost savings opportunities applied.

- Cost growth on the capital program is approximately $14B-$20B more in 2025 dollars, or $22B-$30B more in year-of-expenditure dollars.

- Cost pressures related to improved service delivery could require approximately $5B more in year-of-expenditure dollars.

- Revenue and financing challenges from lower revenues and higher financing costs results in an impact of $4B-$5B in year-of-expenditure dollars.

Capital Program Cost Growth

Capital program

Summary of capital program cost growth

- We currently estimate a need for an additional $14B-$20B in 2025 dollars, or $22B-$30B in year-of-expenditure dollars, to complete the major ST3 light rail projects, which include:
  - » The West Seattle, Ballard, Tacoma Dome, Everett, Tacoma Community College, and South Kirkland-Issaquah Link extensions
  - » The infill stations at Graham Street and Boeing Access Road
- This represents conservative and unmitigated cost estimates before any cost savings opportunities are applied.
- The Board-directed Capital Delivery Cost Savings Workplan is actively exploring many opportunities that will maintain or improve passenger benefits and deliver on ST3 outcomes.

Capital program

System expansion

- The Board has greater control over costs before a project is baselined and that includes most of the projects in ST3.
- Some projects in ST3 are already baselined, like the Stride BRT program, and others are nearing this milestone, like the OMF-South project.
- We are actively pursuing cost savings across the program but have more influence over cost in projects earlier in their design development.

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Cost growth over time

2016 (ST3)

ST3 cost estimates developed for the ballot measure were based on a **parametric method** appropriate for very low level of design.

2021 (Realignment)

Updated costs in 2021 showed substantial cost growth for ST3 projects in design based on increases in **ROW** costs, increases in **construction costs** from design challenges and scope additions, and associated increases in project **soft costs**.

Pre-Covid inflation trends informed 2021 estimates.

2025 (Enterprise)

ST3 cost estimates in 2025 showed continued substantial cost growth from 2021. These increases are primarily due to **historic inflation**, complex project delivery, tariffs, labor shortages, **supply chain disruptions**, added scope, and ROW prices.

The use of more refined **cost estimating** methods has captured these project cost increases more accurately.

Historic inflation

Highway construction costs have **surged 71.5%** since the end of 2020, according to FHWA's National Highway Construction Cost Index. In early 2024, costs were rising at an **annualized rate of nearly 10%**, reflecting historic inflation in labor, materials, and supply chains—dramatically impacting project budgets and delivery.

"The price trend for **engineering services increased approximately twice as fast** in the four years following 2020 compared to the four years preceding it."

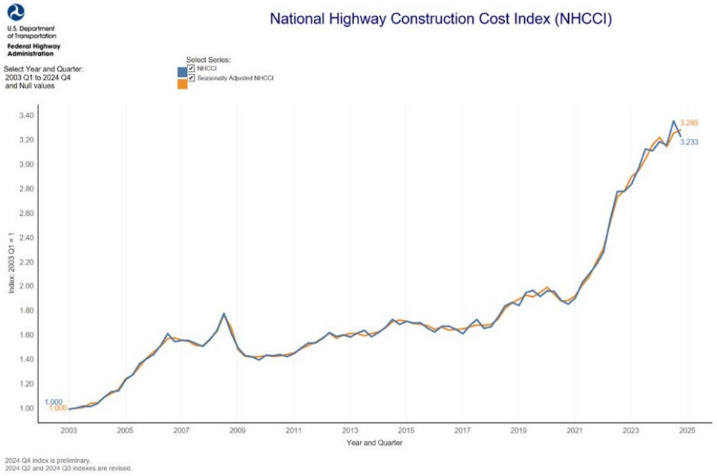


Figure 3: National Highway Construction Cost Index (NHCCI) 2003-2024[15]

