



Final



Central Puget Sound Regional Transit Authority

*2008 Financial Plan
(May 2008)*

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EXECUTIVE SUMMARY

The 2008 Financial Plan for the Central Puget Sound Regional Transit Authority (Sound Transit) reflects the mission of the agency to continue implementation of the “*Sound Move*” plan approved by the voters in 1996. This plan assumes completion of the major new capital development phase by 2016; however, it does not include either resources or expenditures for major capital projects for the ST2 (Phase 2) plan (2008 – 2027). The plan contains funding for service in all three of the agency’s lines of business: express bus, commuter rail and light rail (including University Link extension).

The Financial Plan is based on a number of financial policies that were adopted as part of *Sound Move*. Some of the key policies include preservation of subarea equity (benefits received commensurate with tax revenues contributed), maintaining adequate operating reserves, maintaining adequate debt service coverage ratios, and management of a Regional Fund to provide resources for those functions essential to the agency. The table in Appendix A summarizes the results of the financial forecasts for the Phase 1 period.

Sound Transit is funded primarily by three tax sources: (1) a sales and use tax of 0.4%, (2) a motor vehicle excise tax (MVET) of 0.3%, and (3) a rental car tax of 0.8%. These three sources are projected to generate about \$6.9 billion during the period 1997 – 2016. About 78% of this will come from sales tax, about 21% from MVET, and less than 1% from the rental car tax. Based on external economic projections, the model assumes an average annual growth rate of about 5.1% for sales tax and about 4.8% for MVET. In addition to tax revenues, the agency expects to receive about \$1.9 billion in grant funds through 2016 which will increase to \$2.5 billion through 2030. About \$1.25 billion will be from two discretionary grants from the Federal Transit Administration for the Link light rail system (\$500 million for the 15.6-mile initial segment and \$750 million for the 3.2-mile University Link extension). Other grants and interest earnings on working capital will generate another \$574 million during this period. Operating revenues (mostly fares) will generate about \$434 million through 2016.

Sound Transit currently has three bond issues outstanding: (1) \$350 million issued in 1999, (2) \$423 million issued in 2005 and (3) \$450 million (plus \$17 million premium) issued in December 2007. These bonds were issued at average interest rates under 5%. The agency currently has a AAA bond rating on its senior lien bond from S&P and an Aa2 rating from Moody’s.

In order to complete the Link light rail system from SeaTac to University of Washington, the Financial Plan anticipates issuing about \$1.08 billion in bonds from 2008 – 2016. The plan assumes that bond interest rates will rise from 5.0% to 6.0% after 2009. The plan further assumes that most bonds will be structured with a 30-year term, with principal payments deferred for five years. Issuance costs are assumed to be 1.5% of par value, and 7.15% of the outstanding principal is set-aside for bond reserves. In accordance with Board policy, the Financial Forecasting Model maintains a debt service coverage ratio of 1.3x for the agency and for most subareas (1.15x for North and South King subareas). Simply put, the debt service coverage ratio is defined as the amount of funds available to cover debt service payments (after all operating costs have been paid) divided by the amount of debt service in any given year. Debt service coverage ratios are forecasted for each year of the planning period.

Sound Transit services consist of three elements: (1) ST Express bus service, (2) Sounder commuter rail services and (3) Link light rail service. ST Express commenced operations in 1997 and is currently operating 24 bus routes serving all three counties serving about 10 million passenger boardings annually. Sound Transit plans future expansion of express bus service sufficient to accommodate increasing

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ridership and maintenance of service schedules. Sounder began revenue operations in 2000 between Seattle and Tacoma and currently runs six weekday round-trip trains in this corridor. In 2003 Sounder began serving the Everett-to-Seattle corridor and currently runs three round-trip trains with a fourth train planned in 2008. The system currently serves about two million annual passenger trips. In 2012 a third segment between Lakewood and Tacoma is scheduled to open.

The Tacoma Link light rail service is currently operating on the two-mile line in Tacoma, serving 0.9 million passengers annually. Central Link light rail system is scheduled to open the 15.6-mile service from Seattle to SeaTac by end of 2009 and the 3.2-mile extension to University of Washington in 2016.

All of the transit services except Tacoma Link are operated or programmed to be operated under contract with existing transit providers (Community Transit, King County Metro and Pierce Transit for bus and Burlington Northern for Sounder). Based on historical trends, operating costs are expected to grow at an average annual rate (per unit of service) of about 5.1% per year for Express Bus, 4.2% for Commuter Rail and about 4.5% per year for light rail. (Staff is exploring the possibility of funding future maintenance bases for bus and commuter rail operations that would allow the agency to solicit bids from private operating contractors to encourage competition.)

The capital plan consists of new construction, plus other new projects that are included in the current system plan. The Capital program is updated annually as part of the budget process. Highlights of the capital plan (1997 – 2016) are as follows:

Link Light Rail:

- Completion of initial segment (Central Link) and light rail to SeaTac (Airport Link) – \$2,343 million
- Extension of light rail to University of Washington – \$1,614 million

Sounder:

- Completion of track and signal work – \$954 million
- Station improvements and other – \$266 million

Regional Bus Express:

- Transit lanes and high occupancy vehicle (HOV) access – \$351 million
- Transit centers, stations and park & ride + miscellaneous improvements – \$434 million

The above costs are total capital costs from 1997 – 2016. They do not include finance costs. Over half of the Sounder and ST Express capital programs were completed by end of 2006.

The financial plan is based on a number of assumptions and projections of key variables such as cost inflation, revenue growth, interest rates and availability of federal funds. Although contingency factors have been included in all of these key variables, the financial forecasts are still vulnerable to periods of economic recession or “spikes” in costs of labor or construction materials. The following table summarizes the key risk elements.

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Element	Financial Risk	Comments
Federal Grants	Medium	Grant assumptions through 2009 are low risk. Plan includes a second Full Funding Grant Agreement for ULink. Although there is low risk that Sound Transit will not receive federal grant awards, there is medium risk that the receipt of funds could be delayed.
Bonding Assumptions	Low	The debt service coverage ratio for the agency is 2.2, considerably above the 1.5 policy threshold. Sound Transit currently enjoys a AAA bond rating. There is low risk that interest rates could rise above the 6% forecast.
Other Revenue (fares, interest)	Medium	Fare prices need to keep up with inflation to preserve financial capacity. Sound Transit has some control over this parameter.
Local Tax Growth: Near Term	Medium	2007 tax receipts are 6% above 2006. Current forecast anticipates steady growth through 2009, but does not assume a serious recession in near term. If growth begins to lag, sales tax revenues could be negatively impacted.
Local Tax Growth: Long Term	Medium	Long-term forecast assumes growth rates on par with historic growth rates of tax bases for the region.
Inflation/Schedule	Medium	Continued high commodity price growth rates could have significant impacts on project costs and affordability. (Independent Risk Assessment on University Link project demonstrated adequate contingencies assumed in project cost estimates.)
O&M Costs	Medium	Plan uses SIP costs through 2012, then escalates O&M costs at about 4.5% annually thereafter, consistent with historical experience. Success will require continued O&M cost containment.
Overall Assessment	Medium	The overall plan is reasonable and appropriate given the current status of the agency's capital program.

A series of sensitivity analyses were conducted in preparing the financial forecasts in this plan. These analyses show that the financial plan can absorb negative financial "shocks" in the above areas and remain viable. More severe "shocks" could be mitigated in a number of ways, including drawdown of contingencies. Moreover, it is likely that there could be savings from one part of the capital and operating program to offset additional costs or reduced revenues in another part.

INTRODUCTION

This report presents the Draft 2008 Financial Plan for the Central Puget Sound Regional Transit Authority (Sound Transit) as well as the consolidated long-term financial plan. The plan reflects the mission of the agency to continue implementation of the “*Sound Move*” plan which was approved by the voters in 1996. The plan assumes completion of the major new capital development phase by 2016 and continued operation of the transit services thereafter. Although this financial plan includes planning and conceptual engineering elements of a Sound Transit Phase 2 plan (ST2), it does not assume either resources or expenditures for implementation of the major capital projects for ST2. The financial plan for ST2 has been produced as a separate report.

Description of Sound Transit

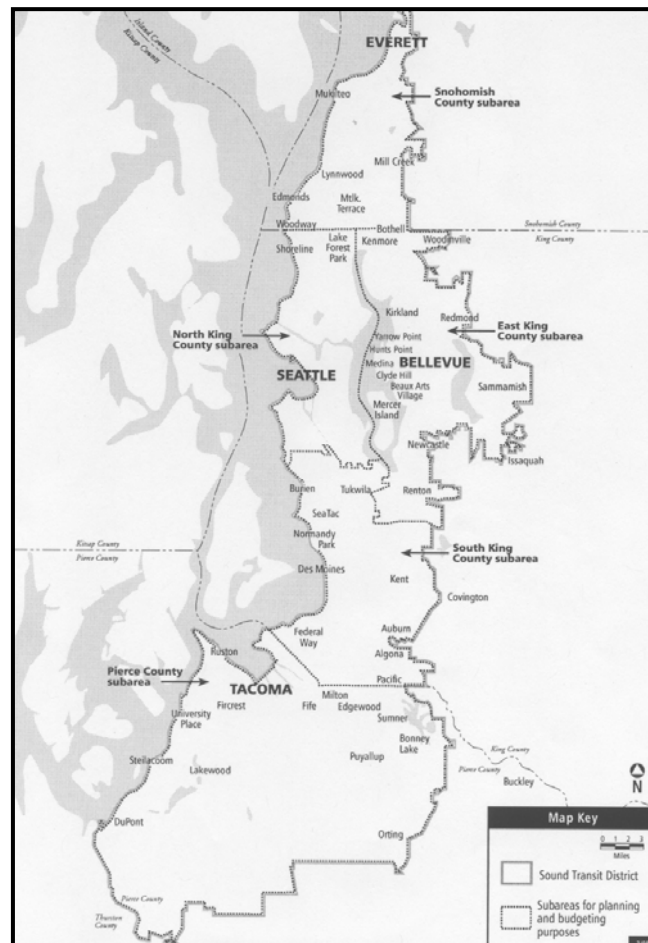
Sound Transit, the Central Puget Sound Regional Transit Authority, was created in 1993 pursuant to State enabling legislation (RCW 81.112). It is a special-purpose metropolitan municipal corporation, responsible for the construction and operation of high-capacity public transportation systems within its district. The Sound Transit district comprises five subareas within the contiguous urbanized areas of King, Pierce, and Snohomish counties (see Figure 1). The district is home to 2,667,000 people – approximately 81% of the three-county population.

Service

On May 31, 1996, Sound Transit adopted “*Sound Move: The Ten-Year Regional Transit System Plan*” (Phase 1). The *Sound Move* program extends from 1997 to 2016 and incorporates commuter rail, express bus, light rail, community connections (e.g. transit centers, park-and-ride lots and transit access improvements) and high occupancy vehicle facilities that are expected to cost \$6.2 billion (year-of-expenditure) dollars. To accomplish this, the voters in 1996 approved a 0.4% sales and use tax, a 0.3% motor vehicle excise tax, and a 0.8% tax on rental car fees. To date, the Authority has implemented the following services:

1. 73 miles of commuter rail service providing 6 round-trip train trips daily between downtown Seattle and Tacoma and 3 round-trip trains daily between Seattle and Everett serving about two million annual passenger trips;
2. 24 express bus routes with a fleet of 228 buses serving about 10 million annual passenger trips;

Figure 1 – Sound Transit Taxing Districts



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3. A 2-mile light rail line in Tacoma serving about 900,000 annual passenger trips;
4. Associated stations, park-and-ride lots, and transit access ramps.

In addition, Sound Transit has under construction 15.6 miles (double-track) of Link light rail line from downtown Seattle to the SeaTac Airport and is in final design to construct another 3.2 miles of light rail service from downtown Seattle to the University of Washington. The light rail service from downtown Seattle to SeaTac Airport is scheduled to open in 2009 and the 3-mile extension to University of Washington is scheduled to open in 2016.

Governance

Sound Transit's eighteen-member board consists of the Secretary of Transportation for the State of Washington and seventeen local (i.e., city and county) elected officials who are appointed by the legislative authority of each of the member counties, based on nominations from the respective county executives. Each county has one representative per 145,000 population residing within the Sound Transit district. Currently, there are 10 representatives from King County, 4 from Pierce County, and 3 from Snohomish County.

The Board structure defined in RCW 81.112 was designed to provide linkages to other governmental entities affecting the delivery and coordination of transportation services – the Washington State Department of Transportation (WSDOT), local transit systems, and the largest city within each member county. As noted above, the WSDOT Secretary automatically serves on the Sound Transit Board. Of the county appointees, one must be an elected official from the county's largest city, and at least half the appointees shall also be members of the legislative authority of a local transit system.

Major actions of the authority require a two-thirds majority. These actions are defined by State law to include at least the following: system plan adoption and amendment, system phasing decisions, authorization of annexations, modification of Board composition, and employment of the Chief Executive Officer.

Relationship to Local Transit Systems

Sound Transit is an independent transit authority. Four other transit agencies operate public transit services within the Sound Transit district: King County Metro, Pierce Transit, Community Transit, and Everett Transit. Sound Transit's Regional Bus Express services are operated by King County Metro, Pierce Transit and Community Transit under joint operating agreements. In addition, Sound Transit has contracted with King County Metro to operate the Initial Segment of the Link light rail system. The Sounder Commuter Rail service is operated through a contract with Burlington Northern Santa Fe (BNSF). Railcars and locomotives are being maintained via a contract with Amtrak.

Financial Structure

The financial statements of Sound Transit are being maintained in accordance with methods prescribed by the Washington State Auditor under authority of RCW Chapter 43.90. Sound Transit uses Budgeting, Accounting, and Reporting Systems for proprietary type districts in the State of Washington as well as General Accepted Accounting Principals established by the Government Accounting Standards Board. Propriety funds are accounted for using the accrual basis of accounting. Therefore, revenues are

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recognized when earned, expenses are recognized when incurred. Fixed assets are capitalized when purchased, and long-term liabilities are accounted for as incurred. Funds are accounted for on a cost of service or capital gains measurement focus. This means all assets and all liabilities (whether current or non-current) associated with Sound Transit's activities are included on its balance sheets. Note, however, that the Finance Plan is maintained on a cash basis in accordance with federal guidelines.

Financial Policies and Controls

The voter-approved *Sound Move* system plan and financing plan include several important financial policies and controls. Chief among these is a commitment to subarea equity. State law requires high-capacity transit system plans to include an equity element that identifies: (1) revenues anticipated to be generated by corridor and by county; (2) the phasing of construction and operation of facilities and services in each corridor; and (3) the degree to which the revenues generated within each county will benefit the residents of that county.

The financial policies adopted with *Sound Move* (Appendix B of the *Sound Move* plan) state that equity will be defined as "utilizing local tax revenues and related debt for projects and services which benefit the subareas generally in proportion to the level of revenues each subarea generates." The Sound Transit district is divided into five subareas – Snohomish, North King, South King, East King, and Pierce. In adopting the plan, the Sound Transit Board agreed that the facilities, projects, and services identified in the original ten-year system plan represent a reasonable definition of equity for purposes of satisfying both public policy concerns and statutory requirements.

This attention to subarea equity figures prominently in Sound Transit's financial controls system. Revenues, budgets, and expenditures are monitored on a subarea basis. This aspect of the plan protects against adverse changes in scope and schedule, and requires a financially feasible solution within each subarea. Given the level of inspection devoted by the Board to subarea financial feasibility, system-wide financial feasibility is significantly enhanced. An independent auditor issues a Schedule of Subarea Equity report on an annual basis.

Following are financial policies adopted with the system plan:

- Require an average net debt service coverage ratio of 2.0x, not to fall below 1.3x in any year for three of the five subareas (Snohomish, East King and Pierce), or fall below 1.15x for two of the subareas (North and South King).
- In accordance with Board policy, the financial forecasting model will borrow funds as necessary when the cash balance of a subarea falls below \$1 million.
- Maintain a three-month operating cost reserve for each subarea;
- Limit the amount of debt financing within each subarea to each subarea's ability to repay debt after covering operating costs;
- Manage the agency's debt capacity on a consolidated basis; and
- Allow the use of short-term debt to bridge the gap between the timing of expenditures and the receipt of revenues.
- Allow inter-subarea borrowing through year 2009.

A Regional Fund has been established and funded through local taxes to pay for the system-wide elements of *Sound Move*. These elements include the integrated fare program, innovative technologies and planning for future capital investments that will be placed before the region's voters. Sound Transit

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administrative costs, not directly associated with capital or transit operations, are also covered under the Regional Fund. This funding is drawn from an equal percentage of local tax revenues contributed by each of the five subareas plus interest earnings.

Financial Oversight

Sound Transit implements several actions to ensure financial integrity.

Annual Financial Statement and Independent Auditor's Report. At the close of the fiscal year on December 31, management produces a financial statement and an independent auditor's report including balance sheet, statements of revenues and expenses, findings (notes to the financial statements) and formal opinion. This report is presented to the Board of Directors.

Annual Single Audit Report. As a recipient of federal funding, Sound Transit is required to engage an independent auditor to review compliance with U.S. Office of Management and Budget Circular A-133. This directive specifies accounting procedures and internal controls to insure that federal funds are managed in compliance with federal laws and regulations. This report is presented to the Board of Directors.

FTA Triennial Review. At three-year intervals, the Federal Transit Administration (FTA) conducts a review to ascertain Sound Transit compliance with 23 functional requirements of agencies receiving federal funds. These include activities such as procurement, fare policy, drug free workplace, financial control and disadvantaged business enterprise.

Project Management Oversight Committee. For major construction projects under a Full Funding Grant Agreement (FFGA), FTA contracts with an independent firm to monitor engineering design, cost estimates and construction/procurement practices. The FFGA projects include the Link light rail system from SeaTac to University of Washington.

