

# City Analysis of Seattle Monorail Project Finances

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## SMP's Plan

- Recent work has focused on cost reductions or increases in ancillary revenues. The estimated total benefit is about \$95 million. Many of these are plausible (e.g., revenue from parking lots); others are very speculative (e.g., federal operating subsidies).
- The forecast for Motor Vehicle Excise Tax (MVET) revenue is unchanged through 2030 and averages 6.1%. Assumptions for years after 2030 have been lowered from the previous 6.7% to 5.7% with no clear explanation as to why.
- SMP has not developed a comprehensive new financing plan. Using the basic model of its July plan, updated with new assumptions, SMP believes it can finance the project using 40-year bonds that likely would be paid off a few years early. Total debt service (principal and interest payments) would be about \$7 billion. The debt is very back-loaded, with no principal and interest payments made until 2015.

## Key Issues

- The term and structure of the debt are very unusual for Washington. Similar structures have been used for some big transportation projects in other states. The risk of default is largely mitigated by the ability to refinance the debt in the future by extending the term. The debt is very costly to repay because of its long term and back-loaded structure.
- SMP assumes the monorail will cover all of its operating costs from non-MVET revenues after 2020. No other transit system in North America does this. This assumption has not yet been re-examined by SMP.
- The MVET growth rate assumption is critical to the project's success. SMP's model assumes population growth consistent with current City assumptions. The key factor is assumed increases in vehicle values. SMP assumes vehicle values will grow at about double the rate of general inflation over the next 40 years. Part of this is based on an assumption that Seattle household income will grow approximately 0.8% to 1.1% faster than projected by the Puget Sound Regional Council after 2014.
- MVET growth in the North King subarea of Sound Transit (mostly Seattle, but with some faster-growing suburban areas) has averaged 3.5% since 1998 and

has been negative in two of the last three years. Recent increases in oil prices, changing demographics, and expanding transit will have unpredictable effects on future MVET growth.

## **Conclusions**

- Assuming 6.1% average annual MVET growth and the cost savings identified to date, the plan probably could be financed. The debt will be long-term and heavily back-loaded.
- Some cost savings are plausible but will not be sufficient to have a dramatic impact on the debt.
- Full operating cost recovery is unlikely. A 60% revenue recovery would add about \$27 million of costs in 2020, escalating thereafter.
- The key issue is the assumed 6.1% average MVET growth rate. For a project with a single major revenue source, using a conservative long-term forecast is prudent. 6.1% is far from conservative, particularly in light of recent history.
- The plan realistically cannot be financed if the MVET growth forecast is lowered by even a few tenths of a percent. Either a substantially cheaper project is needed or revenues have to be increased.