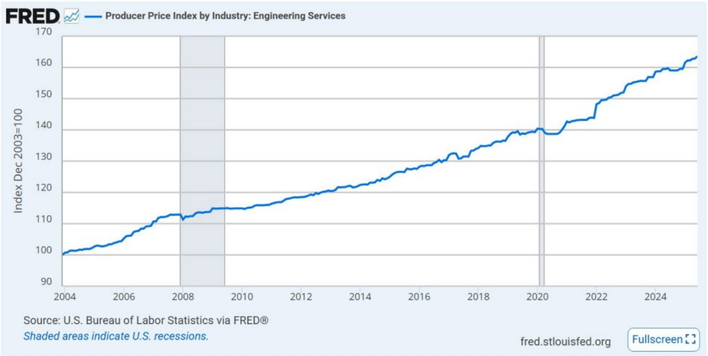
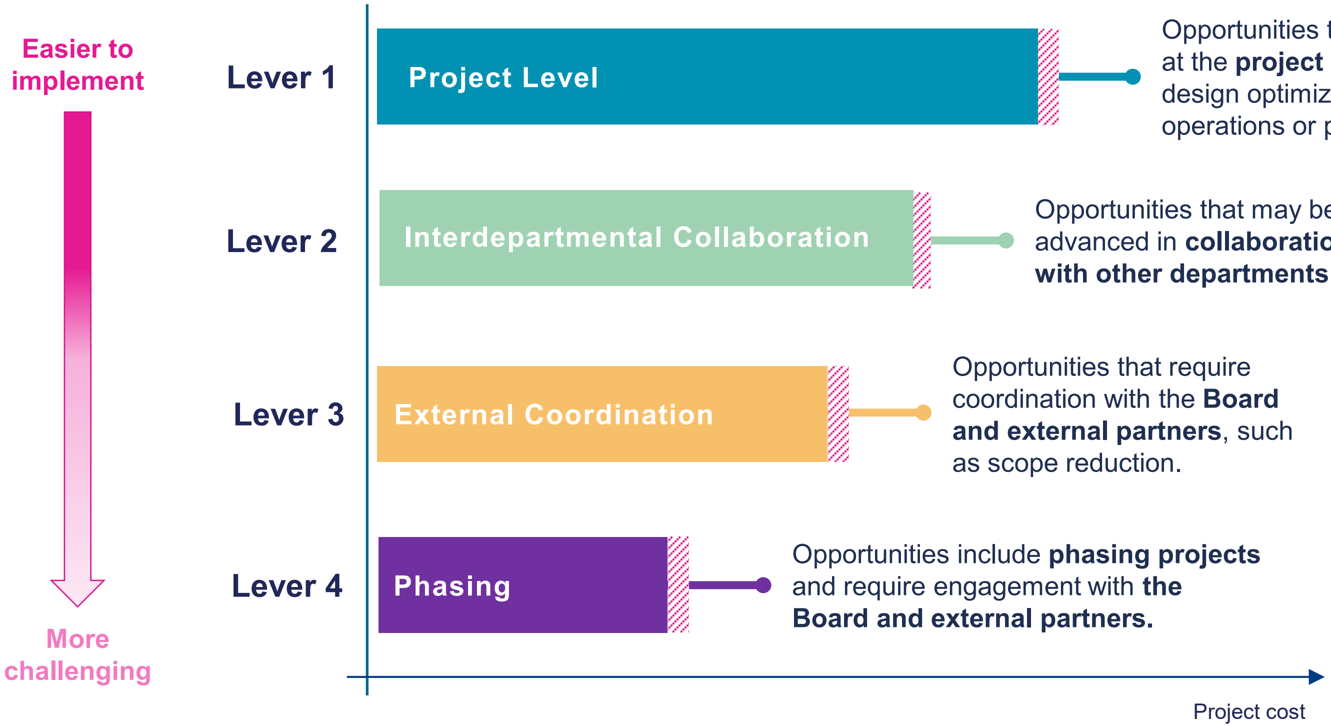


Figure 7: Engineering Services Producer Price Index[50]

Source: ***Rising Construction Costs: Analyzing the Contributors to Cost Escalations and the Impact on Federal Transportation Infrastructure Investments*, Eno Center for Transportation (August 2025)**

Cost Savings Workplan

Direction from the Board: Motion No. M2024-59



Levers

- Each lever is composed of multiple cost savings opportunities.
- 4-5% cost reduction from programmatic opportunities can be applied to each project lever.

Represents 4-5% cost reduction from programmatic workplan opportunities

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Capital program

What is the Enterprise Initiative doing about capital program cost growth and what are next steps?

- Many projects are still early in design development and opportunities exist to reduce cost and still achieve ST3 outcomes.
- All projects across all modes in the capital program portfolio will benefit from the Enterprise Initiative.
- Changed conditions resulting from the pandemic and subsequent recovery allow investigation of new ways to realize ST3 plan objectives.
- A cost savings work plan update will be provided to the System Expansion Committee in September.

Service Delivery Cost Pressures

Service delivery

Summary of service delivery cost pressures

- We currently estimate approximately $5B in year-of-expenditure dollars in potential added costs specific to multiple service delivery program elements:
  - » New and replacement light rail vehicles
  - » Investments to improve light rail system resiliency
  - » Higher costs to operate and maintain service over the life of the plan
- This represents an initial, rough order of magnitude assessment and more work is underway to validate this information.

Service delivery

Light rail vehicles (LRVs)

- Much of the cost pressure is driven by external market forces related to higher base costs following post-COVID inflation and potential tariff impacts.
- This assessment is informed by our recent procurement of 10 additional LRVs and industry engagement.
- Other cost pressure relates to the potential need for additional LRVs based on existing service assumptions, which we will revisit through the Enterprise Initiative.