Financial Management Oversight is provided by a financial expert under contract to FTA. This specialist reviews financial plans to make certain the assumptions and calculations are reasonable and in accordance with FTA Guidance for Transit Financial Plans. The FMO also requires that Sound Transit conduct "stress tests" to ascertain that the agency has sufficient financial capacity in the event that costs are higher or revenues lower than assumed in the financial plan.

Citizen Oversight Panel is a volunteer body appointed by the Sound Transit Board to oversee and monitor implementation of *Sound Move*. The panel monitors performance of Sound Transit and reports to the Board twice a year on findings and recommendations for improvements to ensure the success of agency plans and investments.

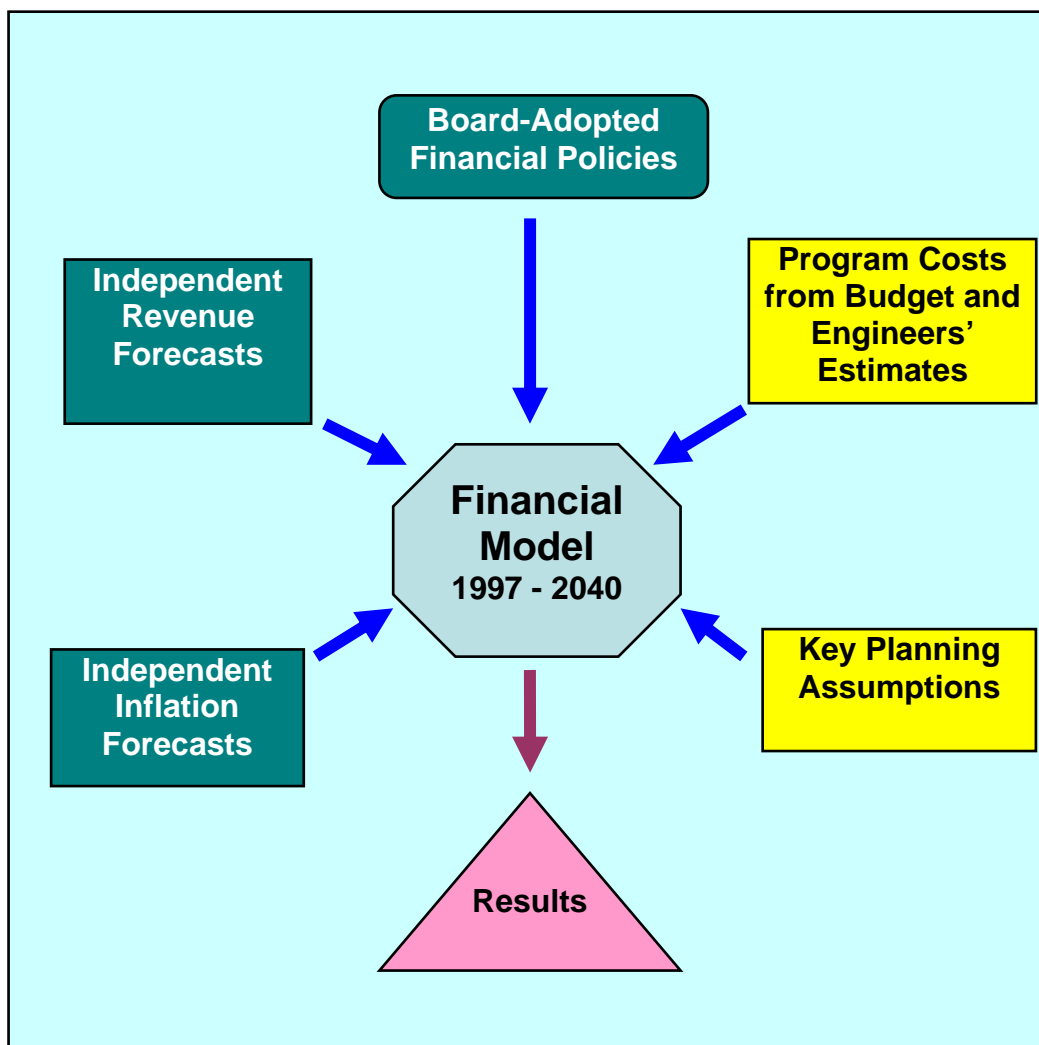
Annual Report on Subarea Equity. One of the key commitments of *Sound Move* was to insure that Sound Transit delivers a fair share of investments to each of the five geographic areas commensurate with their contributions of tax-based revenues to the Authority. To insure that this concept is maintained, Sound Transit engages an independent auditor to review the financial statements for compliance with agreed-upon procedures for allocation of resources among the subareas. The findings of this report are presented to the Citizens' Oversight Panel and the Board of Directors.

FINANCIAL PLAN ASSUMPTIONS AND METHODOLOGY

This long-term financial plan is produced in accordance with the Federal Transit Administration's (FTA) "Guidance for Transit Financial Plans." The plan is maintained on a cash basis. It states and projects all agency sources and uses of funds for the period 1997-2040. The Plan presents the agency's operating statements, sources and uses statements, debt amortization and asset replacement schedules for the period 1997-2040. The Plan incorporates the agency's most current proposed or Board-adopted operating budget and long-term capital plan and the agency's long-term operating plans for ST Express bus, Sounder commuter rail and Link light rail (in Tacoma and from SeaTac to the University of Washington).

At the heart of the Financial Plan is the Financial Forecasting Model. This model compiles the financial policies, assumptions, revenue forecasts, and program cost estimates to calculate cash flow, bond issues and key performance indicators (e.g. cash balances and debt service coverage ratios). The diagram below illustrates the concept of the model.

Key Elements of Financial Plan



Funding Sources

Local Taxes

The State enabling legislation defines the taxes that may be levied by a regional transit authority. These include: (1) a retail sales and use tax of up to 0.9%; (2) a motor vehicle excise tax (MVET) of up to 0.8%; (3) an employer tax of up to \$2.50 per employee per month; and (4) a sales and use tax of up to 2.172% on taxable retail car rentals. The first three taxes may be levied based on a simple majority vote within a regional transit district. The car rental tax can be implemented by Board action, if voters have approved the levy of a motor vehicle excise tax. A regional transit authority can pledge the revenues from any of these taxes to the repayment of bonds issued for high-capacity transit purposes. Once approved by voters, the taxes may be implemented by a vote of the Board and may continue in perpetuity at the Board's discretion.

A sales and use tax of 0.4% and a MVET of 0.3% were approved for Sound Transit's use in a November 1996 referendum. Subsequent to the referendum, the Board also authorized a rental car tax of 0.8%. Approval of these taxes was in connection with the *Sound Move* Ten-Year Regional Transit Plan, adopted by the Sound Transit Board in May 1996. This document represents the system plan and financing plan that, per State law, had to be approved by the Board in advance of the referendum. This plan is often referred to as the "Phase I Plan."

Neither the sales and use tax nor the rental car tax has a sunset provision; however, the Sound Transit MVET collections will expire in 2028. A second phase of the system plan would require voter approval. If there is no second phase, the Board will roll back the tax rates to a level sufficient to pay off the outstanding bonds, and to operate and maintain the facilities and services implemented as part of the current system plan.

Forecasting tax revenues for the Sound Transit district presents unique challenges, as its jurisdictional boundary does not correspond to any economic reporting entity. The district includes incorporated and unincorporated areas in the three counties – King, Pierce and Snohomish. Sound Transit receives forecasts of sales and motor vehicle excise tax revenue bases at the county level from Dick Conway and Associates. The base forecast is based on economic and population projections from the Puget Sound Economic Forecasting Model, a regional econometric model of King, Pierce, Snohomish and Kitsap counties. The variables used to predict taxable retail sales include Puget Sound personal income, housing permits and the unemployment rate. The motor vehicle excise tax base is forecast based on predictions of motor vehicles by type, driving-age population and the unemployment rate, as well as the expected average value of motor vehicles. These forecasts project an average annual growth rate of about 5.1% for sales tax and 4.8% for MVET.

The countywide tax base forecasts are then allocated to the Sound Transit subareas based on historical data from the State Department of Revenue and the State Department of Licensing.

Ridership Forecasting

For ST Express bus, ridership estimates through 2012 are based on past trends of passengers per trip taking into account the number of central business districts served and remaining capacity of the vehicles on ST Express service. If trips are added, the new trips are prorated over a period of one year. Ridership is presumed to grow from 10 million annual passenger boardings in 2007 to about 12 million boardings in 2010 and increase at about 2% each year thereafter.

Souder ridership estimates through 2012 are based on past trends of passengers per trip taking into account the remaining capacity of the park-and-rides at each Souder Station. Added trips are prorated

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over a period of three years. Ridership is projected to grow from two million passenger boardings in 2007 to about 2.7 million boardings in 2010. After 2010, ridership is expected to increase at about 0.1 to 0.2 million boardings per year.

For long-range ridership forecasts (including light rail), the Sound Transit ridership forecasting model (ST Model) is used. In the ST Model, transit ridership forecasts are based on observed origins and destinations of transit riders, observed transit line volumes, and a realistic simulation of observed transit service characteristics. The ST Model is executed in three stages. In Stage 1, regional changes in demographics (households and employment) are taken into account. In Stage 2, changes in transit and highway travel time (congestion) and cost factors (parking costs, transit fares, and household income) are taken into consideration. In Stage 3, incremental changes in the transit network (e.g. addition of a light rail line) are incorporated, and a forecast of zone to zone transit trips is prepared for the region. Each light rail alternative ridership forecast is paired with a comparable baseline ridership forecast, so the effects of incremental changes in the transit network can be clearly measured.

Tacoma-Link light rail ridership is currently at about 0.9 million passenger boardings per year. By 2010, when the Central Link light rail system is in operation, light rail ridership is projected to be about nine million boardings. And by 2017, the first full year of University Link operation, ridership is projected to be over 24 million boardings.

Fare Revenues

The financial plan assumes the agency continues to collect fare revenues from Sound Transit operations — ST Express bus and Sounder commuter rail. The agency does not collect fares for Tacoma Link and will not receive fares for Central Link until the system becomes operational in 2009. Fare revenue forecasts are based on ridership forecasts and assumptions regarding fare levels and price elasticity.

The Financial Plan assumes the collection of \$113 million for commuter rail, \$237 million for bus and \$84 million of light rail operating revenue through 2016. Other revenues may be derived from advertising or private sources; however, no assumptions are made in *Sound Move*, the Financial Plan, or in this report regarding such revenues.

Average fare price per boarding passenger is about \$3.00 for Sounder and \$1.27 for ST Express bus. This average fare price is less than the cash fare per boarding because of several factors: (1) free transfers, (2) monthly passes (fixed monthly price for unlimited rides) and (3) discount fares (e.g. seniors, youth and disabled). Sound Transit's board has not adopted a fare schedule for light rail. For planning purposes, fare revenue is calculated based on the following assumptions, which are subject to change by the Board:

- Average fare per boarding will be \$1.00 in 2009, growing each year at the rate of Seattle-CPI.
- Fares will be structured with a base fare plus an increment based on the distance (zone) traveled, similar to the fare structure approved by the Board of Directors in 2007 for Sounder.
- Light rail fares will compare to bus fares in the corridor, including zone fares;
- There will be no charge for bus-rail transfers;
- There will be discounts offered to seniors and youth; and
- Monthly passes and employer passes will be sold at a discount.

In addition, fares will be assumed to increase with inflation over time. Assumptions about revenue allocation from transferring passengers are based on the fare integration agreement reached in 1999 between Sound Transit, Community Transit, Everett Transit, King County Metro, and Pierce Transit.

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The agency will receive \$434 million in fare revenue on all services (including Link light rail) from 1997 through 2016. Appendix B shows the agency-wide fare revenue forecast from 1997-2040.

Grants

The Financial Plan assumes a total of \$1.9 billion in grant awards for *Sound Move* projects from 1997 through 2016. The \$1.9 billion includes: \$500 million for the Link Initial Segment, \$762 million for University Link, \$55 million for Airport Link, \$380 million for Sounder and Regional Express and \$216 million of FTA formula funds assumed for preventative maintenance for all modes.

For University Link, the grant assumption consists of \$750 million of section 5309 New Starts funds under a Full Funding Grant Agreement (FFGA), \$9 million of Congestion Mitigation/Air Quality (CMAQ) funds and \$3 million of Section 5309 Fixed Guideway funds. The CMAQ and section 5309 Fixed Guideway funds have already been secured for years 2008-2010. The University Link FFGA is assumed to receive annual appropriations between 2008 through 2016, totaling \$750 million.

For Sound Transit, federal funding will be secured through conventional Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) programs currently authorized under the Safe, Accountable, Flexible, Efficient Transportation Efficiency Act: A Legacy for Users (SAFETEA-LU) and future authorizations. Funding will be secured through both congressional appropriations and regional/national grant competitions. Grant funding assumptions by source are shown in Table 1 below.

Table 1
Sound Transit Grant Funding Assumptions (Including University Link) Through 2016

Funding Category	Funding in Millions	Secured through FFY 2008	Anticipated Funding
Section 5309 New Starts (FTA Discretionary)	\$1,372	\$613	\$759
University Link Light Rail -- \$750m assumed FFGA			
Initial Segment Light Rail -- \$500m executed FFGA			
Commuter Rail -- \$122m secured			
Section 5307 Formula	\$222	\$73	\$149
Section 5309 Fixed Guideway	\$137	\$65	\$72
Surface Transportation Program (FHWA Urban Competitive)	\$68	\$68	
Congestion Mitigation Air Quality (FHWA Competitive)	\$44	\$44	
Section 5309 Bus (FTA Discretionary)	\$33	\$31	\$2
State	\$24	\$24	
Miscellaneous Competitive	\$11	\$11	
Surface Transportation Program (FHWA Railroad Crossing Comp.)	\$5	\$5	
Total	\$1,916	\$934	\$982

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Note that above amounts are on a *grant awards* basis, and may be slightly larger than similar amounts shown in Sources & Uses tables on a *grant drawdown* (cash) basis due to the anticipated delays in actually receiving grant funds, which are on a reimbursement basis. See Appendix G for further details on grant revenues.

Through federal fiscal year 2008, Sound Transit has been awarded \$934 million, or 49 percent, of the total projected federal funding. Funding has been secured through congressional appropriations and regional, state and national competitions. Funding has been secured across all funding sources and modes:

- \$280 million for Sounder Commuter Rail rolling stock, track and signal work, railroad crossings, equipment, right-of-way and station construction.
- \$519 million for the preliminary engineering, final design, right-of-way acquisition and construction of the Initial Segment and Airport Link. University Link has received federal funding for the right-of-way phase.
- \$135 million for Regional Express rolling stock, transit centers, park-and-rides, and direct access ramps.

Interest Earnings

The financial plan assumes that Sound Transit will earn a 3.0% rate of return on its cash balances through the planning period (2040). In accordance with Sound Transit financial policies, all interest earnings are credited to the agency's Regional Fund to offset expenditures for region-wide programs.

State and Local Assistance

State and local financial assistance includes funds that are either granted directly to Sound Transit, or are provided as a credit against taxes or fees that would otherwise be levied on construction activities by other units of government. The agency has commitments from other jurisdictions for providing funds for ST Express and Sounder projects. Such revenues are not included in the financial plan until agreements with other jurisdictions are signed.

For Link light rail, the current financial plan includes \$12 million in both revenue and expenditure assumptions for the Community Development Fund (CDF); in addition, Sound Transit will also be reimbursed \$4.7 million for CDF administrative costs. Sound Transit has executed agreements with the City of Seattle and King County under which the City and County will fund the CDF, either directly or through a combination of direct appropriations and indirect contributions to the Link project. The financial plan placeholder accounts for all sources and uses required to meet the commitment to the community as identified in the Record of Decision.

Inflation Forecasting

Sound Transit uses three indices to inflate costs over time in its cost estimates and long-range financial plan. The Consumer Price Index (CPI-U Seattle) is applied to capital costs other than construction and property acquisition. The CPI forecast is developed by Dick Conway and Associates. The Building Cost Index (BCI) is applied to construction-related elements of the program. A Seattle-area forecast of this cost index is prepared for Sound Transit by Global Insight based on projected changes to the price of a "shopping cart" of goods related to construction. A right-of-way index (ROWI) forecast is applied to property acquisition costs. Forecasts of this index are prepared for Sound Transit by Forecasting and Business Analytics (FABA), LLC. See Appendix D for a schedule of inflation factors.

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The CPI index is expected to grow at an average annual rate of 2.6% in 2006 – 2027. For financial planning purposes, Sound Transit adds an additional 1% contingency to the forecast in its long-range plan.

The BCI index is expected to grow at an average annual rate of 3.06% from 2008 – 2027. In addition, Sound Transit applies a 1% contingency in 2006, 0.75% in 2007 and 0.5% in 2008 – 2030 in the long-range financial plan.

The ROWI index is expected to grow by an average of 2.6% from 2008 – 2027. In addition, Sound Transit applies a 2% contingency starting at 2007 to the index in the long-range financial plan to increase the average annual growth to 4.6%.

Bonds and Notes

Sound Transit issued \$350 million in bonds in 1999, \$423 million in bonds in 2005 and \$450 million (plus \$17 million premium) in December 2007. The interest rates were low by historical standards (4.97%, 4.6% and 4.8%, respectively). Sound Transit's 1999 bonds have an underlying credit rating of Aa3 with a positive outlook by Moody's and AAA by Standard & Poor's. The agency's 2005 bonds received underlying ratings of Aa3 and AA+ by Moody's and Standard & Poor's, respectively. The 2007A bond issue received ratings of Aa3 and AAA by Moody's and Standard & Poor's, respectively.

In order to complete the Link light rail system from SeaTac to University of Washington, the Financial Plan anticipates issuing about \$1.08 billion in bonds from 2008 – 2016.

Debt Financing Capacity

Although Sound Transit does not levy property taxes, its debt limit pursuant to State law, like that for all municipalities in the State of Washington, is defined based on the assessed valuation of real property. There are two types of bond limits—for non-voted debt, and for voted debt.

