Remarks of Thomas Heller
to the Sound Transit Board of Directors
October 23, 2003

Before you rush on down to the courthouse to pick up your marriage license, I wish to offer a word of caution.

As John Niles has accurately stated, Mr. Istook's letter makes clear that your pledge of subarea equity must be delivered on. And, as CETA's essays report, delivering on that pledge will not be a slam-dunk. There are significant risks to that pledge. Risks that I do not believe have been adequately presented and discussed before the board.

Subarea equity relies upon one factor -- and only one factor. Indeed, you could substitute the term "subarea liquidity" for "subarea equity." They are interchangeable. So let me confine my remarks to subarea liquidity. (Consider this to be like a mother's talk with her soon-to-be-married daughter.)

Your financial plan contains what may appear to you to be substantial safeguards to the prospective purchasers of your significant level of bond sales over the next several years. But if you were to examine the plan a bit more closely, you would come to the realization that you are faced with "threading a needle", even if you receive a favorable decision on Initiative 776.

Over the next several years, while Sound Transit is slogging through an enormous engineering undertaking, it will also confront enormous financial demands, some of which cannot be guaranteed. You will, of necessity, face uncertainty along the way.

To be sure, your plan recognizes this. The most prominent safeguard in your financial plan is its reliance on maintaining no less than a 1.3x "net coverage ratio". That is, Sound Transit forecasts that its available cash flow each year will exceed its annual debt service obligations by at least 30%.

That sounds like an adequate --even generous-- safety cushion for your prospective bondholders. But how certain can you be that your available cash flow will in fact meet your expected debt service requirements? Have you asked what happenstances could erode that safety cushion?

Why is this important? Well, its a question of liquidity. It's a matter of whether you will be able to meet your legal obligations to your creditors.

But beyond the obligations to your creditors, delivering on your pledge of subarea equity to local taxpayers --your constituents-- means that each subarea's liquidity --its debt coverage ratio-- also needs to be assured. Have you asked what could erode the subarea safety cushions?

I have. And here is my finding, at least for the year 2006, and assuming that I-776 is struck down and your MVET tax revenues are not impaired.

In 2006, two subareas will be hanging on a precipice of being illiquid. Snohomish and Pierce. If Snohomish's total tax revenue are just 3% short of plan and its operting costs are 3% worse than plan, its debt coverage ratio slumps to 1.0 -- right on the edge of red ink. Any further unfavorable variation in tax receipts and operating costs would require the subarea to rely on money from an outside source. Snohomish's subarea safety cushion can be wiped out entirely by only a couple of three percent variations from plan. Were you aware of that? Have you contemplated this prospect?

The Pierce subarea's liquidity is almost as sensitive. Its safety cushion would be wiped out by only 3.5 percent unfavorable performance in these two factors.

I should emphasize that these results are only for the year 2006 when the debt service obligations are interest-only. Debt service in future years will be larger, as annual payments will begin amortization of principal.

So, my daughter, be careful out there. Watch those pursestrings.