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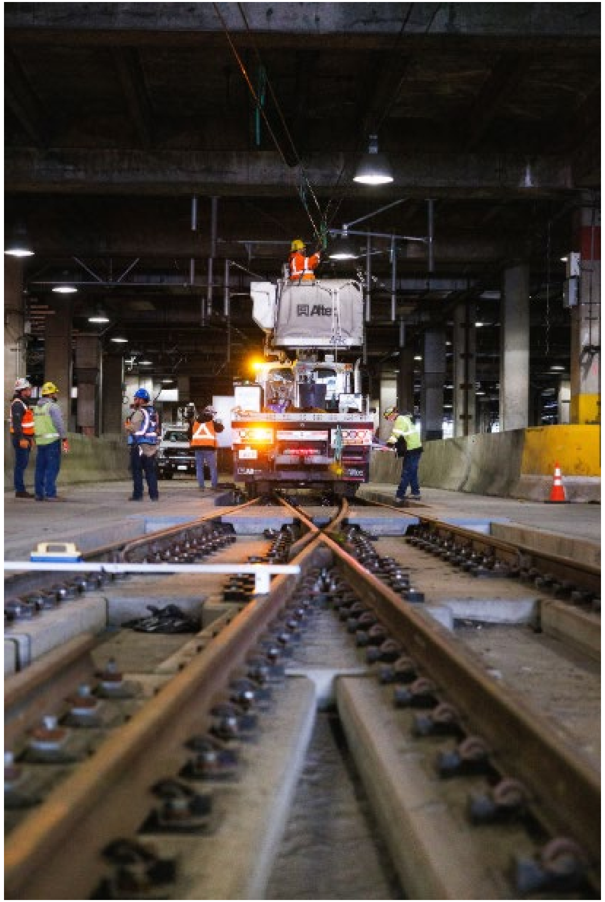
Service delivery

Potential investments to improve system resiliency and performance

- Multiple feasibility studies are underway exploring potential investments to make the system work better and less costly to operate.
- These include signal system upgrades, improvements in the existing downtown Seattle transit tunnel, and more.
- Current cost pressures reflect only the potential upfront cost and not any associated lifecycle cost savings after implementation.



Service delivery

Operating and maintenance costs

- Rapid system expansion is revealing the potential need for additional staff and resources to operate and maintain our growing system.
- These needs exist at Sound Transit, our partners who operate service on our behalf, and through our vendors.
- We are starting work to validate this potential cost growth and to identify and assess opportunities for cost savings across our Service Delivery portfolio.

Service delivery

What is the Enterprise Initiative doing about service delivery cost pressures and what are next steps?

- Developing better information in each area discussed to more clearly determine if these pressures will materialize.
- Revisiting system design service assumptions to inform future LRV fleet needs and future operating and maintenance costs.
- Collaborating with the Capital Delivery team to understand system expansion changes and implications for service delivery through the Enterprise Initiative.
- A light rail vehicle and resiliency update will be provided to the REO Committee in September.

Revenue & Financing

Revenue & Financing

Summary of revenue and financing cost impacts

- The Long-Range Financial Plan includes inputs from macroeconomic forecasting tools to provide:
  - Tax revenue projections (Sales & Use Tax, Motor Vehicle Excise Tax, Property Tax)
  - Inflation forecasts (Consumer Price Index, Construction Cost Index, Right of Way Index, Vehicle Index)
- Based on our latest projections, we estimate $4B-5B in year-of-expenditure dollars of financial capacity and revenue deterioration due to:
  - Lower than expected sales tax revenue forecasts
  - Fare revenue related to changing ridership patterns reflecting structural pandemic impacts over the long-term
  - Higher financing costs to fund capital and service cost increases

Revenue

Sales tax and fares

- Spring 2025 revenue forecast showed continued lower revenue projections:
  - » Agency is currently updating forecast for Fall with most recent economic data
  - » Updates are twice per year as part of Budget, TIP, and Long-Range Financial Plan cycle
- Lower fare revenue projections driven by current ridership trends.

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Financing costs

Debt service

- Higher capital and operating costs = more borrowing = higher financing costs.
- Interest rates remain higher than COVID-era lows when we locked in historically low rates.
- Current cash balances are strong; expenditures expected to exhaust cash by start of 2030s ($7.1B of cash and investments as of July) when major construction starts.
- S&P & Moody's recently affirmed credit ratings; we will need to consider trade-offs:
  - » Higher ratings provide the agency the benefit of lower borrowing costs
  - » Opportunity cost of risk reduction measures (e.g., reserves, higher coverage ratios)

Bond Ratings as of 06/30/2025

		Prior	Parity	TIFIA
Affirmed in July →	Moody's	Aaa	Aa1	
Affirmed in June →	S&P	AAA	AAA	AA+
	Fitch			AA+

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Revenue & Financing

What is Enterprise Initiative doing about revenue and financing challenges and what are next steps?

- Close collaboration with capital, planning, and service delivery activities.
- Identifying revenue and capacity improvement opportunities:
  - Impact of modifications to program timeline and financing policies to reduce "pinch points" driven by debt limitations
  - Grant revenue opportunities considering recent federal challenges
  - Partnerships that can provide additional revenue or expense sharing
- Modeling risks associated with changes in financial controls to balance risk management and optimal debt capacity.

Next steps

Next steps

Deep dives on multiple Enterprise Initiative topics at all Committees in September

- **Executive Committee:** Regional Transit Long-Range Plan scoping discussion.
- **Rider Experience & Operations Committee:** updates on light rail vehicle and system resiliency topics.
- **System Expansion Committee:** Capital Delivery Cost Savings Workplan update.
- **Finance & Audit Committee:** policy and revenue opportunities to increase financial capacity.

Thank you.

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