Sound Transit may issue bonds in amounts up to 1.5% of assessed valuation within its district without special voter authorization. In 2007, assessed valuation is estimated to be about \$325 billion, thus the non-voted debt limit is approximately \$4.9 billion. Sound Transit has issued \$1,233 million in bonds to date, leaving a non-voted debt capacity of about \$3.7 billion. Sound Transit's 2007 Baseline financial plan projects total borrowing of \$2.3 billion through 2016, including the \$1.23 billion of bonds issued through 2007.

Upon the approval of 60% of the electorate, Sound Transit could issue bonds in amounts up to 5% of assessed valuation. This is about \$15 billion, based on 2007 estimated assessments. At this time, Sound Transit contemplates borrowing to be well under the lower non-voted debt limit.

Bonding Assumptions

The financial policies adopted by the Sound Transit Board encourage a conservative use of debt. The *Sound Move* Appendix B Financial Policies state, "for planning purposes, the RTA's debt service coverage ratio policy will be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below 1.3x in any single year. Prior to bond issuance, the RTA will establish the appropriate debt service coverage ratio to incorporate in its bond covenants." Sound Transit staff have usually interpreted this policy as applying the 1.3x limit to each subarea (1.15 for South King and North King, as set by Board policy), and that coverage ratio is the floor applied to subareas in determining their bonding capacity. In order to generate sufficient capacity to fund Airport Link, the Sound Transit Board lowered the minimum coverage requirement to 1.15 for the South King subarea, and in order to generate

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sufficient capacity for ULink, the Board lowered the minimum coverage to 1.15 for the North King subarea.

The financial plan assumes that future bonds will be issued at a blended rate of 5.0% during the Phase I period (1997-2009), rising to 6.0% after 2009. A calculation of the agency's weighted average cost of capital (WACC) suggests a significantly lower blended rate when variable rate bonds are taken into account. The plan assumes that most bonds will be structured with a 30-year term, with principal payments deferred for five-years for bonds issued until 2009. The plan assumes 1.5% issuance costs and 7.15% of outstanding principal set-aside for bond reserves. Bonds issued after 2008 are assumed to have a 10-year interest only payment structure. Bonds issued after 2005 are also assumed to have non-level principal amortization structure.

Summary of Financial Assumptions

- Sales Tax Rate: 0.4% 1997 – 2030
- Sales Tax Average Annual Growth: 5.1%
- MVET Tax Rate: 0.3% 1997 – 2029 (tax ends after 2029)
- MVET Tax Average Annual Growth: 4.8%
- Rental Car Tax Rate: 0.8%
- Rental Car Average Annual Growth Rate: 0.2%
- Average fare prices to increase with inflation
- Sound Transit to receive \$1.9 billion in federal grant revenues through 2016
- CPI Average Annual Cost Inflation: 3.6% (including contingency)
- BCI Average Annual Cost Inflation: 3.5% (including contingency)
- ROWI Average Annual Cost Inflation: 4.6% (including contingency)
- Interest Rate on GF and Reserve Funds: 3%
- Bond Interest Rate: 5% Phase 1 (through 2009), 6% Phase 2 (2010 and beyond)
- Bond Term: 30 years
- Interest Only Payment Period on Bonds: 5 years
- All-in Issuance Costs: 1.5% of Par Value
- Principal Set-Aside for Bond Reserves: 7.15%
- Interest Rate on Inter-subarea Borrowing: (same as CPI)
- O&M Reserves equal to three months' O&M costs

SERVICE AND OPERATING PLAN

Service Implementation Plan

Sound Transit services consist of four elements: (1) ST Express bus service; (2) Sounder commuter rail services; (3) Tacoma Link light rail service; and (4) Central Link light rail service. These elements have been consolidated under the Transportation Services department.

ST Express Bus

ST Express commenced operations in 1997, when Sound Transit assumed financial responsibility for the Seattle-Tacoma Express that had previously been funded by Pierce Transit. In September 1999, service was implemented on ten new ST Express routes and another major service expansion took place in September 2000.

ST Express Bus is currently operating 24 bus routes, which serve riders in King, Pierce, and Snohomish counties. Current service requires 605,000 vehicle hours annually, and that is projected to increase to about 646,000 vehicle hours by 2010. Annual ridership is growing, with 10 million passenger boardings in 2007 and 12 million forecast for 2010. ST Express buses served an average of 37,000 riders per weekday in the three-county region during 2007. Over the next four years, through 2011, the ST Express bus service will be increased by an average of about 2.5% per year. Although no new routes are anticipated, the expanded service will add trips as needed to accommodate ridership growth and to maintain schedules when service slows due to traffic congestion. A detailed plan for ST Express services is described in the *Service Implementation Plan*, which is updated annually. The partnerships formed with Community Transit, King County Metro, and Pierce Transit have enabled Sound Transit to implement a system that makes the most of the region's transportation resources.

Sounder Commuter Rail

Sounder began revenue operations in September 2000 between Seattle and Tacoma, and currently runs six weekday round-trips in this segment, one of which is a reverse commute trip (serving commuters from Seattle who work in the Tacoma area). The Everett-to-Seattle segment began operating in the fall of 2003 with one weekday round-trip run; a second weekday round trip started running in 2005 and a third was added in 2007. In 2008, a fourth train will be added to the North line. A third Sounder segment between Lakewood and Tacoma is scheduled to begin operations in 2012. In 2007 Sounder ridership was about two million boarding passengers per year (8,000 passengers per weekday) and is projected to exceed three million passengers per year by 2012. Sounder service is being operated via a contract with BNSF. Railcars and locomotives are being maintained via a contract with Amtrak.

Tacoma Link Light Rail

Tacoma Link began operations in the fall of 2003, with significantly higher ridership than projected. Current ridership is about 2,900 boarding passengers per day, or 0.9 million per year. This service is free to the public. Its chief function is to serve as a circulator connecting the Tacoma Central Business District and the Tacoma Dome multi-modal station.

Central Link and University Link

The Final 2006 Financial Plan assumes that the Initial Segment of Central Link is scheduled to begin operations in July 2009, with services operating between Westlake Station and South 154th Street. The initial service on Central Link will be 61,994 annual train hours in 2010, the first full year of operations, with headways at six minutes during peak hours. The Airport Link segment is scheduled to start operating in January 2009, and the University Link segment is slated to commence revenue service in 2016. Ridership in 2010 is projected to be about 9 million passenger boardings per year. The entire Airport to University Link service will require 91,000 annual train hours. Link operating cost forecasts are based on a cost build-up model that uses information on service frequencies, track geometry, labor productivity, and unit costs to estimate annual O&M costs.

Operating and Maintenance Costs

Operating and maintenance (O&M) costs are projected by each of the transit modes in the Transportation Services department as part of the annual budget process, reflecting the current implementation schedule. These costs are projected based on a cost build-up model for each line of business, including the cost of support services allocated to each line of business. ST Express bus costs are based on cost reimbursement agreements with each of the local operators providing these bus services. Sounder costs are based on its business plan, which takes into account staff costs, the operating agreement with BNSF railroad, and the maintenance agreement with Amtrak. Link costs are based on a cost build-up model that uses information on service frequencies, track geometry, labor productivity, and unit costs to estimate annual O&M costs. The O&M costs for the three modes of service are presented in Appendix B.

The Sounder commuter rail service has nearly maximized the amount of track schedule that can be shared with Burlington Northern: Consequently, no additional trains are planned for the Sounder commuter rail service after 2008. In 2012, the South Sounder line will be extended from Tacoma to Lakewood. Various track and signal projects are being implemented that will improve running times and reliability.

The ST Express bus service has matured and future service changes will be primarily those needed to accommodate increased ridership growth and improve service schedules. After 2011, O&M costs are projected to reach a relative plateau in real terms, and would grow only as affected by ridership growth, cost inflation, and maintenance cycles.

Link light rail O&M costs are based on an operation of 2.7 million vehicle miles per year in 2010 through 2015, then increasing to 3.8 million by 2017 with the addition of ULink, and eventually reaching 4.1 million by 2020.

Regional fund activities are special system-wide programs that are funded by interest earnings and levies on subarea tax revenues, the latter not to exceed ten percent per year¹. These include administration costs that are not allocated to the lines of business, regional fare integration costs, Phase 2 planning and research and technology programs. Appendix B presents a year-by-year summary of O&M costs by mode.

¹The Draft 2008 Financial Plan estimates that total Regional Fund (Systemwide) activities would amount to \$524 million through 2016, about 8% of estimated Phase I tax revenues. Regional activities are funded primarily through interest earnings on the general fund.

CAPITAL PLAN

Sound Transit's capital plan consists of new construction and other new projects that are included in the current system plan. Sound Transit updates the capital program annually as part of its budget process.

Souder Commuter Rail

Souder service will eventually run from Everett, in Snohomish County, to Lakewood, south of Tacoma in Pierce County. Implementation of facilities and services is divided into three segments: (1) Tacoma to Seattle; (2) Everett to Seattle; and (3) Lakewood to Tacoma.

The Tacoma-Seattle segment is operating with seven stations (including Downtown Seattle), of which one is still temporary. Revenue operations for the Lakewood-Tacoma segment are expected to begin in 2012. The Everett-Seattle segment has three stations (including Downtown Seattle) and will add a fourth at Mukilteo in 2008. By the end of 2007, the \$1.2 billion of construction on the projects for stations, track and signal systems was about 80% completed.

ST Express Bus Capital Projects

ST Express is currently planning and managing the construction of 23 capital projects, totaling \$421 million, including park-and-ride lots, high occupancy vehicle lanes/access, transit centers and flyer stops. Through 2007, the agency has already completed \$364 million of ST Express bus projects.

HOV Direct Access Projects: The high occupancy vehicle (HOV) access projects are being implemented through a partnership between Sound Transit and WSDOT. These special access ramps to make it easier for transit and carpools to use HOV lanes at some of the region's most congested freeway intersections. The improvements will expand and permanently improve the HOV network the region has already started.

Community Connections: To maximize public access between the regional and local transit systems, Sound Transit is funding a variety of community connection facilities including transit centers, park-and-ride lots, flyer stops and transit access improvements. These facilities will improve access to the regional transit system as well as connections to the local transit services. A detailed list can be found in the Proposed 2008 Budget.

ST Express Bus: These funds are devoted to bus acquisition, bus maintenance facilities and related equipment. By end of 2008, Sound Transit will have acquired a fleet of 240 buses. Sound Transit has forged partnerships with Community Transit, King County Metro, and Pierce Transit for operating the buses.

Tacoma Link

Tacoma Link is a locally-funded project. This is an at-grade line, with five stations, including the Tacoma Dome multimodal station. Tacoma Link commenced service in August 2003. No major capital improvements are currently planned for this system.

Link Light Rail

There are four light rail alignments which are currently funded with the financial plan: Tacoma Link, the Initial Segment of Central Link, Airport Link and University Link. In addition, engineering costs for

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completion of the Locally Preferred Alternative and initial planning for extension of the system to Northgate are also included in the financial plan.

The baseline cost estimate (BCE), as submitted to the FTA as part of the FFGA for the Central Link Initial Segment, is \$2,437 million. This includes \$2,070 million of capital costs, \$202 million of financing costs and the remainder for project reserve, art projects and payments for the Downtown Tunnel.

In addition to the Initial Segment, the financial plan includes \$284 million for the extension of the Central Link alignment to the SeaTac Airport (Airport Link). This includes capital costs of \$273 million plus \$11 million in finance costs. The University Link segment will cost an additional \$1,798 million, including \$1,614 million capital costs and about \$184 million financing costs.

Upon completion of the Initial Segment of light rail and associated Community Development Fund and public art programs, the North King subarea still has additional financial capacity without any changes to existing financial policies or financing assumptions. After funding University Link, the subarea has a positive cash balance of over \$125 million by 2016. Its net debt service coverage goes to 1.25x in 2019, but is well above that level for all other years. The South King subarea dips to a debt service coverage ratio of 1.18x in 2012, but is above 1.2x for all other years.

In August 2005, Sound Transit submitted the University Link project to the FTA for review under the New Starts program for major transit projects. As a part of that submittal, the agency is required to submit a financial plan to build the project. Sound Transit's New Starts submittal included a financial plan with a \$750 million FFGA for the project. The FTA has awarded the project its highest rating ("High"). The Draft 2007 Financial Plan with University Link includes this \$750 million grant, with receipt of funds from 2009-2016.

Regional Fund

Sound Transit's capital and operating program also includes funds for projects that are regional in scope, including (1) Transit Vision (formerly Research and Technology Fund and Fare Integration); (2) Phase 2 Planning; and (3) agency administration capital and operating projects.

The financial plan also includes funding for general fund reserves, bond reserves, bond issuance costs, and a project cost contingency reserve. Sound Transit maintains O&M reserves equal to two months of operating costs. Cash is managed so that a minimum \$10 million balance is maintained in the General Fund at all times. Future bond issues are assumed to require a reserve equal to one year's debt service. Bond issuance costs of 1.5% of issue value are also reflected in the financial plan.

Debt Service

The financial plan anticipates that there will be \$1,786 million of debt service through 2020 associated with bonds issued from 1999 to 2016. North King subarea projects, principally the Initial Segment and University/North Link, will account for \$1,030 million or 58% of the debt service through 2020. Debt service will end in 2046, thirty years after the last bond issue in 2016, unless more debt is issued to support Sound Transit's Phase II programs.

The agency's baseline financial plan assumes that all future debt is issued with (a) no principal payments for the first five years after the bond issuance; and (b) level amortization for each bond issue. The Draft

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2007 Financial Plan with University Link assumes (a) no principal payments until the tenth year after the bond issuance and (b) level amortization for the agency's overall debt structure, with a non-level amortization for each individual future bond sale. The net impact of these two changes is to defer payment of principal vis-à-vis the baseline structure, without lengthening the term of future bond issues.

Due to the financial burden of the University Link project, this Financial Plan suspends capital replacement funding for the North King County subarea from 2008 – 2015, after which the subarea returns to a normal capital replacement schedule.

Asset Management

The Sound Transit Financial Plan provides for capital replacement through the use of a sinking fund. Contributions to this fund begin in 2009. An annual contribution to the fund is calculated for each class of asset and its replacement cycle. There may be several replacement cycles per class. The annual contribution is a fixed annual payment for each unique combination of asset class and replacement cycle. These payments, plus accumulated interest earnings, are calculated to exactly equal the (inflation-adjusted) replacement cost of the asset at a specified future date.

The annual payment calculation assumes that 77% of replacement costs will be funded from Sound Transit funds, with the remainder (23%) being funded from grants. The interest earnings rate is currently set to 5.5% annually. This is higher than the interest earnings rate (3.0%) assumed for other funds (e.g., the general fund) because the long lead time on capital replacement would allow Sound Transit to invest in longer-term securities that usually offer higher earnings. The compounding of interest earnings allows the annual payments to the sinking fund to be less than the annual straight-line depreciation cost of an asset.

The replacement date for assets follows generally-accepted principles for the useful life of transit plants and equipment. The twelve-year replacement cycle for buses is the industry standard. The replacement cycles for commuter rail (Sounder) and light rail (Link) equipment were adopted from "Methodology for Projecting Rail Transit Rehabilitation and Replacement Capital Financing Needs," by Robert L. Peskin, published in Transportation Research Record 1165, Transportation Research Board, 1988. Portions of the assets in a group are replaced on fixed cycles. It is notable that less than 100% of rail capital asset cost is subject to replacement. This reflects the permanent nature of some heavy civil structures such as tunnels. The replacement cost estimates are refined as more detailed component costs become available.

FINANCIAL MODELING RESULTS

Appendix A presents a summary of the financial forecasts for Phase 1. These forecasts include the University Link light rail extension scheduled for completion in 2016. The Phase 1 Draft Financial Plan projects that from 1997 to 2016, Sound Transit will spend \$6,771 million for capital in the expansion of new transit service. Of that, \$1,274 million will be for commuter rail, \$792 million for express bus, and \$4,205 million for light rail. The agency will issue \$2,292 million in bonds and incur \$1,230 million in debt service costs during this period to finance this expansion. The ending cash balance in 2016 will be about \$848 million.

Year-by-year forecasts are presented in the Appendices. This forecast includes all of the assumptions and contingencies discussed herein and meets the criteria stated in the Financial Policies and Controls section.

KEY FINANCIAL ISSUES

Financial Risks

In order to gauge the vulnerability of Sound Transit's financial plan to risk factors, stress tests on the final financial model are regularly conducted. These tests confirm that the agency has a very strong capacity to withstand adverse financial shocks. However, individual subareas are more susceptible to negative financial developments. The following are the key risk areas:

Federal Funding: Sound Transit has successfully renegotiated the terms of a revised \$500 million Full Funding Grant Agreement (FFGA) with the Federal Transit Administration and is on schedule to formally submit a (FFGA application for \$750 million for the University Link project. While the FTA has an excellent record of meeting its total obligations under its FFGAs, there is a risk that annual appropriation levels will not meet the schedule outlined in the FFGA. A delay in the receipt of federal funds will force North and South King subareas to issue more bonds to fund the Central Link project, thereby increasing debt service payments and ultimately reducing their respective debt service coverage ratios.

Local Tax Revenue Growth: Sound Transit relies on an independent forecast of its local tax bases. The forecast does not anticipate another recession in the near term. Long-term economic forecasts are inherently uncertain and actual economic growth in the region could still be lower than the revised forecast, especially if we experience a period of "stagflation" (high inflation with stagnant economic growth). If revenue growth were to fall below the revised forecast, the agency's near-term revenue collections as well as its long-term bonding capacity would be reduced. A significant reduction in local tax revenues would have a negative impact on the agency's financial condition.

Interest Rates: The financial model assumes that the agency can, on average, borrow at 5.0% interest rate for its long-term bonds through 2009 and 6.0% thereafter. If interest rates were to rise substantially from the current levels and remain at those levels for a prolonged period, the agency's borrowing costs would rise and there would be a corresponding increase in its debt service and a reduction in its total financial capacity. Interest rates are relatively low at the moment, but in 2008, the Federal Reserve Board may find it necessary to increase the federal funds rate in an effort to reduce the risk of inflation. Moreover, the U.S. Treasury may have to sell future issues of U.S. bonds at higher interest rates to continue to attract foreign investors in the face of continued declining value of the dollar.

Inflation: The Puget Sound region has experienced a relatively mild period of price increases for general goods and services (real estate costs have raised more sharply in recent years). For example the CPI grew

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at an average annual rate of only 2.25% from 2002, 1.6% through 2006. However, higher energy prices due to an escalation of the conflicts in the Middle East, the disruption of supply due to natural disasters such as hurricanes Katrina and Wilma, and continued rapid growth of the Chinese and Indian economies have resulted in recent “spikes” of inflation on construction materials. As a result, the engineering cost estimates for future capital projects were escalated at 7% when converting from 2006 dollars to 2007 dollars.

The financial plan incorporates long-term consumer price inflation, building cost inflation and real estate cost inflation forecasts provided by independent consultants. The Finance staff then adds contingency factors as discussed above. These forecasts project that inflation will begin to rise during the remainder of Phase 1, but will remain relatively mild. If inflation were to rise significantly beyond this forecast, or if Sound Transit’s construction schedules were to be delayed, Sound Transit’s capital and operating costs would also rise beyond the current forecast. Historically, retail sales and use tax, the agency’s primary revenue source, has risen with general price levels. If sales tax revenues do increase along with rising prices, the increase in tax revenue might be sufficient to offset some portion of rising program costs. However, if the economy were to enter a period of “stagflation,” where prices rise and economic activity slows, the agency would be faced with rising program costs and declining revenues. However, this economic environment is seen as unlikely in the near to medium term. See Appendix D for forecasts of cost inflation.

Operating and Maintenance Costs: The financial plan utilizes cost estimates from the agency’s Service Implementation Plan (SIP) through 2013. Thereafter, O&M costs are escalated using the CPI rate plus 50% of the ridership growth rate. The rationale behind this approach is the recognition that ridership growth is a primary driver of service levels and, therefore, operating costs. However, O&M costs are affected by other factors, including partnership operating agreements and changes in operating efficiency. Adverse changes in these other factors may lead to higher O&M costs than projected in the financial plan, reducing financial capacity and flexibility.

Sensitivity Analysis

A number of sensitivity analyses (“stress tests”) were conducted in order to gauge the vulnerability of Sound Transit’s Financial Plan to various risk factors. These tests analyzed the agency’s financial capacity through 2020, four years after scheduled completion of the Sound Move program. Five tests were analyzed as follows:

Project Costs: Increase University Link capital costs by \$200 million (12%). With a cost increase of this magnitude, the amount of bonds issued increases by \$265 million and debt service (through 2020) increases by \$111 million. North King subarea’s net debt service coverage declines from 1.25x to 1.09x. However, the agency would still have an overall net coverage at 2.0x, well above the minimum of 1.5x.

Bond Interest Rates: Increase the bond interest rate from 5% (through 2009) and 6% (2010 and beyond) to 6% and 7% respectively. The amount of bonds issued would increase by \$60 million and debt service increased by \$130 million through 2020. These interest rates would result in a debt service coverage for North King decreasing to 1.14x and South King to 1.10x. However, the agency would still have an overall net coverage above 2.0x.

Sales Tax Revenues: Assume sales tax revenue growth is zero for two years (2009 – 2010). The University Link plan could withstand a typical recession of up to two years. This would result in a

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revenue loss of \$427 million through 2020. In this scenario, bonds issued would increase by \$227 million and debt service would increase by \$77 million through 2020. The North King subarea debt service coverage ratio would be reduced to 1.08x and South King subarea coverage would fall to just under 1.0x. However, the agency would still have an overall net coverage of 1.9x.

Fare Revenues: Reduce average fare prices by 50% from 2008 onward. These fare prices would result in a revenue loss of \$288 million through 2020. Bond issues would increase by \$135 million. Debt service coverage for North and South King subareas would be about 1.07x, but the agency would still have net coverage of about 2.1x.

Operating Costs: Increase the annual inflation of operating costs by 1% per year for all modes over the baseline cost estimates. The annual rates of O&M cost inflation (per unit of service) are assumed to be 4.2% for Sounder commuter rail, 5.2% for Sound Transit Express bus, and 4.5% for Link light rail. This 1% (percentage point) increase would result in total O&M costs increasing by \$174 million through 2020. Bonds issued would increase by \$51 million. South King debt service coverage would approach 1.0x, but the agency would still have net coverage over 2.2x.

Mitigation of Cost Increases or Funding Shortfall

In the event of cost increases or funding shortfalls, there are several mitigation strategies that could be implemented. None of these are particularly desirable, but are available to the agency to ameliorate “tight” financial conditions.

Drawdown of Contingencies: The project cost estimates contain a number of contingencies that could be applied to meet cost increases or revenue shortfalls. The Initial Segment of the light rail project has \$19 million in unallocated contingencies as of July 2007 and all major contracts and procurements have been awarded. The Initial Segment also maintains a \$128 million project reserve. The University Link project has budgeted \$137 million in allocated contingency and \$54 million unallocated contingency.

Apply savings from bonding: The financial plan uses conservative assumptions regarding bonding and debt coverage, which are appropriate for long-range planning. However, as the agency implements the capital program, it may be possible to apply savings from debt service costs as the project begins construction.

Changes to financial policies and financial planning assumptions: The agency’s financial policies and financial planning assumptions, such as debt service coverage and capital replacement, could be altered within prudent financial parameters to make additional resources available.

Extending the construction schedule: Extending the schedule could generate additional resources. In most years, tax revenues increase faster than cost inflation. Another benefit in extending the construction schedule is the postponement of operating costs and debt service costs.

Control O&M costs: If growth of O&M costs increase significantly above inflation, Sound Transit could find alternate providers for services or reduce the level of service on routes/runs that have high costs and/or low ridership productivity.

Seek additional resources: The Sound Transit Board is authorized to increase the Car Rental Tax up to 2.17%. This increase could generate as much as \$4 million in additional annual revenues. It is not likely

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that any significant additional federal or state revenues will become available and any local tax increases (other than the Rental Car Tax) would require voter approval.

APPENDICES

- A. Sound Transit Sources and Uses Summary (1997 through 2016)**
- B. Sound Transit Operating Statement**
- C. Sound Transit Sources and Uses Statement**
- D. Sound Transit Cost Indices**
- E. Charts**

APPENDIX A



DRAFT

Financial Plan - Sources & Uses Summary for Sound Move

1997 through 2016

Scenario: *Financial Model Update April 2008 Sound Move Version*

4/29/2008

(Millions YOES)

Sources of Funds	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
NOTES							
1 Sound Move Taxes	883	1,772	1,255	1,800	1,226	-	6,934
2 Federal Grants	103	1,282	298	65	164	-	1,912
3 Bonds	182	1,375	573	-	163	-	2,292
4 Fares & Other Oper. Revenues	54	73	68	124	116	-	434
5 Local Grants & Interest Earnings	13	41	62	12	43	402	574
6 System-wide Contributions	(15)	(26)	(19)	(29)	(22)	110	-
7 Adjustments	5	(41)	4	23	10	-	0
8 Total Sources	1,224	4,474	2,240	1,994	1,701	513	12,146
Uses of Funds							
Capital Expenditures							
9 Sounder Commuter Rail	386	-	362	-	526	-	1,274
10 ST Express Bus	161	-	79	531	21	-	792
11 Link Light Rail	-	3,248	876	-	81	-	4,205
12 Transportation Services	88	-	23	160	136	-	406
13 System-wide Activities	-	-	-	-	-	95	95
<i>Total Capital</i>	<i>634</i>	<i>3,248</i>	<i>1,340</i>	<i>690</i>	<i>764</i>	<i>95</i>	<i>6,771</i>
O & M Expenditures							
14 Sounder Commuter Rail	108	-	193	-	224	-	525
15 ST Express Bus	170	-	152	668	327	-	1,317
16 Link Light Rail	-	282	121	-	55	-	457
17 System-wide Activities	-	-	-	-	-	429	429
<i>Total O&M</i>	<i>278</i>	<i>282</i>	<i>466</i>	<i>668</i>	<i>606</i>	<i>429</i>	<i>2,728</i>
18 Debt Service	111	688	337	-	94	-	1,230
19 Contributions to Reserves	202	256	97	636	238	(11)	1,417
20 Total Uses	1,224	4,474	2,240	1,994	1,701	513	12,146

APPENDIX A

* See Page 2 for explanation of methodology and notes to line items.

Financial Plan - Sources & Uses Summary for Sound Move

1997 through 2016

Scenario: *Financial Model Update April 2008 Sound Move Version*

4/29/2008

Notes to Financial Plan -- Sources and Uses Summary for Sound Move

- 1 Tax-based revenue for Sound Move -- 0.4% Sales and Use Tax, 0.3% MVET, and 0.8% Rental Car Tax.
- 2 Federal grants for capital programs (FTA formula grants and Full Funding Grant Agreements).
- 3 Estimated net issuance of bonds issued to fund Sound Move projects and programs.
- 4 Fares and other operating revenue from both Sound Move service.
- 5 City and County CDF contributions, sales of excess real estate, interest on cash balances for Regional Fund.
- 6 Funding from sub-areas for board identified system-wide costs.
- 7 Net interest on transfers to/from other subareas and other adjustments.
- 8 Total Sources of funds for all Sound Move projects and services.
- 9 Capital costs of Sounder commuter rail system.
- 10 Capital costs of ST Express bus system.
- 11 Capital Costs of Link light rail system. Includes 18.7-mile Sound Move system from SeaTac Airport to UW,
- 12 Capital costs of Transportation Services that are not mode specific.
- 13 Capital costs for System-Wide projects such as fare integration, research and technology and administrative support.
- 14 Operating and Maintenance costs of Commuter Rail system.
- 15 Operating and Maintenance costs of Sound Transit Express bus service.
- 16 Operating and Maintenance costs of Light Rail service.
- 17 Operating and Maintenance costs that are systemwide.
- 18 Debt service on bonds issued for Sound Move projects.
- 19 Contributions to O&M reserve and capital replacement reserve functions.
- 20 Total Uses of Funds for all Sound Move projects and services.

APPENDIX A

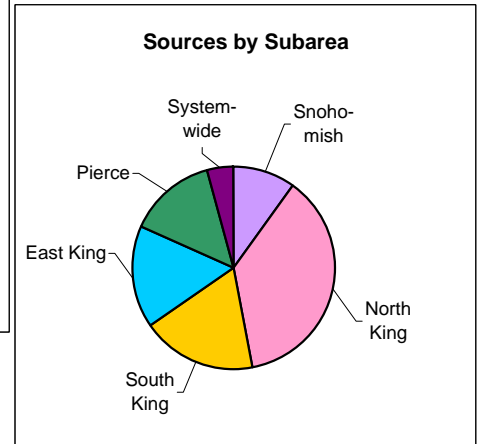
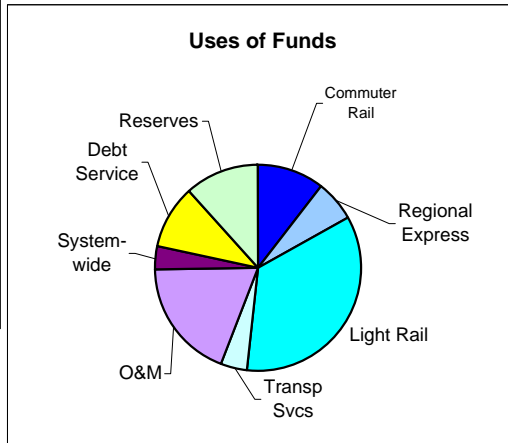
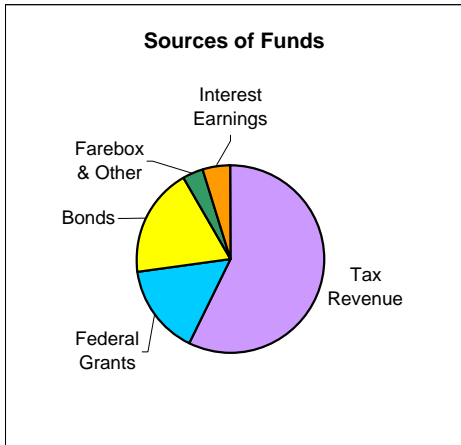
Financial Plan - Sources & Uses Summary for Sound Move

1997 through 2,016

Scenario: *Financial Model Update April 2008 Sound Move Version*

4/29/2008

12,146 (Millions YOES)



Appendix B

Sound Transit

Operating Statement

Financial Model Update April 2008 Sound Move Version

(000's of YOES)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
REVENUES										
ST District Taxes										
Sales & Use Tax	126,033	180,637	196,025	212,478	209,752	204,566	206,665	219,020	239,785	259,164
MVET	31,277	44,279	43,499	56,242	56,123	58,319	61,189	64,714	66,308	70,203
Rental Car Tax	1,605	2,042	2,636	2,401	2,182	2,151	2,182	2,166	2,245	2,427
total	158,915	226,958	242,161	271,121	268,058	265,037	270,036	285,900	308,338	331,794
Fares & Other Operating Income										
Commuter Rail	-	-	-	400	1,377	1,576	1,843	2,263	3,053	5,122
Regional Express Bus	-	427	1,809	5,638	7,443	7,649	9,781	11,362	13,857	13,023
Light Rail	-	-	-	-	-	-	-	-	-	2
total	-	427	1,809	6,039	8,820	9,225	11,625	13,625	16,910	18,147
Interest Earned (GF, O&M, Bond Res.)	1,747	11,910	31,341	50,686	41,166	25,693	13,176	10,626	26,090	37,265
total operating revenues	160,662	239,295	275,311	327,846	318,044	299,955	294,837	310,151	351,339	387,206
OPERATING EXPENDITURES										
Operating & Maintenance Costs										
Commuter Rail (incl. Non-Cap Exp.)	-	-	134	4,211	11,511	10,493	13,347	16,782	22,377	24,125
Regional Express Bus (incl. Non-Cap Exp.)	80	1,115	11,730	25,186	36,725	41,465	45,498	40,934	59,070	64,778
Light Rail (incl. Non-Cap Exp.)	-	-	-	671	53	127	1,907	7,235	6,539	7,031
Regional Fund	3,406	5,599	7,054	11,414	15,485	18,619	17,686	37,038	39,309	39,502
total O&M	3,487	6,715	18,919	41,481	63,774	70,705	78,438	101,990	127,295	135,437
NET REVENUES	157,175	232,580	256,392	286,365	254,271	229,251	216,399	208,161	224,044	251,769
DEBT SERVICE										
Annual principal & interest	-	-	11,443	17,164	17,164	17,164	17,164	17,164	29,227	41,929
Net Coverage ratio	na	na	19.67	13.63	12.09	11.41	11.51	10.67	4.58	5.12
Gross Coverage ratio	na	na	21.32	16.15	16.13	15.98	16.41	17.45	7.88	8.35
NET INCOME & DISTRIBUTIONS										
Net Income	157,175	232,580	244,949	269,201	237,107	212,087	199,235	190,997	194,817	209,840
Distributions of Net Income										
O&M reserve	872	807	3,051	5,641	5,573	1,733	1,933	5,888	6,326	2,036
Capital Replacement Reserve	-	-	-	-	-	-	-	-	-	-
Excess Revenues Reserve	-	-	-	-	-	-	-	-	-	-
Operating Contribution to the General Fund	152,244	231,773	241,898	263,561	231,534	210,354	197,302	185,109	188,491	207,804

Appendix B

Sound Transit

Operating Statement

Financial Model Update April 2008 Sound Move Ver

(000's of YOES)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
REVENUES										
ST District Taxes										
Sales & Use Tax	277,424	283,607	298,561	312,468	327,199	343,643	360,846	378,890	397,978	417,904
MVET	72,011	74,739	78,407	81,959	85,517	89,417	93,729	98,236	102,946	107,875
Rental Car Tax	2,527	2,227	2,233	2,239	2,245	2,250	2,255	2,260	2,265	2,269
total	351,962	360,572	379,201	396,666	414,961	435,310	456,830	479,387	503,188	528,049
Fares & Other Operating Income										
Commuter Rail	6,623	6,093	7,164	8,603	10,401	10,798	11,210	11,640	12,088	12,555
Regional Express Bus	15,406	14,029	14,789	15,353	16,047	16,714	17,408	18,134	18,894	19,687
Light Rail	-	-	2,489	9,044	9,807	10,386	10,987	11,611	12,259	17,643
total	22,029	20,122	24,442	33,000	36,254	37,899	39,604	41,385	43,241	49,885
Interest Earned (GF, O&M, Bond Res.)	24,952	21,056	8,417	11,164	11,484	11,930	14,079	16,249	19,160	24,568
total operating revenues	398,943	401,751	412,060	440,829	462,699	485,138	510,514	537,021	565,589	602,502
OPERATING EXPENDITURES										
Operating & Maintenance Costs										
Commuter Rail (incl. Non-Cap Exp.)	26,373	33,087	39,038	41,665	43,131	44,620	45,695	47,506	49,396	51,366
Regional Express Bus (incl. Non-Cap Exp.)	79,157	81,862	83,635	93,236	97,845	100,723	104,732	110,654	116,261	122,162
Light Rail (incl. Non-Cap Exp.)	16,420	9,703	27,816	47,622	49,154	50,879	52,697	55,638	57,005	66,977
Regional Fund	21,795	38,882	17,074	19,552	21,177	21,321	22,211	22,921	23,864	24,626
total O&M	143,745	163,535	167,563	202,074	211,308	217,544	225,335	236,719	246,525	265,131
NET REVENUES	255,198	238,216	244,497	238,754	251,391	267,595	285,178	300,301	319,064	337,371
DEBT SERVICE										
Annual principal & interest	41,930	75,941	78,675	89,674	111,846	120,380	130,755	134,344	139,123	138,940
<i>Net Coverage ratio</i>	<i>5.49</i>	<i>2.86</i>	<i>3.33</i>	<i>2.81</i>	<i>2.34</i>	<i>2.35</i>	<i>2.29</i>	<i>2.33</i>	<i>2.37</i>	<i>2.47</i>
<i>Gross Coverage ratio</i>	<i>8.92</i>	<i>5.01</i>	<i>5.46</i>	<i>5.07</i>	<i>4.23</i>	<i>4.15</i>	<i>4.02</i>	<i>4.09</i>	<i>4.14</i>	<i>4.37</i>
NET INCOME & DISTRIBUTIONS										
Net Income	213,268	162,275	165,822	149,080	139,545	147,215	154,424	165,958	179,942	198,431
Distributions of Net Income										
O&M reserve	2,077	4,947	1,007	8,628	2,308	1,559	1,948	2,846	2,451	4,651
Capital Replacement Reserve	22,246	22,246	23,648	23,648	23,648	54,552	54,029	53,284	31,445	66,500
Excess Revenues Reserve	-	-	-	-	-	-	-	-	-	-
Operating Contribution to the General Fund	188,945	135,082	141,167	116,805	113,589	91,104	98,447	109,828	146,045	127,280

Appendix B

Sound Transit

Operating Statement

Financial Model Update April 2008 Sound Move Ver

(000's of YOES)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
REVENUES										
ST District Taxes										
Sales & Use Tax	438,779	461,271	484,940	509,429	534,779	561,094	588,698	617,939	648,956	681,690
MVET	112,889	118,166	123,746	129,535	135,750	142,203	148,942	156,053	163,531	171,579
Rental Car Tax	2,274	2,278	2,282	2,285	2,289	2,292	2,296	2,299	2,301	2,304
total	553,942	581,716	610,968	641,250	672,818	705,590	739,936	776,291	814,789	855,574
Fares & Other Operating Income										
Commuter Rail	13,041	13,560	14,102	14,667	15,254	15,864	16,496	17,151	17,833	18,543
Regional Express Bus	20,515	21,401	22,329	23,300	24,311	25,364	26,461	27,602	28,792	30,036
Light Rail	29,256	30,858	32,553	34,345	36,234	38,223	40,317	41,697	43,123	44,602
total	62,811	65,820	68,984	72,312	75,800	79,451	83,273	86,450	89,749	93,181
Interest Earned (GF, O&M, Bond Res.)	31,038	34,811	40,678	46,507	53,217	60,867	69,238	78,424	88,030	98,117
total operating revenues	647,792	682,346	720,630	760,068	801,835	845,909	892,447	941,165	992,568	1,046,871
OPERATING EXPENDITURES										
Operating & Maintenance Costs										
Commuter Rail (incl. Non-Cap Exp.)	53,419	55,610	57,899	60,290	62,776	65,361	68,046	70,837	73,742	76,772
Regional Express Bus (incl. Non-Cap Exp.)	128,373	134,915	141,801	149,052	156,684	164,720	173,180	182,087	191,466	201,343
Light Rail (incl. Non-Cap Exp.)	89,657	100,094	105,941	106,396	111,472	116,745	122,223	127,914	133,835	140,003
Regional Fund	25,638	26,531	27,690	28,664	29,907	30,934	32,282	33,392	34,846	36,146
total O&M	297,087	317,150	333,331	344,401	360,839	377,760	395,731	414,230	433,890	454,264
NET REVENUES	350,704	365,196	387,299	415,667	440,996	468,148	496,716	526,935	558,678	592,607
DEBT SERVICE										
Annual principal & interest	138,795	136,253	152,149	151,985	152,355	153,265	153,268	153,265	153,267	153,265
<i>Net Coverage ratio</i>	<i>2.53</i>	<i>2.68</i>	<i>2.53</i>	<i>2.68</i>	<i>2.80</i>	<i>2.92</i>	<i>3.06</i>	<i>3.20</i>	<i>3.36</i>	<i>3.52</i>
<i>Gross Coverage ratio</i>	<i>4.67</i>	<i>5.00</i>	<i>4.72</i>	<i>4.95</i>	<i>5.17</i>	<i>5.38</i>	<i>5.64</i>	<i>5.90</i>	<i>6.19</i>	<i>6.49</i>
NET INCOME & DISTRIBUTIONS										
Net Income	211,909	228,942	235,150	263,682	288,641	314,884	343,449	373,670	405,411	439,342
Distributions of Net Income										
O&M reserve	7,989	5,016	4,045	2,767	4,109	4,230	4,493	4,625	4,915	5,093
Capital Replacement Reserve	66,549	66,866	66,866	66,930	67,010	67,121	68,385	68,528	68,637	68,910
Excess Revenues Reserve	-	-	-	-	-	-	-	-	-	-
Operating Contribution to the General Fund	137,371	157,060	164,239	193,984	217,521	243,532	270,571	300,517	331,859	365,338

Appendix B

Sound Transit

Operating Statement

Financial Model Update April 2008 Sound Move Ver

(000's of YOES)

	2027	2028	2029	2030	2031	2032	2033	2034
REVENUES								
ST District Taxes								
Sales & Use Tax	716,217	752,663	791,165	832,621	882,328	929,489	977,904	1,028,992
MVET	180,211	189,426	-	-	-	-	-	-
Rental Car Tax	2,307	2,309	2,312	2,314	2,316	2,318	2,320	2,322
total	898,734	944,399	793,477	834,935	884,644	931,807	980,224	1,031,314
Fares & Other Operating Income								
Commuter Rail	19,304	20,096	20,922	21,783	22,682	23,620	24,622	25,662
Regional Express Bus	31,369	32,763	34,221	35,744	37,340	39,011	40,799	42,660
Light Rail	46,184	47,825	49,525	51,289	53,121	55,025	57,055	59,148
total	96,857	100,684	104,668	108,816	113,142	117,656	122,476	127,471
Interest Earned (GF, O&M, Bond Res.)	110,352	123,653	138,164	147,999	158,766	170,815	183,794	197,894
total operating revenues	1,105,943	1,168,736	1,036,309	1,091,750	1,156,553	1,220,279	1,286,494	1,356,679
OPERATING EXPENDITURES								
Operating & Maintenance Costs								
Commuter Rail (incl. Non-Cap Exp.)	80,013	83,395	86,923	90,606	94,454	98,479	102,773	107,236
Regional Express Bus (incl. Non-Cap Exp.)	211,749	222,707	234,249	246,404	259,185	272,631	286,781	301,666
Light Rail (incl. Non-Cap Exp.)	146,585	153,448	160,601	168,059	175,923	184,174	192,970	202,156
Regional Fund	37,494	38,893	40,344	41,849	43,411	45,031	46,712	48,456
total O&M	475,840	498,443	522,117	546,918	572,973	600,315	629,236	659,514
NET REVENUES	630,102	670,294	514,192	544,832	583,579	619,963	657,259	697,165
DEBT SERVICE								
Annual principal & interest	153,263	153,266	153,267	153,264	153,264	153,264	153,264	153,267
<i>Net Coverage ratio</i>	<i>3.69</i>	<i>3.87</i>	<i>2.76</i>	<i>2.90</i>	<i>3.08</i>	<i>3.25</i>	<i>3.41</i>	<i>3.58</i>
<i>Gross Coverage ratio</i>	<i>6.80</i>	<i>7.12</i>	<i>6.17</i>	<i>6.47</i>	<i>6.82</i>	<i>7.16</i>	<i>7.51</i>	<i>7.88</i>
NET INCOME & DISTRIBUTIONS								
Net Income	476,839	517,028	360,925	391,568	430,315	466,699	503,995	543,898
Distributions of Net Income								
O&M reserve	5,394	5,651	5,918	6,200	6,514	6,836	7,230	7,570
Capital Replacement Reserve	71,230	71,399	71,580	71,952	72,157	77,843	78,030	78,270
Excess Revenues Reserve	-	-	-	-	-	-	-	-
Operating Contribution to the General Fund	400,215	439,978	283,427	313,416	351,644	382,021	418,735	458,059

Appendix B

Sound Transit

Operating Statement

Financial Model Update April 2008 Sound Move Ver

(000's of YOES)

	2035	2036	2037	2038	2039	2040	Totals		
							1997-2016	1997-2020	1997-2040
REVENUES									
ST District Taxes									
Sales & Use Tax	1,082,986	1,139,076	1,198,095	1,260,510	1,326,549	1,396,365	5,452,645	7,347,064	25,295,181
MVET	-	-	-	-	-	-	1,436,990	1,921,327	3,209,023
Rental Car Tax	2,324	2,326	2,328	2,329	2,331	2,332	44,810	53,928	100,199
total	1,085,310	1,141,402	1,200,423	1,262,839	1,328,880	1,398,697	6,934,444	9,322,319	28,604,402
Fares & Other Operating Income									
Commuter Rail	26,742	27,866	29,039	30,262	31,538	32,870	112,809	168,178	626,327
Regional Express Bus	44,600	46,626	48,745	50,963	53,286	55,716	237,451	324,996	1,081,404
Light Rail	61,309	63,547	65,868	68,277	70,779	73,374	84,229	211,242	1,277,763
total	132,652	138,039	143,651	149,502	155,602	161,959	434,488	704,415	2,985,495
Interest Earned (GF, O&M, Bond Res.)	213,192	229,773	247,697	267,046	287,922	310,446	412,758	565,792	3,801,199
total operating revenues	1,431,154	1,509,213	1,591,771	1,679,387	1,772,405	1,871,102	7,781,691	10,592,527	35,391,096
OPERATING EXPENDITURES									
Operating & Maintenance Costs									
Commuter Rail (incl. Non-Cap Exp.)	111,879	116,719	121,773	127,055	132,573	138,337	524,858	752,076	2,661,826
Regional Express Bus (incl. Non-Cap Exp.)	317,323	333,795	351,123	369,352	388,530	408,706	1,316,849	1,870,990	7,144,671
Light Rail (incl. Non-Cap Exp.)	211,757	221,809	232,346	243,398	254,987	267,139	457,475	859,563	4,427,109
Regional Fund	50,265	52,142	54,089	56,110	58,206	60,380	428,536	537,060	1,407,948
total O&M	691,225	724,465	759,332	795,915	834,297	874,563	3,675,287	4,019,688	15,641,553
NET REVENUES	739,929	784,749	832,439	883,472	938,108	996,539	5,053,972	6,572,838	19,749,543
DEBT SERVICE									
Annual principal & interest	153,267	153,264	153,265	153,266	153,265	153,268	1,230,025	1,809,207	4,873,606
<i>Net Coverage ratio</i>	<i>3.76</i>	<i>3.95</i>	<i>4.15</i>	<i>4.36</i>	<i>4.58</i>	<i>4.82</i>	<i>2.29</i>	<i>2.29</i>	<i>2.29</i>
<i>Gross Coverage ratio</i>	<i>8.27</i>	<i>8.68</i>	<i>9.10</i>	<i>9.55</i>	<i>10.02</i>	<i>10.52</i>	<i>4.02</i>	<i>4.02</i>	<i>4.02</i>
NET INCOME & DISTRIBUTIONS									
Net Income	586,662	631,485	679,175	730,206	784,843	843,272	4,763,631	14,875,937	
Distributions of Net Income									
O&M reserve	7,928	8,310	8,717	9,146	9,595	10,067	66,283	86,100	218,641
Capital Replacement Reserve	78,522	78,834	79,320	79,665	79,665	79,665	375,246	642,457	2,119,180
Excess Revenues Reserve	-	-	-	-	-	-	-	-	-
Operating Contribution to the General Fund	500,212	544,341	591,138	641,395	695,582	753,540	3,378,359	4,031,014	12,534,056

APPENDIX C

SOUND TRANSIT

Sources & Uses Statement

Financial Model Update April 2008 Sound Move Version

(000's of YOE\$)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SOURCES OF FUNDS										
Cash Flow from Operations	152,244	231,773	241,898	263,561	231,534	210,354	197,302	185,109	188,491	207,804
Long-Term Bonds	-	-	-	-	-	-	-	-	-	-
Par Amount	-	-	347,693	-	-	-	-	-	443,636	-
Less: transfers (to) from Bond Reserve	-	-	-	-	-	-	-	-	(39,553)	-
Less: issuance costs	-	-	(15,266)	-	-	-	-	-	(16,178)	-
net bond proceeds	-	-	332,427	-	-	-	-	-	387,905	-
Federal Capital Grants (see notes)	4,210	-	65,075	57,050	37,050	74,004	18,751	63,384	109,550	116,535
Federal Formula Grants (see notes)	-	-	-	8,316	4,035	3,969	8,026	4,875	29,238	20,563
Other Sources	-	-	50	7,541	32,912	29,195	12,949	6,736	12,439	20,906
total sources	156,454	231,773	639,451	336,468	305,530	317,523	237,028	260,104	727,623	365,807
USES OF FUNDS										
Capital Program										
Commuter Rail	1,262	40,751	52,316	342,174	76,606	61,351	132,721	104,221	35,647	51,886
Regional Express	-	5,064	17,505	39,013	43,072	44,407	76,077	74,275	76,798	70,124
Light Rail	1,688	15,905	34,605	81,635	97,407	41,895	110,111	220,972	489,108	474,920
Transportation Services	-	-	-	-	-	-	-	59	101,801	1,317
Regional Fund	-	126	24,165	694	(706)	229	1,402	14,010	9,039	(1,575)
total capital program	2,950	61,846	128,591	463,516	216,379	147,883	320,311	413,538	712,393	596,671
Transfers to (from) General Fund	153,504	169,927	510,860	(127,048)	89,151	169,640	(83,284)	(153,433)	15,230	(230,864)
total uses	156,454	231,773	639,451	336,468	305,530	317,523	237,028	260,104	727,623	365,807
RESERVE BALANCES										
O&M Reserve	872	1,679	4,730	10,370	15,943	17,676	19,609	25,497	31,824	33,859
Bond Reserve	-	-	-	-	-	-	-	-	39,553	39,553
General Fund	153,504	323,431	834,291	707,243	796,394	966,034	882,750	729,317	744,547	513,683
Capital Replacement Reserve	-	-	-	-	-	-	-	-	-	-
Excess Revenues	-	-	-	-	-	-	-	-	-	-
total funds balance	154,376	325,110	839,020	717,613	812,337	983,710	902,359	754,814	815,924	587,095

NOTES:

- From 1997 - 2016 (through the completion of the Sound Move program), it is assumed that all federal grants will be continue to be used to fund capital projects.
- From 2000 - 2010, FTA formula funds (Sections 5307 and 5309 Fixed Guideway) include both "allocated" and "competitive" grant funds.
Forecasts from 2009 forward assume only "allocated" (not competitive) formula grant funds.
- Grants shown in this table are on an "drawdown" (cash) basis which may lag some grant awards by a year.

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SOUND TRANSIT

Sources & Uses Statement

Financial Model Update April 2008 Sound Move Ve

(000's of YOE\$)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SOURCES OF FUNDS										
Cash Flow from Operations	188,945	135,082	141,167	116,805	113,589	91,104	98,447	109,828	146,045	127,280
Long-Term Bonds	-	-	-	-	-	-	-	-	-	-
Par Amount	467,009	-	474,950	202,645	142,240	172,945	88,320	3,325	-	-
Less: transfers (to) from Bond Reserve	-	-	(33,953)	(14,486)	(10,168)	(12,363)	(6,314)	(238)	-	-
Less: issuance costs	(3,011)	-	(7,124)	(3,040)	(2,134)	(2,594)	(1,325)	(50)	-	-
net bond proceeds	463,998	-	433,873	185,119	129,938	157,988	80,681	3,037	-	-
Federal Capital Grants (see notes)	98,489	73,506	90,785	125,080	110,000	100,000	106,000	99,000	95,000	120,400
Federal Formula Grants (see notes)	16,569	35,829	25,864	24,636	22,208	26,862	28,568	28,959	29,373	29,855
Other Sources	4,521	972	5,567	5,778	5,991	852	852	852	852	14,027
total sources	772,522	245,389	697,256	457,418	381,726	376,806	314,548	241,676	271,270	291,561
USES OF FUNDS										
Capital Program										
Commuter Rail	62,769	69,009	132,218	37,129	19,128	54,637	-	-	-	-
Regional Express	81,100	60,920	109,446	64,450	29,024	387	-	-	-	-
Light Rail	508,595	436,806	351,744	331,008	236,645	250,355	222,926	140,658	85,804	72,093
Transportation Services	36,585	61,470	35,818	33,845	91,027	10,039	23,723	3,120	3,497	4,118
Regional Fund	6,929	7,287	11,432	3,427	3,518	3,663	3,815	3,975	4,143	4,319
total capital program	695,979	635,492	640,658	469,858	379,341	319,082	250,464	147,753	93,444	80,530
Transfers to (from) General Fund	76,544	(390,103)	56,598	(12,441)	2,385	57,724	64,084	93,923	177,826	211,031
total uses	772,522	245,389	697,256	457,418	381,726	376,806	314,548	241,676	271,270	291,561
RESERVE BALANCES										
O&M Reserve	35,936	40,884	41,891	50,519	52,827	54,386	56,334	59,180	61,631	66,283
Bond Reserve	39,553	39,553	73,506	87,992	98,161	110,524	116,837	117,075	117,075	117,075
General Fund	590,226	200,123	256,721	244,280	246,665	304,389	368,473	462,396	640,222	851,253
Capital Replacement Reserve	22,246	44,492	68,140	91,788	115,436	169,988	224,017	277,301	308,746	375,246
Excess Revenues	-	-	-	-	-	-	-	-	-	-
total funds balance	687,962	325,052	440,257	474,579	513,088	639,287	765,661	915,952	1,127,674	1,409,857

NOTES:

1. From 1997 - 2016 (through the completion of the Sour
2. From 2000 - 2010, FTA formula funds (Sections 5307
Forecasts from 2009 forward assume only "allocated"
3. Grants shown in this table are on an "drawdown" (cas

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SOUND TRANSIT

Sources & Uses Statement

Financial Model Update April 2008 Sound Move Ve

(000's of YOE\$)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
SOURCES OF FUNDS										
Cash Flow from Operations	137,371	157,060	164,239	193,984	217,521	243,532	270,571	300,517	331,859	365,338
Long-Term Bonds	-	-	-	-	-	-	-	-	-	-
Par Amount	-	-	-	-	-	-	-	-	-	-
Less: transfers (to) from Bond Reserve	-	-	-	-	-	-	-	-	-	-
Less: issuance costs	-	-	-	-	-	-	-	-	-	-
net bond proceeds	-	-	-	-	-	-	-	-	-	-
Federal Capital Grants (see notes)	-	-	-	-	-	-	-	-	-	-
Federal Formula Grants (see notes)	31,263	34,409	38,358	38,525	39,170	40,134	40,955	41,365	44,762	45,316
Other Sources	16,633	23,282	5,280	852	852	852	852	852	852	852
total sources	185,267	214,751	207,877	233,361	257,543	284,518	312,378	342,734	377,473	411,506
USES OF FUNDS										
Capital Program										
Commuter Rail	-	-	-	-	-	-	-	-	-	-
Regional Express	-	-	-	-	-	-	-	-	-	-
Light Rail	58,380	17,246	3,534	-	-	2,814	2,913	18,111	37,568	-
Transportation Services	5,993	3,684	4,285	2,286	3,027	3,167	3,831	5,011	4,410	4,410
Regional Fund	3,140	3,255	9,810	10,156	3,626	3,761	3,900	4,046	4,196	4,353
total capital program	67,514	24,185	17,629	12,442	6,654	9,741	10,644	27,167	46,174	8,763
Transfers to (from) General Fund	117,753	190,565	190,248	220,919	250,889	274,777	301,734	315,567	331,299	402,744
total uses	185,267	214,751	207,877	233,361	257,543	284,518	312,378	342,734	377,473	411,506
RESERVE BALANCES										
O&M Reserve	74,272	79,288	83,333	86,100	90,210	94,440	98,933	103,557	108,472	113,566
Bond Reserve	117,075	117,075	117,075	117,075	117,075	117,075	117,075	117,075	117,075	117,075
General Fund	969,006	1,159,572	1,349,820	1,570,739	1,821,629	2,096,405	2,398,139	2,713,706	3,045,005	3,447,749
Capital Replacement Reserve	441,795	508,661	575,527	642,457	709,467	776,588	844,973	918,742	987,379	1,056,289
Excess Revenues	-	-	-	-	-	-	-	-	-	-
total funds balance	1,602,148	1,864,596	2,125,755	2,416,372	2,738,381	3,084,509	3,459,120	3,853,081	4,257,932	4,734,679

NOTES:

1. From 1997 - 2016 (through the completion of the Sour
2. From 2000 - 2010, FTA formula funds (Sections 5307
Forecasts from 2009 forward assume only "allocated"
3. Grants shown in this table are on an "drawdown" (cas

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	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
SOURCES OF FUNDS										
Cash Flow from Operations	400,215	439,978	283,427	313,416	351,644	382,021	418,735	458,059	500,212	544,341
Long-Term Bonds	-	-	-	-	-	-	-	-	-	-
Par Amount	-	-	-	-	-	-	-	-	-	-
Less: transfers (to) from Bond Reserve	-	-	-	-	-	-	-	-	-	-
Less: issuance costs	-	-	-	-	-	-	-	-	-	-
net bond proceeds	-	-	-	-	-	-	-	-	-	-
Federal Capital Grants (see notes)	-	-	-	-	-	-	-	-	-	-
Federal Formula Grants (see notes)	45,857	46,315	46,912	47,381	47,882	48,361	48,845	49,333	49,826	50,325
Other Sources	852	852	852	852	852	852	852	852	852	852
total sources	446,924	487,145	331,190	361,649	400,378	431,233	468,431	508,244	550,890	595,517
USES OF FUNDS										
Capital Program										
Commuter Rail	-	-	-	-	-	-	-	-	-	-
Regional Express	-	-	-	-	-	-	-	-	-	-
Light Rail	-	-	-	-	-	-	-	-	-	-
Transportation Services	4,410	4,410	4,410	3,874	-	-	-	-	-	-
Regional Fund	4,520	4,693	4,873	5,061	5,255	5,457	5,666	5,884	6,109	6,344
total capital program	8,930	9,103	9,283	8,934	5,255	5,457	5,666	5,884	6,109	6,344
Transfers to (from) General Fund	437,994	478,042	321,907	352,715	395,123	425,777	462,765	502,360	544,780	589,173
total uses	446,924	487,145	331,190	361,649	400,378	431,233	468,431	508,244	550,890	595,517
RESERVE BALANCES										
O&M Reserve	118,960	124,611	130,529	136,730	143,243	150,079	157,309	164,878	172,806	181,116
Bond Reserve	117,075	117,075	117,075	117,075	117,075	117,075	117,075	117,075	117,075	117,075
General Fund	3,885,743	4,363,785	4,685,692	5,038,407	5,433,530	5,859,307	6,322,072	6,824,432	7,369,213	7,958,386
Capital Replacement Reserve	1,127,519	1,198,918	1,270,498	1,342,450	1,414,607	1,492,450	1,570,480	1,648,750	1,727,272	1,806,106
Excess Revenues	-	-	-	-	-	-	-	-	-	-
total funds balance	5,249,298	5,804,389	6,203,794	6,634,661	7,108,455	7,618,911	8,166,936	8,755,136	9,386,366	10,062,683

NOTES:

1. From 1997 - 2016 (through the completion of the Sour
2. From 2000 - 2010, FTA formula funds (Sections 5307
Forecasts from 2009 forward assume only "allocated"
3. Grants shown in this table are on an "drawdown" (cas

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Financial Model Update April 2008 Sound Move Ve

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	Totals						
	2037	2038	2039	2040	1997-2016	1997-2020	1997-2040
SOURCES OF FUNDS							
Cash Flow from Operations	591,138	641,395	695,582	753,540	3,378,359	4,031,014	12,534,056
Long-Term Bonds	-	-	-	-	-	-	-
Par Amount	-	-	-	-	2,342,763	2,342,763	2,342,763
Less: transfers (to) from Bond Reserve	-	-	-	-	(117,075)	(117,075)	(117,075)
Less: issuance costs	-	-	-	-	(50,721)	(50,721)	(50,721)
net bond proceeds	-	-	-	-	2,174,967	2,174,967	2,174,967
Federal Capital Grants (see notes)	-	-	-	-	1,563,869	1,563,869	1,563,869
Federal Formula Grants (see notes)	50,828	51,336	51,849	52,368	347,745	490,301	1,429,420
Other Sources	852	852	852	852	162,992	209,038	226,076
total sources	642,818	693,583	748,284	806,760	7,627,932	8,469,188	17,928,388
USES OF FUNDS							
Capital Program							
Commuter Rail	-	-	-	-	1,273,824	1,273,824	1,273,824
Regional Express	-	-	-	-	791,661	791,661	791,661
Light Rail	-	-	-	-	4,204,880	4,284,041	4,345,447
Transportation Services	-	-	-	-	406,421	422,669	463,628
Regional Fund	6,588	6,840	7,103	7,376	99,892	126,253	231,903
total capital program	6,588	6,840	7,103	7,376	6,886,007	6,898,449	7,106,464
Transfers to (from) General Fund	636,230	686,743	741,181	799,384	851,253	1,570,739	10,821,924
total uses	642,818	693,583	748,284	806,760	7,627,932	8,469,188	17,928,388
RESERVE BALANCES							
O&M Reserve	189,833	198,979	208,574	218,641	66,283	86,100	218,641
Bond Reserve	117,075	117,075	117,075	117,075	117,075	117,075	117,075
General Fund	8,594,616	9,281,359	10,022,540	10,821,924	851,253	1,570,739	10,821,924
Capital Replacement Reserve	1,885,426	1,965,091	2,044,756	2,124,421	375,246	642,457	2,124,421
Excess Revenues	-	-	-	-	-	-	-
total funds balance	10,786,950	11,562,504	12,392,945	13,282,061	1,409,857	2,416,372	13,282,061

NOTES:

1. From 1997 - 2016 (through the completion of the Sour
2. From 2000 - 2010, FTA formula funds (Sections 5307
Forecasts from 2009 forward assume only "allocated"
3. Grants shown in this table are on an "drawdown" (cas

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SOUND TRANSIT Cost Inflation Factors

Financial Model Update April 2008 Sound Move Version

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Seattle CPI-U													
<i>O&M, Other Capital</i>													
CPI-U Index	163.0	167.8	172.8	179.2	185.8	189.4	192.5	194.7	200.0	207.6	215.5	224.2	232.2
CPI-U Annual Growth Factor	1.035	1.029	1.030	1.037	1.037	1.019	1.017	1.011	1.028	1.038	1.038	1.040	1.036
CPI-U Annual % Change	3.5%	2.9%	3.0%	3.7%	3.7%	1.9%	1.7%	1.1%	2.8%	3.8%	3.8%	4.0%	3.6%
Seattle BCI													
<i>Construction</i>													
BCI Index	3,325.2	3,431.3	3,474.6	3,611.6	3,669.8	3,739.1	3,838.4	4,043.9	4,261.8	4,396.1	4,578.1	4,732.7	4,909.8
BCI Annual Growth Factor	1.072	1.032	1.013	1.039	1.016	1.019	1.027	1.054	1.054	1.032	1.041	1.034	1.037
BCI Annual % Change	7.2%	3.2%	1.3%	3.9%	1.6%	1.9%	2.7%	5.4%	5.4%	3.2%	4.1%	3.4%	3.7%
ST ROWI													
<i>Right-of-Way</i>													
ROW Index	86.0	100.0	107.7	113.0	115.2	113.9	118.6	127.7	144.0	158.3	176.8	186.4	196.3
ROWI Annual Growth Factor	1.067	1.163	1.077	1.049	1.019	0.989	1.041	1.077	1.128	1.099	1.117	1.055	1.053
ROWI Annual % Change	6.7%	16.3%	7.7%	4.9%	1.9%	-1.1%	4.1%	7.7%	12.8%	9.9%	11.7%	5.5%	5.3%

APPENDIX D

SOUND TRANSIT Cost Inflation Factors

Financial Model Update April 2008

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Seattle CPI-U													
<i>O&M, Other Capital</i>													
CPI-U Index	240.3	248.2	256.3	264.6	273.2	282.2	291.4	301.0	311.3	321.9	333.0	344.4	356.2
CPI-U Annual Growth Factor	1.035	1.033	1.032	1.032	1.033	1.033	1.033	1.033	1.034	1.034	1.034	1.034	1.034
CPI-U Annual % Change	3.5%	3.3%	3.2%	3.2%	3.3%	3.3%	3.3%	3.3%	3.4%	3.4%	3.4%	3.4%	3.4%
Seattle BCI													
<i>Construction</i>													
BCI Index	5,086.7	5,260.6	5,456.7	5,647.0	5,850.9	6,053.1	6,266.8	6,487.9	6,734.6	6,974.2	7,215.1	7,465.4	7,728.6
BCI Annual Growth Factor	1.036	1.034	1.037	1.035	1.036	1.035	1.035	1.035	1.038	1.036	1.035	1.035	1.035
BCI Annual % Change	3.6%	3.4%	3.7%	3.5%	3.6%	3.5%	3.5%	3.5%	3.8%	3.6%	3.5%	3.5%	3.5%
ST ROWI													
<i>Right-of-Way</i>													
ROW Index	205.1	213.9	223.0	232.7	243.1	254.0	265.7	277.9	291.0	304.7	319.2	334.2	349.8
ROWI Annual Growth Factor	1.045	1.043	1.043	1.044	1.045	1.045	1.046	1.046	1.047	1.047	1.047	1.047	1.047
ROWI Annual % Change	4.5%	4.3%	4.3%	4.4%	4.5%	4.5%	4.6%	4.6%	4.7%	4.7%	4.7%	4.7%	4.7%

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SOUND TRANSIT Cost Inflation Factors

Financial Model Update April 2008

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Seattle CPI-U													
<i>O&M, Other Capital</i>													
CPI-U Index	368.3	380.8	393.8	407.2	421.5	436.4	451.8	467.7	484.3	501.6	519.9	538.9	558.4
CPI-U Annual Growth Factor	1.034	1.034	1.034	1.034	1.035	1.035	1.035	1.035	1.035	1.036	1.037	1.036	1.036
CPI-U Annual % Change	3.4%	3.4%	3.4%	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%	3.6%	3.7%	3.6%	3.6%
Seattle BCI													
<i>Construction</i>													
BCI Index	8,001.1	8,287.9	8,595.7	8,908.4	9,235.8	9,572.9	9,917.0	10,278.8	10,654.4	11,043.7	11,447.2	11,865.5	12,299.0
BCI Annual Growth Factor	1.035	1.036	1.037	1.036	1.037	1.036	1.036	1.036	1.037	1.037	1.037	1.037	1.037
BCI Annual % Change	3.5%	3.6%	3.7%	3.6%	3.7%	3.6%	3.6%	3.6%	3.7%	3.7%	3.7%	3.7%	3.7%
ST ROWI													
<i>Right-of-Way</i>													
ROW Index	366.0	382.9	400.6	419.2	438.9	459.3	480.7	503.3	526.8	551.5	577.4	604.5	632.8
ROWI Annual Growth Factor	1.046	1.046	1.046	1.046	1.047	1.047	1.047	1.047	1.047	1.047	1.047	1.047	1.047
ROWI Annual % Change	4.6%	4.6%	4.6%	4.6%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%

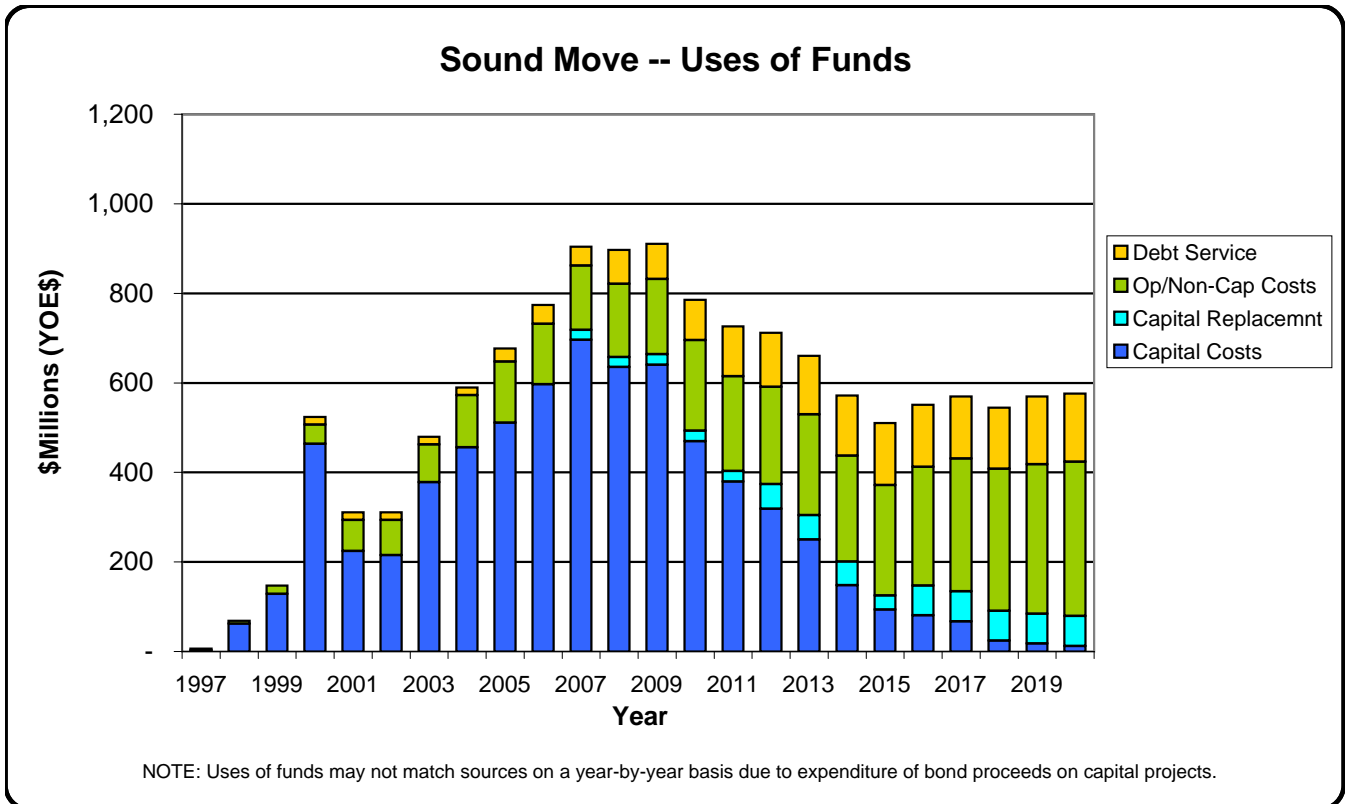
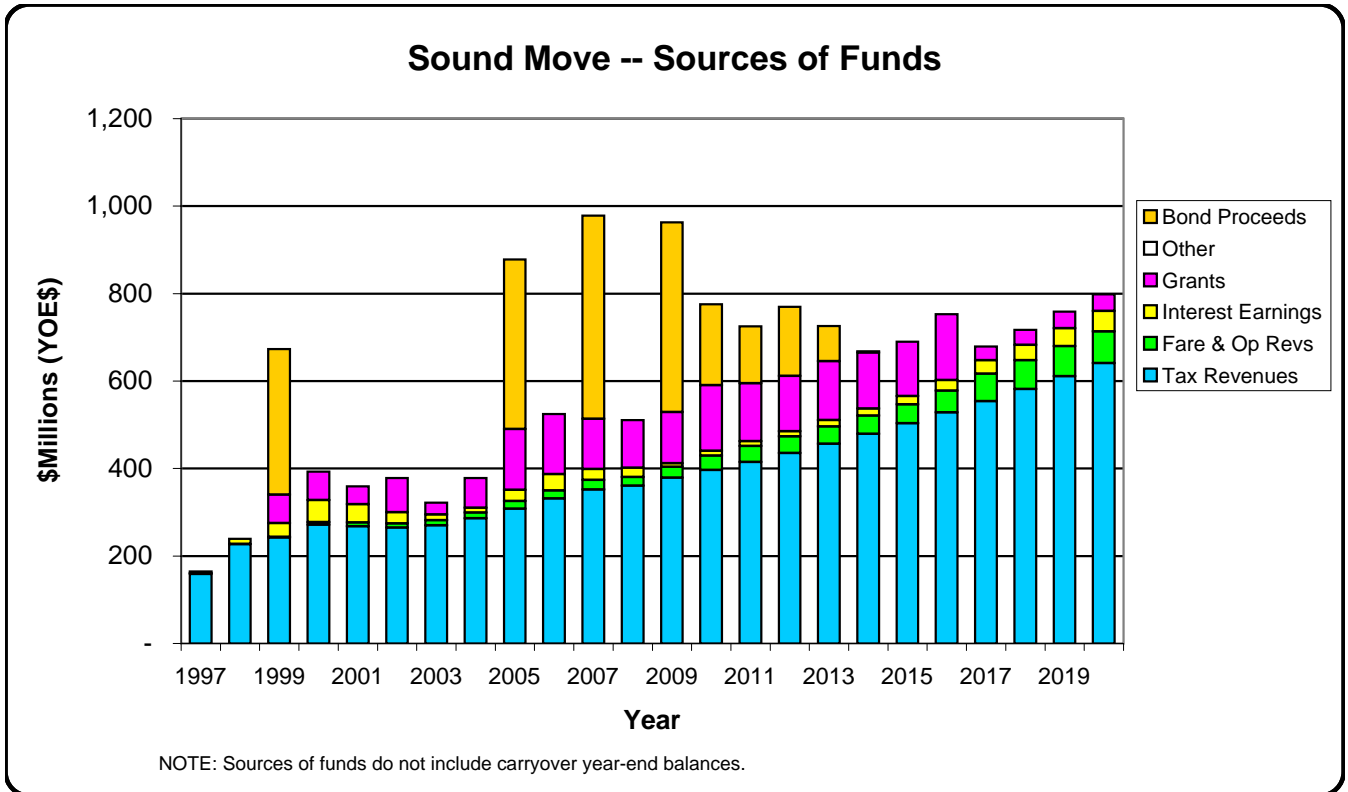
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SOUND TRANSIT Cost Inflation Factors

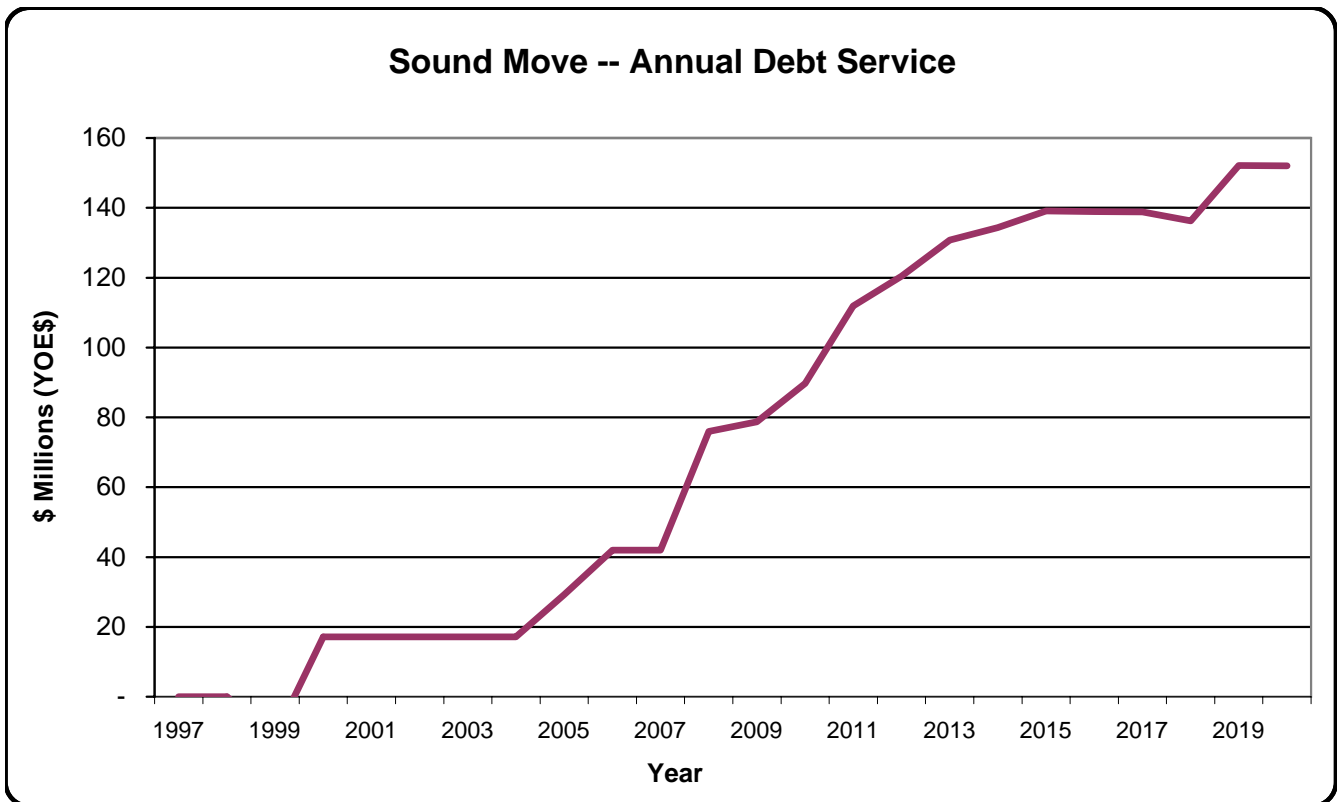
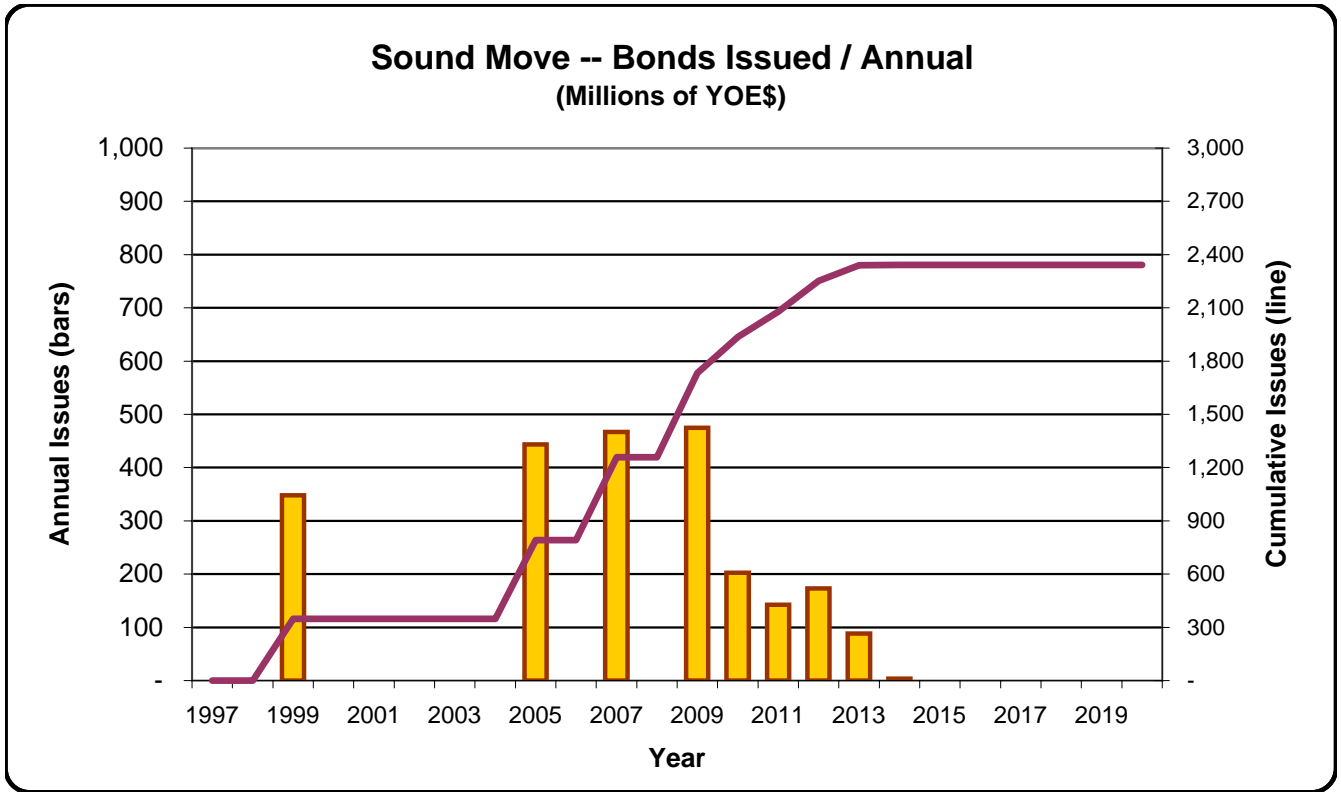
Financial Model Update April 2008

	2036	2037	2038	2039	2040	Average 1997 - 2020	Average 1997 - 2040
Seattle CPI-U							
<i>O&M, Other Capital</i>							
CPI-U Index	578.7	599.6	621.4	644.0	667.5		
CPI-U Annual Growth Factor	1.036	1.036	1.036	1.036	1.036		
CPI-U Annual % Change	3.6%	3.6%	3.6%	3.6%	3.6%	3.15%	3.33%
Seattle BCI							
<i>Construction</i>							
BCI Index	12,748.4	13,214.3	13,697.1	14,197.6	14,716.4		
BCI Annual Growth Factor	1.037	1.037	1.037	1.037	1.037		
BCI Annual % Change	3.7%	3.7%	3.7%	3.7%	3.7%	3.43%	3.52%
ST ROWI							
<i>Right-of-Way</i>							
ROW Index	662.5	693.5	726.0	760.1	795.7		
ROWI Annual Growth Factor	1.047	1.047	1.047	1.047	1.047		
ROWI Annual % Change	4.7%	4.7%	4.7%	4.7%	4.7%	5.87%	5.31%

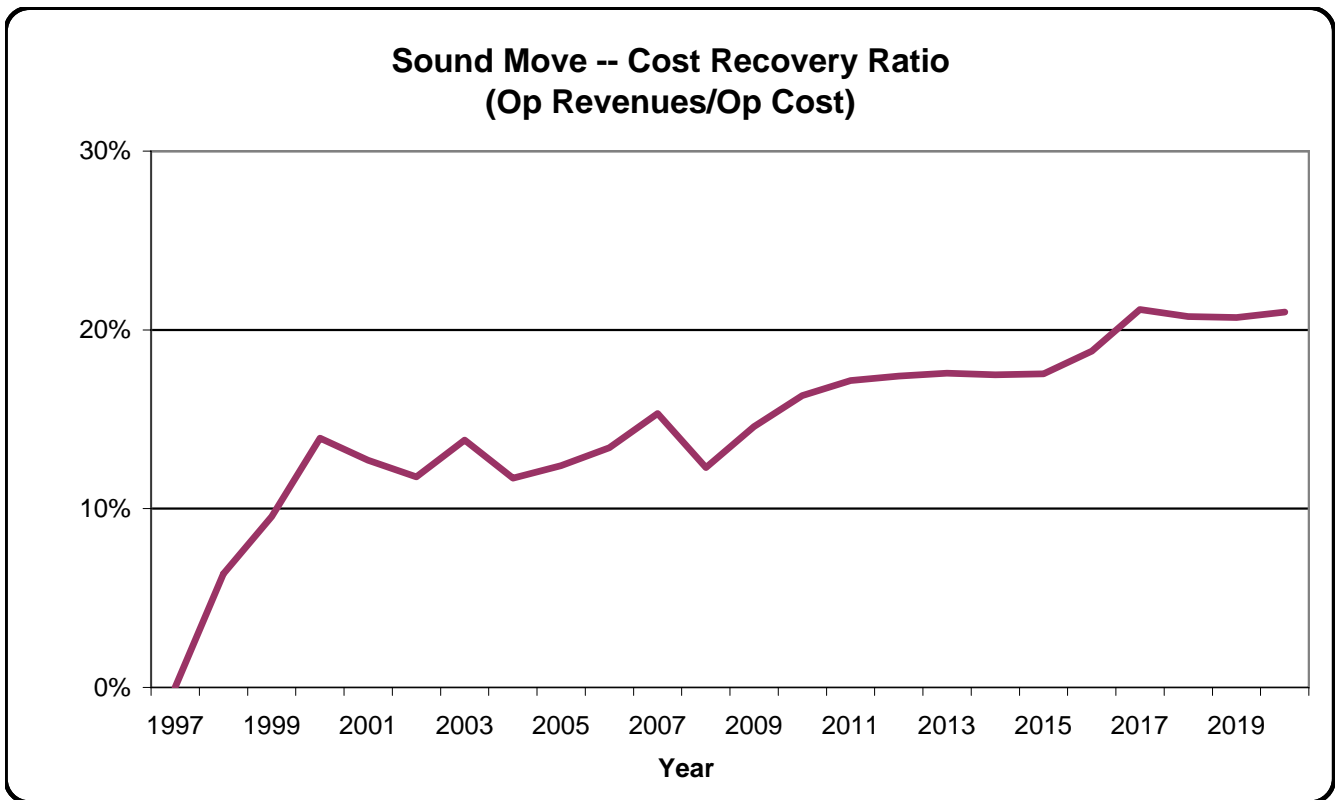
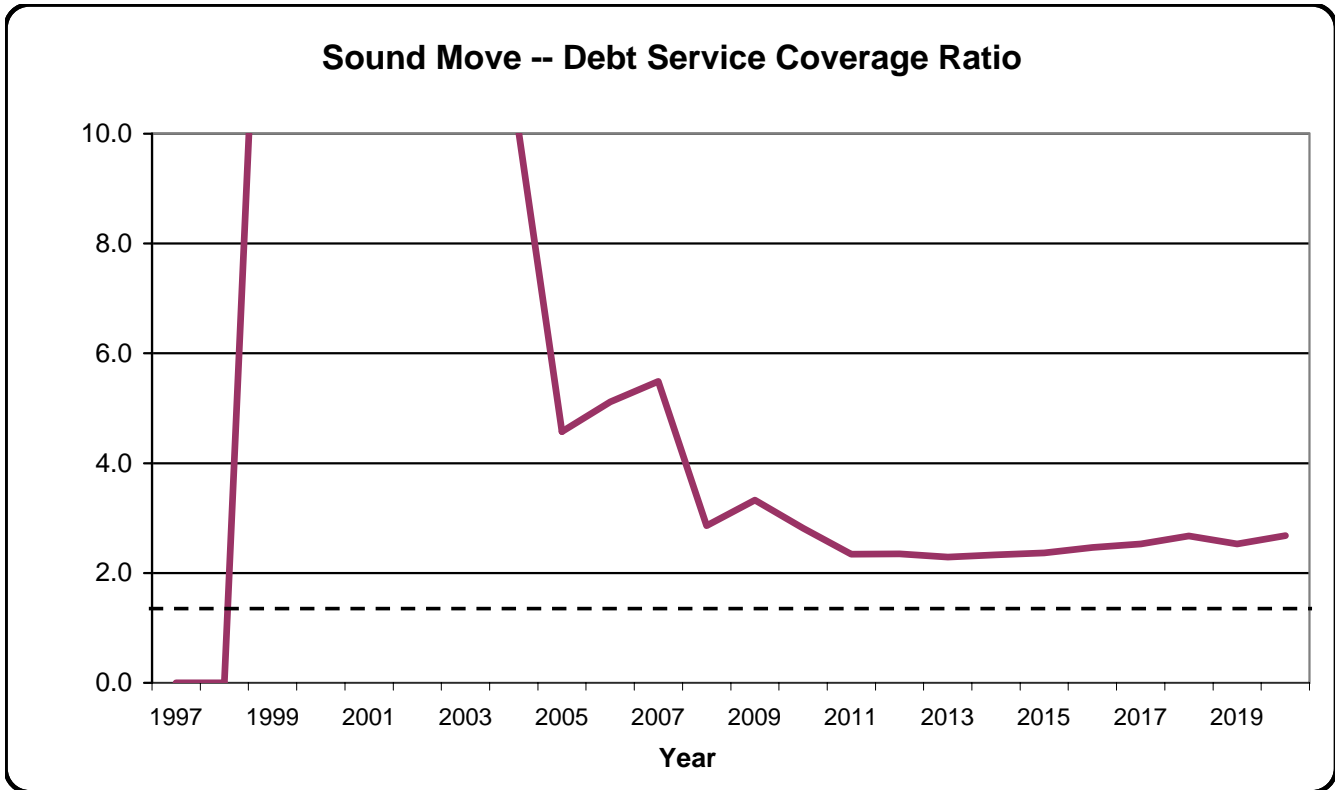
Appendix E



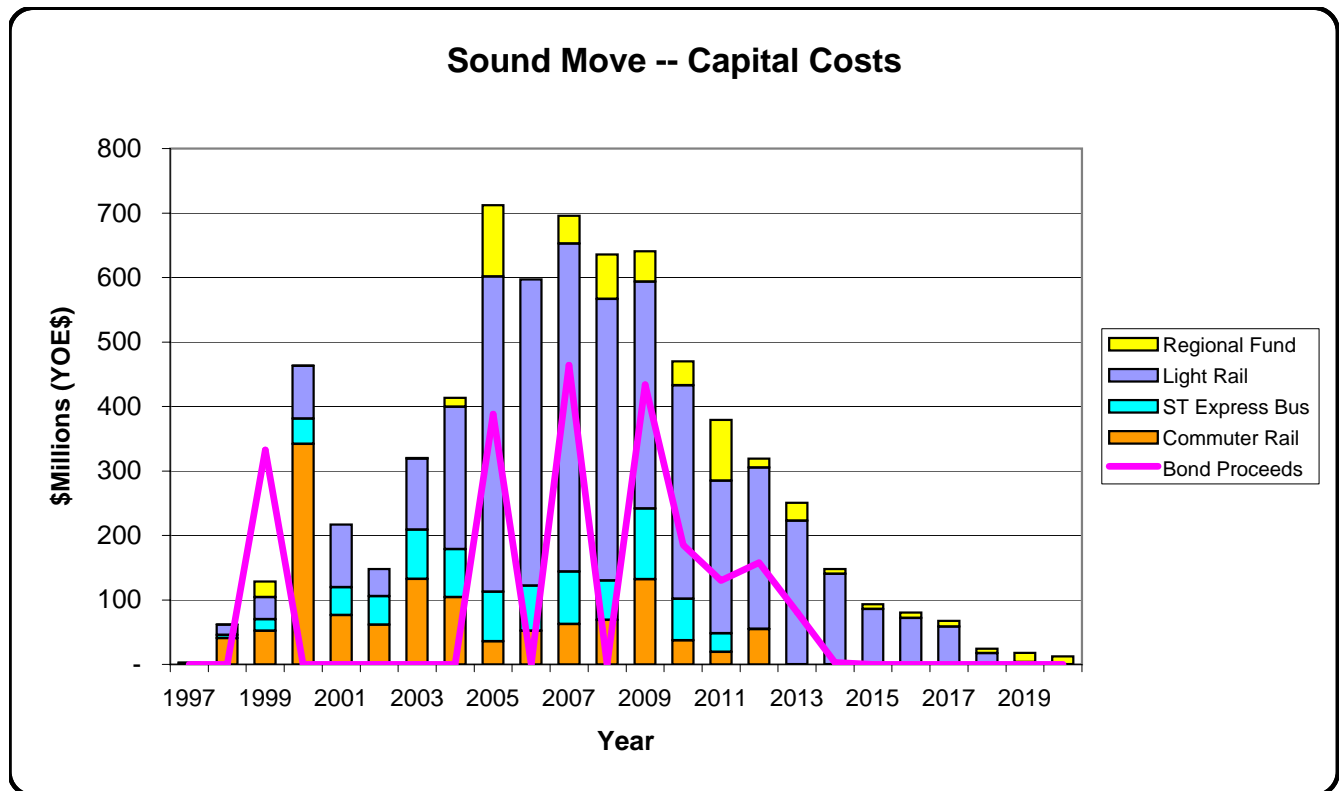
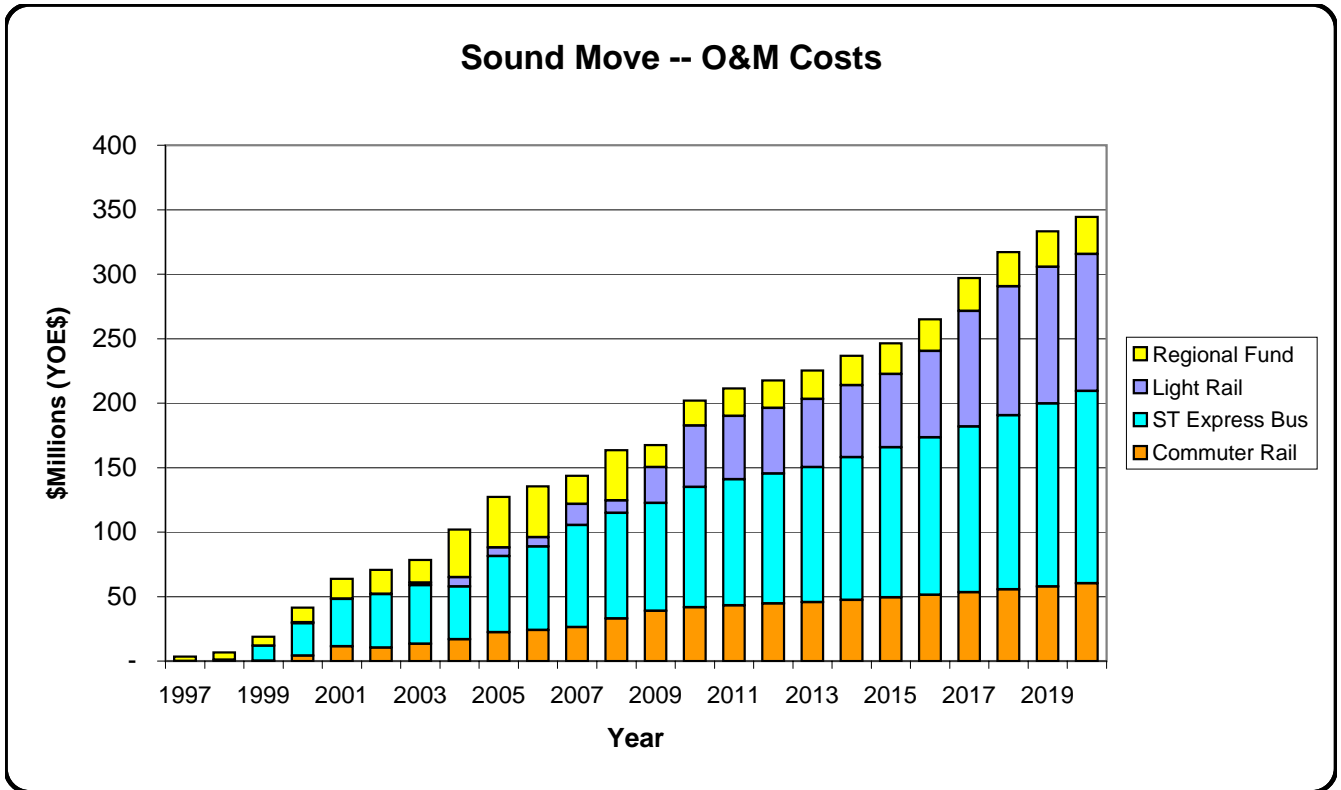
Appendix E



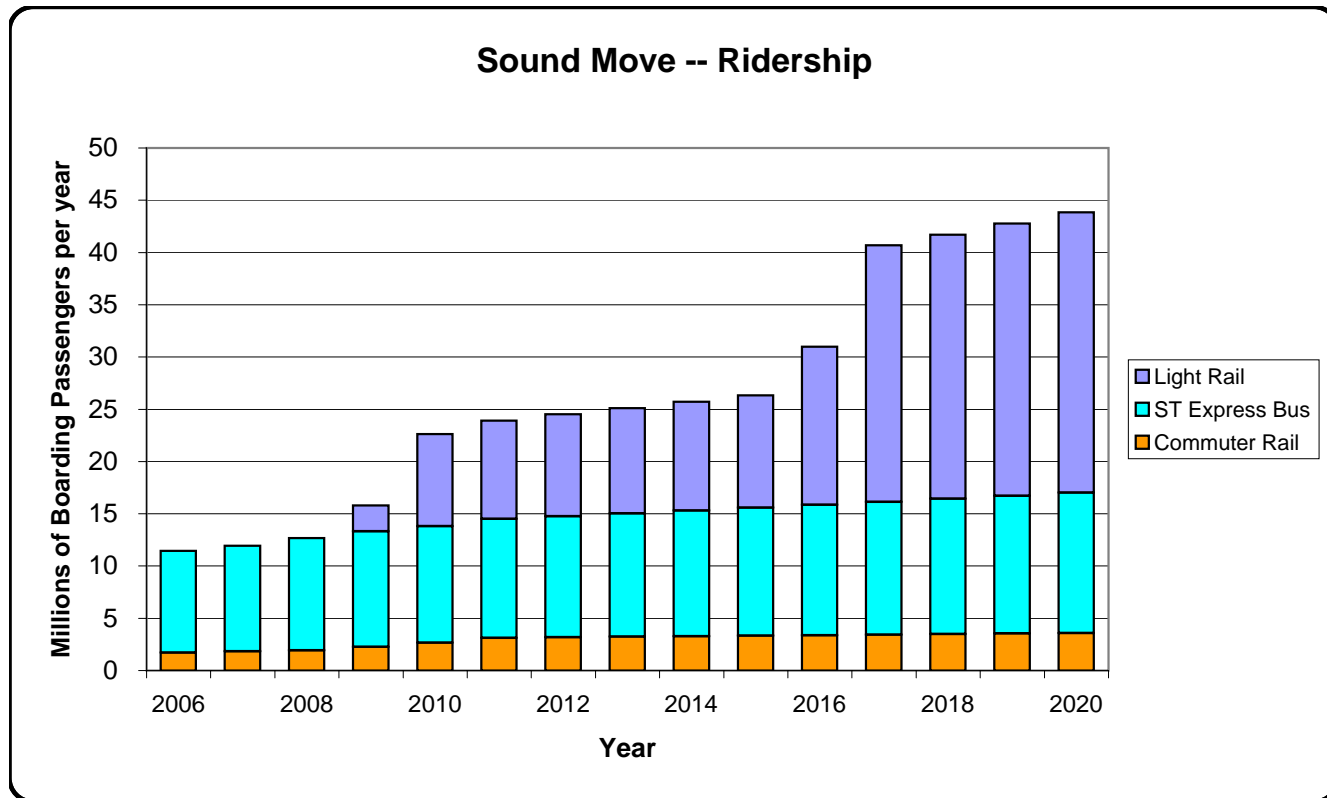
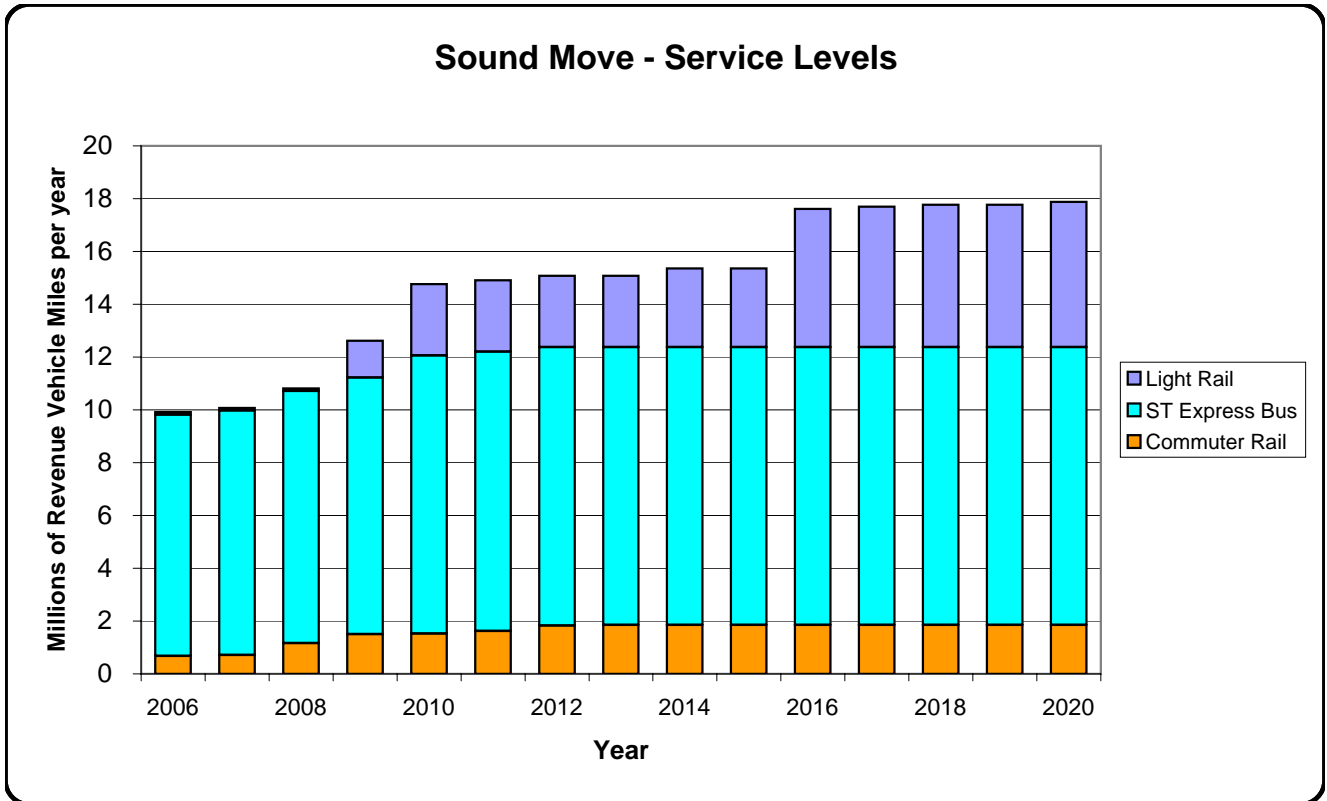
Appendix E



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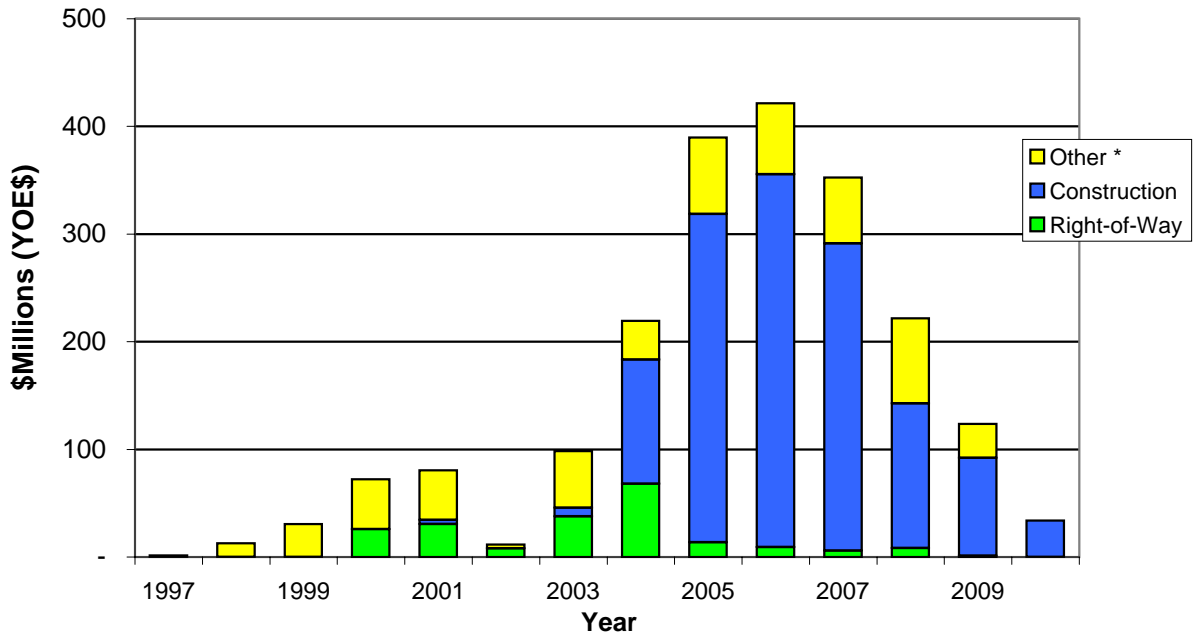


Appendix E



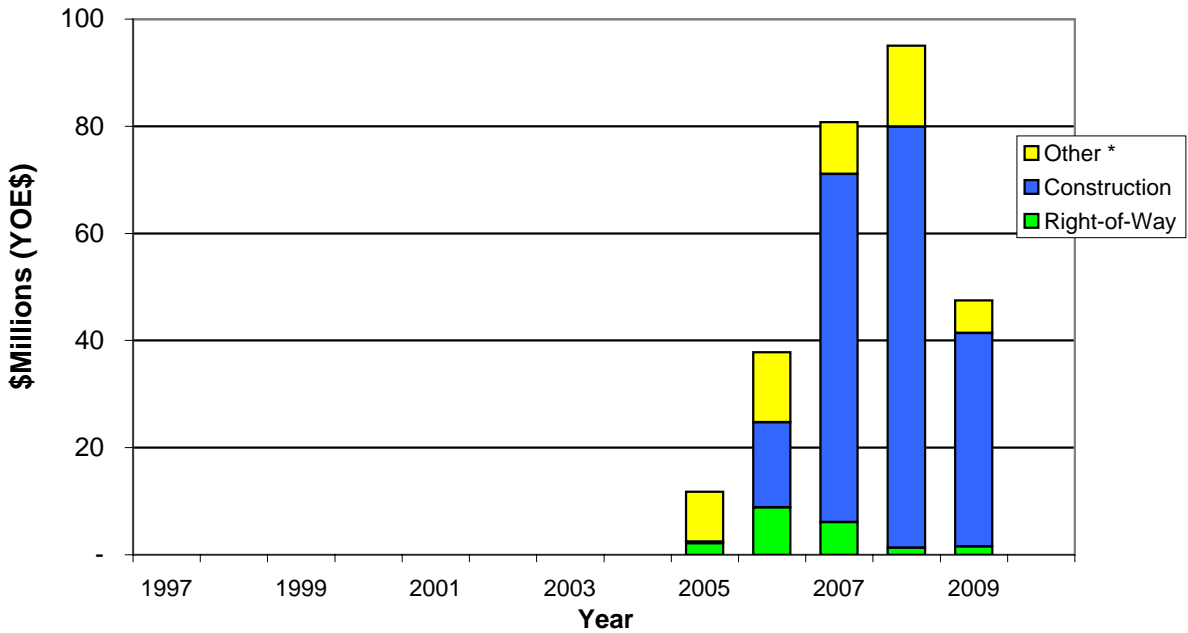
Appendix E

Sound Move -- Link Initial Segment Project Costs



* NOTE: "Other" includes vehicles and professional services.

Sound Move -- Airport Link Project Costs



* NOTE: "Other" includes vehicles and professional services.

Appendix E

